

Catch-up provision

Nonqualified 457(b) plans for tax-exempt companies offer a special catch-up provision for certain plan participants. Often called the “Normal Retirement Age Catch-Up,” the amount of, and eligibility for, catch-up is much different than the “Age 50” catch-up provision offered in qualified 401(k) or 403(b) plans.

Plan eligibility

Under nonqualified 457(b) guidelines, participants become eligible for the special catch-up provision three years prior to attaining the plan-defined normal retirement age. If the plan’s normal retirement age is 65, participants would be eligible during the years in which they attain age 62, 63, and 64.

Catch-up contribution amount

In order to determine the amount a participant may contribute, it requires the participant’s plan eligibility date and a comparison of the aggregate amounts contributed each year by the participant and/or employer relative to the annual maximum allowed under Section 457(e)(15). The difference, if any, between the actual accrual and the maximum is called the “unused limit”. If the participant accrued the maximum contribution (employee and employer dollars) each year, there is no unused limit—and no catch-up contributions are available. If the participant has any unused limit from prior years, the participant may be able to make up these contributions during the three-year special catch-up period, up to the lesser of any unused limit or twice the then current annual limit.

Determining the catch-up amount and eligibility requires specific plan and participant information. As the plan sponsor, you will need the:

- Plan-defined normal retirement age found in your plan document.
- Participant’s age.
- Participant’s initial plan eligibility or initial enrollment date.
- Annual limit of contributions allowed each year under Section 457(e)(15).
- Total contributions (employee and employer) made each year since the eligibility date.

Below are three hypothetical scenarios to help illustrate how the plan eligibility and contribution amounts are determined.

Scenario one



Ellis is turning age 63 and has a plan eligibility date of 5/1/2020. The plan’s normal retirement age is 65. Using contribution history, we’re able to calculate the catch-up eligibility and amount. Because Ellis reached the maximum contributions each year, Ellis isn’t eligible for any additional catch-up contributions.

Year	Maximum deferral allowed	Participant contribution (employee & employer)	Difference
2020	Up to \$19,500	\$19,500	\$0
2021	Up to \$19,500	\$19,500	\$0
2022	Up to \$20,500	\$20,500	\$0

Scenario two



Spencer is turning age 64 this year and has a plan eligibility date of 10/1/2018. The plan's normal retirement age is 65. Using contribution history, we're able to calculate the catch-up eligibility and amount.

Spencer didn't reach the maximum-allowed contributions in 2018 and 2019. The total of these missed contributions is \$19,000. Under the special catch-up provision, Spencer can contribute an additional \$19,000, in total, during the three years prior to age 65 (Normal Retirement Age).

This year, at age 64, Spencer is only able to make contributions in 2022 because that is the last year of eligibility to make catch-up contributions.

Year	Maximum deferral allowed	Participant contribution (employee & employer)	Difference
2018	Up to \$18,500	\$0	\$18,500
2019	Up to \$19,000	\$18,500	\$500
2020	Up to \$19,500	\$19,500	\$0
2021	Up to \$19,500	\$19,500	\$0
2022	Up to \$20,500	\$20,500	\$0

Scenario three



Morgan is turning age 62 and has a plan eligibility date of 5/1/2019. The plan's normal retirement age is 65. Using contribution history, we're able to calculate the catch-up eligibility and amount. Morgan missed a total of \$22,000 in contributions between 2019 and 2020.

Morgan is able to make additional contributions during the three-year catch-up period to make up for these missed amounts. Because Morgan's unused limit exceeds the then current annual limit, the catch-up contribution amount is limited to \$20,500 for 2022. However, Morgan may make an additional contribution of \$1,500 in 2023 to catch-up the remaining unused limit.

Year	Maximum deferral allowed	Participant contribution (employee & employer)	Difference
2019	Up to \$19,000	\$0	\$19,500
2020	Up to \$19,500	\$17,000	\$2,500
2021	Up to \$19,500	\$19,500	\$0
2022	Up to \$20,500	\$20,500	\$0



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