## IRS allows retirement plan participants to save more in 2013

One of the key advantages of participation in a 457 plan offered through the NACo Deferred Compensation Program is tax-deferred contributions. Federal law allows workers to defer income taxes to encourage retirement savings. Of course, taxes will be paid eventually. Withdrawals from tax-deferred accounts are taxed as ordinary income.

There are caps on how much an individual can contribute annually. The Internal Revenue Service revises or confirms the maximum contribution limits annually, and the limits go into effect on Jan. 1 of the new year.

The contribution limits going into effect for 2013 are:

* $17,500 under age 50,
* $23,000 for age 50 or older, and
* up to $35,000 for the Special 457 Catch-up.

The take-home pay reduction may be significantly less than what’s contributed. The nearby table shows how a paycheck may be affected by making maximum contributions to the NACo Deferred Compensation Program in 2013.

If a county worker also participates in a 403(b) or 401(k) plan, he or she may contribute up to the maximum in that plan in addition to the plan offered through the NACo Deferred Compensation Program, effectively doubling the tax-deferral limit.

**Maximum Deferrals and Paycheck Impact Table**

|  |  |  |  |
| --- | --- | --- | --- |
| Pay frequency | Under Age 50 | Age 50+ Catch-up | Special 457 Catch-up |
|  | Maximum Deferral | Paycheck Impact | Maximum Deferral | Paycheck Impact | Maximum Deferral | Paycheck Impact |
| Weekly (52 pays) | $336 | $252 | $442 | $331 | $673 | $504 |
| Biweekly (26 pays) | $673 | $504 | $884 | $663 | $1,346 | $1,009 |
| Semi-monthly (24 pays) | $729 | $546 | $958 | $718 | $1,458 | $1,093 |
| Monthly (12 pays) | $1,458 | $1,093 | $1,916 | $1,437 | $2,916 | $2,187 |

Source: *IRS Announces 2013 Pension Plan Limitations,* IR-2012-77, Oct. 18, 2012
NOTE: The table rounds contributions down to the nearest dollar to avoid over-contribution; and assumes a 25% tax rate, that you make tax-deferred contributions and that you qualify for one of the maximum 2013 deferral limits.

**Benefits of NACo Program participation**

Being able to invest tax-deferred income over the long term is just one benefit that may be available to county workers who participate in the NACo Deferred Compensation Program. The Program offers other features that may make participation advantageous. Among them are:

* Lower pricing for Program options and services than may be found elsewhere
* The opportunity to plug a retirement income gap before it forms
* Service from Nationwide Retirement Solutions, a leader in public employee retirement plans
* Educational workshops that can help participants better prepare for retirement
* One-on-one meetings with non-commissioned Retirement Specialists
* No tax penalty, regardless of age, for withdrawals after leaving employment

**So what’s the limit?**

Of course, each person’s maximum limit is the contribution amount that matches his or her budget and comfort level. To help county employees decide what that amount might be, Nationwide Retirement Solutions – administrator of the NACo Deferred Compensation Program – provides the *On Your Side* Interactive Retirement PlannerSM on its website, www.nrsforu.com. In as little as 10 minutes, workers can identify a level of contributions that they may be comfortable with, and then increase their contributions to that level.

Federal law requires a deferral change request be made in the calendar month prior to the month it becomes effective. For example, deferral changes effective in February must be requested in January.

Investing involves market risk, including possible loss of principal. Nationwide Retirement Specialists can help county workers understand market risk and strategies that may help them deal with it. In addition, ordinary income tax will be applied to withdrawals. Nationwide representatives cannot offer investment, tax or legal advice. County workers should consult their own advisors before making any retirement plan decisions.

County employees who are interested in obtaining more information about the opportunities available through participation in the NACo Deferred Compensation Program should contact a Nationwide Retirement Specialist, or call toll-free at 877-677-3678.

**Employers: Help increase awareness of the Program**

Providing the NACo Deferred Compensation Program to workers can be an important benefit—but only if they know about it. Nationwide provides promotional tools for county employers looking to help their employees become more aware of the opportunities of deferred compensation plan participation, including tax deferral. Nationwide knows county employees; they have been working with counties and their employees for more than 37 years.

To learn more about the NACo Deferred Compensation Program and how promoting deferred compensation can benefit county employees, contact Lisa Cole by email at lcole@naco.org or phone at 202-942-4270.

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