

A city employee and a nonprofit executive can each receive a benefits document marked 457(b), contribute the same amount, and watch the balance grow on a financial website. The matching label suggests that they own the same kind of retirement plan, but they do not. The city employee may have assets held in trust, access to Roth contributions, participant loans, and the ability to roll the balance into an IRA. The nonprofit executive may possess an unsecured promise from the employer, with no ownership interest in the investments displayed on the statement and no right to roll the money into an IRA. This difference is not a technical footnote. It determines who owns the assets, what happens if the employer fails, when the money can be moved, and how much control the participant has after leaving the job.

The number comes from section 457 of the Internal Revenue Code, while the letter b identifies an eligible plan satisfying the requirements of subsection 457(b). It is a deferred-compensation plan, meaning a worker agrees to postpone receiving part of current compensation so that income and its associated taxation can be pushed into future years. State and local governments may sponsor one version, while certain nongovernmental tax-exempt organizations may sponsor another. The federal government does not use a 457(b) for its regular employee savings plan; federal workers generally use the Thrift Savings Plan. Private for-profit corporations cannot establish ordinary 457(b) plans, although they may use other deferred-compensation arrangements governed by different rules.

The governmental 457(b) is commonly offered by states, cities, counties, public authorities, police departments, fire departments, school systems, and other state or local government bodies. Employees may include teachers, administrators, public-safety officers, sanitation workers, court employees, nurses at public hospitals, and many others. Some plans can also cover independent contractors performing services for the governmental employer. The 457(b) frequently sits beside a public pension, allowing the employee to build an individual investment account in addition to earning a formula-based monthly pension benefit. Having a pension does not make the 457(b) unnecessary because the two plans solve different problems. The pension promises income according to its formula, while the 457(b) creates a personally measured balance that can provide additional flexibility.

A governmental participant normally contributes through payroll. Traditional deferrals are generally excluded from current federal taxable income and taxed when distributed, while a governmental plan may also offer Roth contributions that are included in current taxable income. Qualified Roth distributions can later be received free from federal income tax. A nongovernmental tax-exempt 457(b) cannot offer designated Roth contributions under the current rules. That one difference immediately identifies the importance of the employer: seeing a Roth option strongly suggests that the plan is governmental, but the official plan document should still be checked. The IRS comparison of governmental and tax-exempt 457(b) plans confirms that Roth contributions are available only in the governmental version.

Employee and employer contributions share one 457(b) limit. This differs from the structure people may remember from a 401(k), where the employee has a personal elective-deferral limit and employer contributions fit under a larger overall ceiling. If a 457(b) permits \$24,500 of total annual contributions and the employer contributes \$5,000, only \$19,500 of ordinary space remains for the participant under that simplified example. A generous employer contribution still benefits the employee, but it uses part of the same 457(b) annual limit. The participant must know whether an amount described as an employer contribution sits inside the limit rather than assuming it is added above the employee's available deferral.

For 2026, the ordinary 457(b) contribution limit is the lesser of \$24,500 or one hundred percent of the participant's includible compensation. The limit generally counts employee salary deferrals and employer contributions while excluding investment earnings. A governmental participant age fifty or older may be allowed an additional \$8,000 catch-up contribution. Someone attaining age sixty, sixty-one, sixty-two, or sixty-three during 2026 may qualify for the higher \$11,250 catch-up amount instead of the ordinary \$8,000 age-based amount. The plan must permit the catch-up; reaching the required age does not force an employer to add the feature. These figures are adjusted periodically, making the year attached to the number essential. The IRS provides the current 457(b) limits and available governmental catch-up amounts.

The 457(b) limit is generally separate from the employee-deferral limit shared by 401(k) and 403(b) plans. Consider a public university employee with access to both a 403(b) and a governmental 457(b). If the worker has enough compensation and both plans allow it, the employee may generally contribute up to \$24,500 to the 403(b) and another \$24,500 to the 457(b) in 2026, producing \$49,000 of ordinary salary deferrals before considering an eligible catch-up. This is not an accidental loophole. The tax code treats the 457(b) deferral limit separately. The opportunity can be powerful for someone approaching retirement, but the worker must still preserve enough take-home pay to meet current living expenses and avoid using retirement accounts as emergency funds.

The ordinary age-based catch-up belongs only to the governmental 457(b). A tax-exempt organization's nongovernmental plan cannot permit the age-fifty catch-up merely because a participant reaches fifty. Governmental plans offering the feature must also follow the current Roth catch-up requirement for certain higher-paid participants. For 2026, an affected participant whose 2025 Social Security wages from the sponsoring employer exceeded \$150,000 generally must make age-based catch-up contributions as Roth contributions. If the plan does not offer a Roth feature, the affected participant may be unable to make that catch-up contribution. The special pre-retirement catch-up follows a different set of rules and may still be made on a Traditional basis.

The special three-year catch-up is one of the 457(b)'s most distinctive provisions. During the final three taxable years ending before the plan's normal retirement age, an eligible participant may be allowed to contribute more than the ordinary annual limit. For 2026, the theoretical ceiling can reach \$49,000, which is twice the ordinary \$24,500 limit, but

only when the participant has enough unused deferral space from eligible prior years. The special catch-up does not simply hand every employee another full limit. It allows the participant to recover amounts that could have been contributed to that employer's 457(b) during previous years but were not. Someone who consistently used the maximum may have no unused space to recover.

Unused space means unused legal deferral capacity, not money lost in the market. If a participant could have deferred \$15,000 during an earlier year but contributed only \$5,000, as much as \$10,000 of potential underused capacity might enter the special calculation, subject to the applicable rules. A decline in the account's investments does not create catch-up space because investment performance and contribution limits are separate. Unused room in a 401(k), 403(b), or IRA also does not automatically become unused 457(b) room. The employer must examine the participant's prior 457(b) eligibility, contributions, annual limits, and service records. Missing historical records can make the calculation difficult, especially when the participant worked for the employer long before the current recordkeeper took control.

The phrase normal retirement age does not necessarily mean the age at which the employee plans to stop working. It is an age defined or selected under the plan's rules for purposes of the special catch-up. The three qualifying years must occur immediately before the year in which that age is reached, and they do not include the retirement-age year itself. A participant generally cannot repeatedly choose new retirement ages to create several catch-up periods. Governmental employees who qualify for both the special three-year catch-up and the ordinary age-based catch-up cannot combine them during the same year. The employee generally uses whichever provision permits the larger contribution. The IRS explains the three-year period, unused-deferral calculation, and interaction with the governmental age catch-up.

Investment choices inside a governmental 457(b) may include stock funds, bond funds, stable-value options, target-date funds, annuity contracts, and other investments selected by the plan. The balance depends on contributions, investment performance, fees, and withdrawals; the 457(b) itself does not promise a particular retirement value. A target-date fund may handle allocation and rebalancing, while a stable-value fund may emphasize preservation and interest. An annuity contract may add guarantees or income features but can also add expenses and surrender restrictions. Public employers sometimes negotiate access to institutional funds with relatively low costs, while other plans rely heavily on insurance products or higher-priced investment menus. The plan's governmental status protects the ownership structure, not the participant from poor investment choices.

Governmental 457(b) assets must be held in trust, a custodial account, or an annuity arrangement for the exclusive benefit of participants and beneficiaries. In ordinary language, the retirement assets are separated from the government employer's operating money and are not supposed to remain available for paying the employer's general creditors. The worker owns a protected plan benefit even though the employer sponsors

and administers the arrangement. Market losses can still reduce the balance, and plan fees can still weaken growth. The protection concerns who may claim the assets, not whether the investments will perform well. The IRS government-plan guidance confirms that governmental 457(b) assets must be held for employees' benefit.

The governmental plan carries an unusual advantage when employment ends. A taxable distribution from an eligible governmental 457(b) is generally not subjected to the additional ten-percent federal tax that commonly applies to early withdrawals from 401(k)s, 403(b)s, and IRAs. A participant who separates from government service at forty-eight may therefore be able to withdraw Traditional 457(b) money and pay ordinary income tax without also owing that additional ten-percent tax. This does not make the withdrawal tax-free, and the plan must still permit distribution after severance. It means the 457(b) can provide a bridge between an early departure from public employment and the age when other retirement resources become easier to access.

Money rolled into the 457(b) from another kind of retirement plan can carry different treatment. If a governmental 457(b) receives rollover money from a 401(k), 403(b), or IRA, a later early distribution attributable to that rolled-in money may remain subject to the additional ten-percent tax. The plan must maintain records separating native 457(b) money from rollover sources. A participant looking only at the combined balance may assume that every dollar has the same penalty-free access, but tax law continues to recognize where the dollars originated. The IRS specifically distinguishes ordinary governmental 457(b) distributions from amounts rolled in from qualified plans or IRAs.

Penalty-free does not mean restriction-free. While still working for the employer, a participant cannot ordinarily withdraw the balance whenever desired. Governmental plans may permit in-service distributions after age 59½, and both governmental and tax-exempt 457(b) plans may allow distributions for an unforeseeable emergency. Other events can include severance from employment, death, plan termination, required distributions, or a qualifying small-account payment. The exact options depend on federal rules and the written plan. A participant must first have a distributable event; the absence of the ten-percent tax becomes relevant only after access is legally available.

An unforeseeable emergency is a severe financial hardship caused by illness, accident, casualty loss, funeral expenses, or another extraordinary event beyond the participant's or beneficiary's control. This standard can be narrower than the hardship language people recognize from a 401(k). A predictable college bill or an ordinary desire to purchase a home will not automatically qualify. Even when the event is serious, the participant may need to show that insurance, asset liquidation, stopping contributions, or other reasonably available resources cannot satisfy the need. The distribution is generally limited to the amount needed to address the emergency and resulting taxes. The rule is intended to respond to genuine financial disruption rather than create routine access to deferred compensation.

A governmental 457(b) may offer participant loans, but it is not required to do so. When loans are available, they generally follow limits resembling those used by other workplace plans, including the ordinary ceiling based on the lesser of a dollar maximum or a portion of the vested balance. Repayments commonly return to the account through payroll with interest. The borrowed amount loses exposure to its former investments while it remains outside the account, and an unpaid loan can produce taxation when employment ends. The nongovernmental tax-exempt 457(b) cannot offer participant loans because the worker does not hold funded assets from which to borrow. The IRS comparison identifies loans as available in governmental plans and unavailable in tax-exempt 457(b) plans.

After leaving public employment, a governmental participant may be able to keep the money in the plan, receive installments, take partial distributions, purchase an available income product, or complete a direct rollover. An eligible balance may generally move to another governmental 457(b), a 401(k), a 403(b), or an IRA when the receiving arrangement accepts it. A rollover can preserve tax deferral, change investment choices, and simplify account management. Moving native 457(b) money into an IRA or 401(k), however, can surrender the 457(b)'s special early-withdrawal treatment. Someone expecting to use part of the money before age 59½ should understand that difference before rolling the entire balance away.

The Roth governmental 457(b) requires its own withdrawal analysis. Contributions were already subjected to income tax, but earnings become federally tax-free only when the distribution is qualified under the applicable Roth rules. Separation from employment may provide access to the account without the ordinary ten-percent 457 penalty, yet a nonqualified distribution can still cause the earnings portion to become taxable. A worker leaving at forty-eight should not assume that every dollar inside a Roth 457(b) can immediately be spent without tax merely because the Traditional 457(b) has favorable early-access treatment. Access, additional penalties, and income taxation are separate questions.

The plan changes character when the sponsor is a private tax-exempt organization rather than a government. A hospital foundation, charity, trade association, private university, or another qualifying tax-exempt employer may maintain a nongovernmental 457(b), but participation is generally limited to a select group of management or highly compensated employees. This arrangement is commonly treated as a top-hat plan, meaning an unfunded deferred-compensation plan maintained for a relatively small group of senior or highly paid workers. It is not the broad employee-savings plan that a governmental employer can make available across its workforce. A nonprofit wanting to cover a wide range of ordinary employees would generally use another plan structure, such as a 403(b) when eligible.

“Unfunded” has a specific and unsettling meaning. The nonprofit may display a balance, permit investment elections, and credit gains or losses according to those elections, but the assets cannot be placed beyond the employer’s general creditors for the participant’s

exclusive ownership. The money remains the employer's property until it is paid under the plan. If the organization becomes insolvent, faces major litigation, or enters bankruptcy, participants can stand as unsecured creditors rather than owners of protected retirement trust assets. The value on the statement represents the employer's obligation to pay, not necessarily a separate account that the executive can remove from the organization's reach.

Some employers use a rabbi trust to hold assets associated with these promises. The name does not describe a religious plan; it arose from an early tax ruling involving a rabbi's compensation arrangement. The trust can restrict the employer from casually using the assets for ordinary purposes, but it must leave them available to the employer's creditors if the organization becomes insolvent. Otherwise, the participant could be considered to have received funded compensation and lose the intended tax deferral. The arrangement creates a difficult tradeoff: tax deferral depends partly on the money remaining exposed to the employer's financial condition. The IRS explains that nongovernmental 457(b) assets remain employer property and available to general creditors, even when a rabbi trust is used.

Investment elections in a nongovernmental plan may therefore be notional. A notional investment is a bookkeeping measure used to calculate what the employer promises rather than property directly owned by the participant. If the employee selects a stock index fund, the employer may credit the deferred-compensation balance as though it followed that index. The statement can rise when the index rises and fall when it falls, but the participant does not necessarily own shares of the fund. The account faces two different hazards at once: the performance of the chosen measuring investment and the employer's ability to satisfy the promise. A beautifully diversified notional portfolio cannot remove creditor risk tied to a financially weak organization.

Nongovernmental plans also lack ordinary rollover portability. Their distributions generally cannot be rolled into an IRA, 401(k), 403(b), or governmental 457(b). A permitted transfer to another tax-exempt employer's eligible 457(b) may be possible under limited conditions, but it is not equivalent to the broad rollover freedom of the governmental version. The plan's payment schedule can therefore determine when a large amount becomes taxable. If the entire balance must be paid shortly after employment ends, years of deferred compensation may arrive in one tax year and push income sharply upward. Installment options can spread taxation, but they also leave unpaid amounts exposed to the former employer's creditors for a longer period.

Distribution elections deserve attention before the final workday. The plan may contain a default lump-sum date, permit installment payments, or allow a participant to make a limited election concerning timing. Waiting until after separation can remove choices because deferred-compensation rules often require elections before the money becomes payable. A senior employee who has accumulated a large balance should know the default schedule, available alternatives, amendment deadlines, death provisions, and financial condition of the employer. The decision involves opposing risks: receiving

money quickly can create a concentrated tax bill, while leaving it deferred can extend exposure to the organization's creditors.

A 457(f) arrangement should not be confused with the 457(b). The 457(f) is often called an ineligible deferred-compensation plan, not because it is necessarily illegal, but because it does not satisfy the contribution and distribution framework of 457(b). It may permit benefits beyond the ordinary 457(b) limit, often for executives, but taxation generally occurs when the compensation is no longer subject to a substantial risk of forfeiture. A substantial risk of forfeiture means the person could lose the promised compensation by failing to satisfy a genuine future service or performance condition. The letters following the number change the tax structure, so a document marked 457(f) cannot be understood through rules learned for 457(b).

The safest way to read any 457(b) begins with the employer rather than the investment menu. A state or local government plan generally holds assets for participants and offers recognizable retirement-account portability. A private tax-exempt plan generally represents unsecured deferred compensation promised to a select group. Once that identity is established, contribution limits, catch-ups, Roth treatment, distribution timing, fees, and investments can be understood correctly. The same three digits can describe either a powerful public-employee savings account or a promise resting on a nonprofit employer's future ability to pay, and no investment selection can erase the difference between those two forms of ownership.