

Deferred Compensation Plans

Human Resources



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Agenda

- Traditional 403b & 457
- Difference between 403b & 457
- IRS law changes for 2026
- What is Roth plan?
- Roth IRA vs. Roth 403b/457
- Roth 403b vs. Roth 457

Traditional 403b & 457

1. Traditional 403b & 457 plans are pre-tax contributions
2. Grow on tax deferred basis
3. Pay tax upon distribution
4. Currently the mandatory distribution age is 73 and a half
5. The maximum contribution amount for 2025 is \$23,500
6. For age 50 and plus, the catch-up max amount is \$7,500, that will bring the total contribution amount to \$31,000
7. For those age 60-63 in 2025, a “super” catch-up of **\$11,250** is allowed which brings the total to \$34,750.

Difference between 403b & 457

- **457(b) plans are more flexible for early withdrawals**, especially for people retiring or changing careers before age 59½.
- **403(b) plans** are more traditional and similar to 401(k)s in their rules and penalties. You will have to wait until 59 ½ to withdraw; otherwise there is 10% IRS penalty.

Feature

403(b)

457(b)

Who Offers It

Public schools, non-profits,
religious orgs

State & local governments, some non-
profits

Withdrawal Penalties

10% penalty before age 59½
(unless exceptions apply)

No 10% early withdrawal penalty,
even before age 59½

Contribution Limits (2025)

\$23,000 (+\$7,500 catch-up if
50+)

\$23,000 (+\$7,500 catch-up if 50+), plus
potential **special catch-up**

Catch-Up Contributions

Age 50+ catch-up

Age 50+ **and** special 3-year catch-up (up
to \$46,000 total)

Plan Ownership

Account is owned by employee

Same, but government 457s have fewer
restrictions

Change

Mandated Roth catch-up for “high earners”

Details / Effective Timing

As of **January 1, 2026**, participants whose **FICA wages** from the plan sponsor in the **prior tax year** exceed the threshold (starting at \$145,000, indexed) must make catch-up contributions on a **Roth (after-tax)** basis (not traditional pre-tax). ([Internal Revenue Service](#))

Super Catch-up Rule

For 2025:

\$23,000 (regular limit) + \$11,250 (super catch-up) = **\$34,250 total** in 2025

- This applies **only during the years the participant is age 60 to 63**. At age 64, they go back to the regular age 50+ catch-up limit (if applicable).
- **High earners** (with wages over \$145,000, indexed) must make the super catch-up as **Roth contributions** (after-tax), starting in **2026** due to the Roth catch-up rule.

What is Roth plan?

- After tax contribution
- Tax free growth
- Tax free withdrawal:
 1. When you take qualified distributions in retirement (typically after age 59½) and
 2. the account has been open for at least five years, the entire amount, including earnings, is tax-free.

Feature	Roth IRA	Roth 403(b) / Roth 457(b)
Who Can Contribute	Anyone with earned income under IRS income limits	Only available through eligible employers (schools, government, nonprofits)
Income Limits	Yes. Contributions are phased out at higher incomes (\$150K for single filers in 2025; \$236k for married, filing jointly)	No income limits — high earners can contribute as long as they're eligible employees
Contribution Limits (2025)	\$7,000 (plus \$1,000 if age 50+)	\$23,000 (plus \$7,500 if age 50+)
Source of Contributions	Personal (after-tax) money — not payroll deducted	Payroll deduction (after-tax Roth deferrals from your paycheck)
Required Minimum Distributions (RMDs)	No RMDs during the original owner's lifetime	RMDs apply starting at age 73 (unless you're still working for that employer)
Early Withdrawal Rules (Before Age 59½)	Contributions can be withdrawn anytime tax-free ; earnings taxed + 10% penalty if not qualified	Earnings (and contributions) subject to 10% penalty unless you meet an exception or leave the job at 55+
Qualified Withdrawals	Must be age 59½ AND account open for 5 years	Same: Age 59½ AND 5-year rule applies (though 457(b) has more flexibility)

Feature	Roth 403(b)	Roth 457(b)
Contribution Limit (2025)	\$23,000 + \$7,500 (age 50+ catch-up)	\$23,000 + \$7,500 (age 50+ catch-up)
Income Limits?	✗ No income limit	✗ No income limit
Withdrawals Before 59½	10% early withdrawal penalty (with exceptions)	No 10% penalty after separation from service, regardless of age
RMDs (Required Minimum Distributions)	Yes, starting at age 73 (unless still working)	Yes, starting at age 73 (unless still working)
Catch-Up Options	Age 50+ catch-up or 15-year service catch-up (if eligible)	Age 50+ catch-up or special 3-year double catch-up before retirement
Roth 5-Year Rule	Must be met for qualified distributions	Same (account must be held 5 years + age 59½ or separation)
Loans Allowed?	Yes, if plan allows	Yes, if plan allows

Scenario:

If an employee who is 40 years old, had 3 years of Roth 457 contribution and resigned. Can he withdraw his Roth 457 contributions without IRS penalty? Can he withdraw investment earnings without tax?

- This employee can withdraw your **contributions penalty-free. No 10% early withdrawal penalty.**

- His **earnings** are:

Taxable income, because:

- He is under 59½
- Account is under 5 years

Scenario:

If an employee who is 58 years old and starts Roth 403b contributions. He retires at age 62. Can he withdraw his Roth 403b contributions without IRS penalty? How about his investment earnings?

- This employee can withdraw his **contributions penalty-free.**
No 10% early withdrawal penalty.

- His **earnings** are:
Taxable income, because:

- Account is under 5 years

Scenario:

If an employee who is 40 years old, had 6 years of Roth 403b contribution and resigned. Can he withdraw his Roth 403b contributions without IRS penalty? How about his investment earnings?

- If this employee withdraw your 403b **contributions**, he will have **10% early withdrawal penalty** .

- His **earnings** are:

- Taxable income**, because:

- He is under 59½

For Roth 457 Plan Withdraw:

Age	Held 5 Years	Tax-Free Withdrawal?	Penalty?
59½+	 Yes	 Yes	 No Penalty
Under 59½	 Yes	 Earnings taxed	 No penalty

For Roth 403b Plan Withdraw:

Age	Held 5 Years	Tax-Free Withdrawal?	Penalty?
59½+	✓ Yes	✓ Yes	✗ No Penalty
Under 59½	✓ Yes	✗ Earnings taxed	10% penalty

Rollovers:

If you roll over your Roth 403(b) or Roth 457(b) into a **Roth IRA**, a **new 5-year clock** starts **unless** you already had a Roth IRA open for 5+ years.

Any Questions?

