



# NAGDCA NOTES

## Catching Up for Retirement

Recent findings by the Employee Benefits Research Institute (EBRI) indicate that over the last several years, the amount of individual savings have dwindled, and people nearing retirement often face a significant shortfall in the amount of funds needed to cover basic needs during their retirement. Fortunately, policymakers recognize this problem and have recently instituted catch-up provisions to give plan participants an opportunity to defer more of their salary into their defined contribution plans, giving them a chance to "catch-up" on their retirement savings.

For Section 457 plans, there are two catch-up provisions: (1) the over age 50 catch-up available for all eligible defined contribution plans, and (2) the 457 catch-up provision allowing individuals nearing normal retirement age to "make-up" some or all of any deferrals they did not make during the previous years of eligibility. The over age 50 catch-up provision, which also applies to 403(b) and 401(k) plans, allows a participant who is at least age 50 sometime during the year to defer an additional amount under the plan (see Table 1 below). The limit is subject to cost-of-living increases after 2006. Under the 457 catch-up, the catch-up deferrals must be made within the last three years prior to the year in which the participant reaches normal retirement age. In these three years the yearly deferral (regular deferral limits plus the catch-up amount) cannot exceed two times the annual deferral dollar limit (see Table 2 below). **A participant eligible for both the over age 50 catch-up and the 457 catch-up may use whichever of the two catch-up limits that produces the largest dollar amount, but not both.**

**Table 1**  
Over Age 50  
Catch-up Limits  
for 457, 403(b),  
401(k) plans

2002	2003	2004	2005	2006
\$1,000	\$2,000	\$3,000	\$4,000	\$5,000

**Table 2**  
Maximum 457  
Contributions  
(regular deferral limit plus  
catch-up allowance, or  
twice the regular limit)

2003	2004	2005	2006
\$24,000	\$26,000	\$28,000	\$30,000

The over age 50 catch-up provision alone can make a big difference in a plan participant's ultimate retirement savings. If a participant retires at age 65, and puts away the additional sum every year beginning at age 50, this could translate into savings of more than \$200,000 before taxes, according to T. Rowe Price.\*

*\* As quoted in an article at [http://money.cnn.com/2002/03/21/retirement/guide\\_middle/](http://money.cnn.com/2002/03/21/retirement/guide_middle/). This figure is based on earning an 8 percent annual return.*

*The information presented above was compiled from publications by the IRS, the Employee Benefits Research Institute, and NAGDCA's own **Problem and Solution Book**. For more information on catch-up provisions, visit [www.irs.gov](http://www.irs.gov), consult NAGDCA's **Problem and Solution Book**, or contact Gina M. Vessels at [gvessels@amrinc.net](mailto:gvessels@amrinc.net). For more information about retirement confidence among Americans and the rate of savings among different age groups in America, visit The Employee Benefits Research Institute at [www.ebri.org](http://www.ebri.org).*

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