

What is a Governmental 457(b) Deferred Compensation Plan?

Available only to eligible local and state government employees

Governmental 457(b) deferred compensation plans are offered to local and state government workers, such as fire fighters, police personnel and public school employees. If an individual plan allows, independent contractors are also eligible.

A tax-advantaged plan

Contributions to a governmental 457(b) plan are made through salary reduction or employer contributions. All contributions come directly from your employer on a pre-tax basis, thereby lowering your current taxable income.

An illustration of tax deferral

If you plan to save \$5,000 per year, which is better – to save through a governmental 457(b) or on your own?

	Without a governmental 457(b)	With a governmental 457(b)
Annual income	\$50,000	\$50,000
Pre-tax governmental 457(b) contribution	0	5,000
Income taxes (assume 25%)	12,500	11,250
Gross take-home pay	37,500	33,750
After-tax savings plan	5,000	0
Net take-home pay	32,500	33,750

This hypothetical illustration demonstrates the impact of pre-tax and post-tax contributions on net take-home pay.



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Assets in your governmental 457(b) plan accumulate tax-deferred. A tax-deferred investment has the potential to grow faster because taxes are deferred on earnings until they are distributed. With a taxable investment, taxes are paid on earnings each year, leaving less money to generate future investment earnings. As a result, contributing to a governmental 457(b) can have a greater impact on the amount you accumulate over time than if you invested in a taxable investment. For this reason, eligible employees who are saving for retirement should consider taking advantage of tax-deferred retirement savings plans like governmental 457(b)s.

Convenience

Since all salary reduction contributions come directly from your employer, you never have to worry about writing a check on time or missing a contribution.

Contribution flexibility

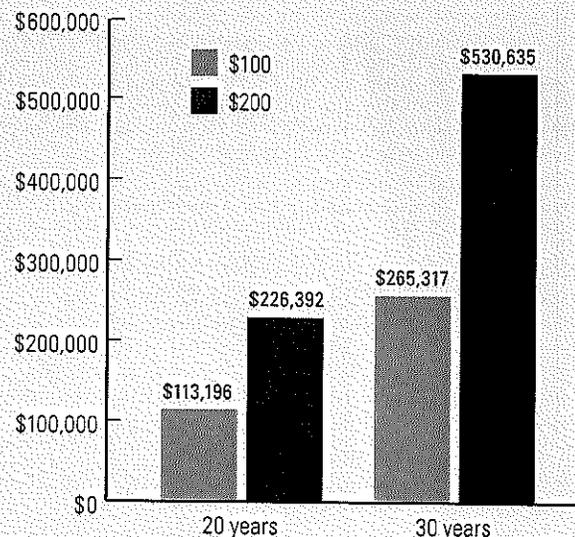
With a governmental 457(b), you can increase, decrease or even stop, then restart your contributions depending on your situation. Additionally, the contribution limit for governmental 457(b) plans is not counted against the contribution limits for other qualified plans, thus, you can maximize contributions to both a governmental 457(b) and a 403(b) or a 401(k) – essentially doubling the tax-deferral potential. Some retirement plans require that you begin taking required minimum distributions at age 70½, regardless of whether or not you are still working. Like some other qualified plans, in a governmental 457(b) you generally can continue to contribute and accrue assets until you decide to retire, even if this is after age 70½.

Ownership

Governmental 457(b) assets are held by the plan for the exclusive benefit of plan participants and their beneficiaries. So, all employee contributions and earnings belong to you – even if you change jobs. If your next job is for an employer who offers a governmental 457(b) plan, and if the new plan allows, you can rollover your assets and make contributions under the new plan. Please note: in some circumstances, an employer may also contribute to your governmental 457(b) and there may be a delayed vesting schedule before those contributions/earnings belong to you.

Benefits of contributing to a governmental 457(b)

Hypothetical growth assuming 7% return annually and bi-weekly contributions.



This hypothetical chart is intended to illustrate the advantage of contributing to a governmental 457(b) and not the actual performance of a specific product or its investment options. Charges and expenses have not been deducted and if they had been the returns would be reduced.

Upon withdrawal tax-deferred performance would be reduced by income taxes. Investors must consider their personal investment horizon and income tax bracket, both current and anticipated, when making an investment decision.

How much can I contribute?

If you contribute your maximum basic salary deferral limit, and you qualify for the Special Section 457 Catch-Up provision described below, you have the potential to contribute up to \$36,000 to your 457(b) in 2015.

- **Basic Annual Limit:** \$18,000 for 2015 (may be indexed for inflation each year thereafter in \$500 increments) or 100% of compensation, whichever is less. This limit includes tax-deferred contributions and employer contributions that are made directly into your 457(b).
- **Age 50+ Catch-up:** If you are age 50 or over and participate in a governmental 457(b), you may be eligible to contribute an additional \$6,000 in 2015, which may be indexed for inflation each year thereafter in \$500 increments. You may not use both catch-up opportunities in a 457(b) in the same year.
- **Special Section 457 Catch-Up:** If you have under-contributed to your 457(b) plan in the past, and you are within three calendar years of the normal retirement age as defined under your plan, you have the potential to contribute up to an additional \$18,000 in 2015.

You should also keep in mind that any contributions you make to a 403(b) plan, 401(k) plan or other workplace savings plans do not reduce the amount you may contribute to your 457(b).

Distributions

If you separate from service you can generally take distributions before 59½ without the 10% federal income tax penalty imposed on other qualified plans; however, distributions are subject to ordinary income tax in the year withdrawn. Also, governmental 457(b) plans may be subject to maintenance fees and expenses associated with the funding vehicle, which may be deducted from the value of the account.

Important information about governmental 457(b)s and distributions

In return for the tax-deferral treatment of governmental 457(b) deferred compensation plans, the government places certain restrictions on distributions from these plans. Any amounts accrued in a governmental 457(b) may not be distributed earlier than the year in which the participant:

- attains age 70 ½,
- separates from service,
- suffers from an unexpected emergency hardship or
- is in a plan that terminates.

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