

# *457 Deferred Compensation Overview*

## **Questions and answers about the 457 deferred compensation plan.**

### ***What is a 457 plan?***

The 457 deferred compensation plan (deferred comp) is a tax-deferred retirement plan offered by your employer that allows you to save money toward your retirement directly from your pay. It's designed to be a supplement to your pension and is an additional way to invest long-term. Withdrawals are taxed as ordinary income.

### ***Do you need deferred comp?***

Boston College's Center for Retirement Research recently found that about 64% of Americans aren't saving enough to maintain their standard of living in retirement.<sup>1</sup> Deferred comp can help you create a more financially secure future for you and your family. It can provide a simple approach for you to enjoy the benefits of long-term investing. You're always in control of how to use deferred comp to help achieve your goals.

### ***How much money do you need when you retire?***

The amount is different for everyone. Historically, industry professionals have said you generally need 70 to 90 percent of your current income to maintain your standard of living. More recently, Hewitt Associates, a global human resources consulting and outsourcing company, found that when factoring in inflation and increases in medical costs employees will need to replace 126 percent of their final pay. This is significantly more than the traditional targets of 70 to 90 percent.<sup>2</sup> It's important to know the difference between what you'll have (from your Social Security, pension and personal savings) versus what you'll need in retirement. Contributing to a deferred comp plan can help bridge that gap.

### ***Where does retirement income come from?***

Most people depend on Social Security and their pension. On average, a public pension will replace only 50% of current income after 25 years of service. Retired public employees today earn an average of \$20,400 per year<sup>3</sup>. Most people will look to Social Security as a secondary source of retirement income, with their own savings, pensions and continued work as primary sources.

<sup>1</sup><http://www.smartmoney.com/personal-finance/retirement/are-you-saving-enough-for-retirement/>

<sup>2</sup>Hewitt Study Reveals Widening Gap Between Retirement Needs and Employee Saving Behaviors  
[www.hewittassociates.com](http://www.hewittassociates.com)

<sup>3</sup>NCPERS Research Series: The Top Ten Advantages of Maintaining Defined Benefit Pensions.  
May 2007

## **What are the benefits of a tax-deferred plan?**

The money you contribute to deferred comp comes out of your paycheck pre-tax. That means before taxes come out of your check. This lowers your taxable income. For example, let's say you pay around 25% in income taxes. Putting \$100 in your account only costs you \$75 from your take-home pay. That means your \$100 contribution only feels like \$75 or \$75 out of your pocket puts \$100 toward your retirement. You won't pay any taxes until you withdraw your money—usually at retirement. (Then your withdrawals will be taxed as ordinary income.)

## **How do you put money into your account?**

Perhaps the easiest thing about a deferred comp plan is contributing. Money is sent from your paycheck to your account automatically. You can establish a good saving habit without difficulty. Most people say that because they don't even see the money they invest, they hardly miss it.

## ***How much do you put into deferred comp?***

You decide how much to contribute, what you invest in and how to use your money when you retire. You can invest up to \$16,500 into deferred comp in 2010. And if you're over age 50, you may be able to invest an additional \$5,500 in deferred comp. Although investing for your future is a smart way to help achieve financial security, there may be times when other financial matters take priority. That's why you can start, stop or re-start anytime you want. You can also change contribution amounts or investment choices any time.

## ***When do you have access to your money?***

Deferred comp is designed for long-term investing. It's not a savings account and you won't have access to your money until you separate from your employer. However, unlike other types of tax deferred retirement savings accounts, with a 457, if you leave before age of 59½, you can withdraw money without paying the 10% penalty tax. So if you're thinking about an early retirement, deferred comp can certainly help.

## ***Who helps you with your account?***

You deserve real people and convenient resources that help public employees plan for a secure retirement. Your employer chose Nationwide to administer your deferred comp plan and to help you prepare for retirement. Nationwide representatives are salaried — not on commission. And you have direct access to talk with your local Nationwide representative about your needs in retirement. You can also call our home office representatives. They are available by phone Monday through Friday from 8:00 AM to 11:00 PM EST. The information Nationwide representatives give you is for your educational purposes and is not intended as investment advice. They can help you understand how deferred comp fits into your overall long-term investing goals.

You can also visit the plan's Web site at [nrsforu.com](http://nrsforu.com) to enroll and create an online account, view an online workshop, learn about individual funds or read about retirement investing. Use the retirement planning tools to: Help determine what kind of investor you are Find out how much you should be saving to meet your goals Learn how investing impacts your paycheck See how retirement investments could grow Simulate various payout options To enroll today or learn more, call your Nationwide representative today.

***If you have any questions about your deferred compensation plan, you can call you Nationwide Retirement Specialist:***

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