Contribution limits and Special Section 457(b) plan Catch-Up contributions

The Internal Revenue Code limits the amount of elective deferrals a participant may contribute to Section 457(b) plans on an annual basis, and these are indexed annually.[1] Please see *Key Federal Tax Rates and Amounts*. The Section 457(b) plan contribution limit includes both employee deferrals and any vested contributions made by the employer. These limits apply to all contributions made on behalf of an individual during the year from a single or multiple employer.

In addition, some participants in these plans may contribute an amount greater than the maximum by using the **Special Section 457(b) Catch-Up**. (Governmental Section 457(b) plans operate under different catch-up rules, and the Age 50 Catch-Up provision in qualified plans is not available for non-governmental Section 457(b) plans.)

The Special Section 457(b) Catch-Up rule allows participants in the final three tax years before "normal retirement age" to potentially defer an amount equal to double the current maximum elective deferral limit. The amount of the catch-up allowed is limited to the lesser of:

- Twice the maximum elective deferral limit for the current year, or
- The amount of contributions that the participant was eligible to make in prior years, but did not make (the unused deferral limit).[2]

In determining whether a participant in a non-governmental Section 457(b) plan can utilize the Special Section 457(b) Catch-Up rule, the participant must determine their normal retirement age as defined in the plan document. This age is typically between age 65 and 70. Catch-up contributions are only permissible the three years prior to a participant attaining their normal retirement age.

The participant should also identify the amounts deferred into their employer's Section 457(b) plan in prior years and compare those deferrals to the maximum elective deferral limit for each of those years. This determines their unused deferral limit. When computing the Special Section 457(b) Catch-Up, it's important to note the amount deferred for this calculation includes both participant deferrals and any employer contributions.[3] Only years where a participant was an eligible participant in the Section 457(b) plan with the current employer are available for this computation.

Example

Let's put this entire concept together in an example:

- First, normal retirement age as defined by the plan document must be identified. Let's assume the plan document defines normal retirement age as 65 and that occurs in 2022.
- Second, the participant determines the three-year period prior to, but not including, their normal retirement age. The first year available for the Special Section 457(b) Catch-Up is the year the participant attains age 62, and the catch-up is also available for the following two years (2019, 2020, and 2021 in this example).

- Finally, by comparing the amount actually deferred by or contributed on behalf of the participant versus the maximum annual deferral limit for each year of eligibility, the participant can determine the amount of missed deferrals available for the Special Section 457(b) Catch-Up.

The table below shows the amounts actually deferred into the participant's account compared with the statutory maximum elective deferral limit.

Year	Maximum elective deferral limit	Actual amount deferred or contributed into the participant's account before Special Section 457(b) Catch-Up	Amount available for future Special Section 457(b) Catch-Up	Amount of the Special Section 457(b) Catch-Up
2021 (age 64)	$19,500	$19,500	N/A	$0
2020 (age 63)	$19,500	$19,500	N/A	$17,000
2019 (age 62)	$19,000	$19,000	N/A	$19,000
2018	$18,500	$6,000	$12,500	N/A
2017	$18,000	$1,500	$16,500	N/A
2016	$18,000	$11,000	$7,000	N/A

The participant did not contribute the full deferral amount allowable in years 2016 through 2018. Each of these years is eligible when calculating the available catch-up amount. The sum of the amounts contributed below the maximum elective deferral limits is $36,000, which is their unused deferral limit.[4] In 2019 and 2020, the participant contributed the full Special Section 457(b) Catch-Up amount, in addition to their permitted deferral under the current limits. In 2021, there's no remaining unused deferral limit ($36,000 - $19,000 (2019) - $17,000 (2020)). In 2022, when the participant reaches normal retirement age, even if there's any remaining unused deferral limit, the catch-up is no longer available to the participant.

The rules outlined above apply to contributions after the passage of The Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA). The Act altered the calculation for contribution limits[5] and eliminated previously existing coordination limits between Section 457(b) and qualified plans.

Note: If the total of all Section 457(b) contributions exceeds the contribution limit, the employer is required to refund any excess amount (and any income allocable to such excess amount) to the employee no later than April 15 following the year of over contribution. The portion of the refund relating to the participant's contributions must be reported on Form W-2 for the year of contribution. The portion of the refund relating to earnings, if any, should be reported on Form W-2 for the year in which the refund[6] occurs.

[1] The maximum elective deferral limit is indexed annually according to IRC Secs. 402(g)(1) and 457(e)(15).
[2] See IRC Sec. 457(b)(3).
[3] If employer contributions are subject to vesting schedules, the year in which the amount vests is used to determine the amount of previous contributions.
[4] When computing the Special Section 457 Catch-Up, only contributions to the current employer's 457(b) plan made by the participant are considered. Special rules apply to 457(b) deferrals made in years before 2002, which may reduce the amount of the unused deferral limit.
[5] Prior to 2002, the limit was $8,500 or 33 1/3% of compensation, whichever was less.
[6] https://www.irs.gov/retirement-plans/issue-snapshot-457b-plans-correction-of-excess-deferrals

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