

Glossary of Terms:

Wyoming Retirement System (WRS) 457(b) Plan

A 457(b) plan is a type of non-qualified, tax-deferred retirement plan available to employees of state and local governments, as well as certain tax-exempt organizations. It allows participants to defer a portion of their salary, and the earnings on those contributions grow tax-deferred until withdrawal. The Roth option is also available. Roth contributions are taxed before the contributions are posted to the account. Qualified distributions from Roth accounts are tax free

A

Age 50+ Catch-Up Contribution: An additional amount that participants age 50 or older can contribute to their 457(b) plan beyond the standard annual limit. For governmental 457(b) plans, this cannot be combined with the Special 457(b) Catch-Up in the same year; participants are limited to the higher of the two if eligible for both.

After-Tax Contributions: Contributions made to a retirement account from income that has already been taxed. In a 457(b) plan, this refers specifically to Roth contributions.

Allocation: The way in which a participant's contributions are distributed among the available investment options within the plan.

Annual Contribution Limit: The maximum amount of money an individual can contribute to their 457(b) plan in a given tax year, as set by the IRS. This limit applies to both pre-tax and Roth contributions combined.

B

Beneficiary: The person(s) or entity designated by the participant to receive the remaining assets in their 457(b) account upon their death.

Brokerage Account (Investment Window): An option sometimes offered within a 457(b) plan that allows participants to invest in a wider range of mutual funds or other securities beyond the core investment options provided by the plan. WRS cannot see Self Directed Brokerage Accounts.

C

Catch-Up Contributions: Special provisions that allow eligible participants to contribute more than the standard annual limit. For 457(b) plans, there are typically two types: Age 50+ Catch-Up and Special 457(b) Catch-Up.

Contingent Beneficiary: The secondary person(s) designated to receive the benefits from a 457(b) account upon the participant's and primary beneficiary's death.

Contribution: The money an employee defers from their paycheck and invests into their 457(b) retirement plan.

D

Deferred Compensation Plan: Another name for a 457(b) plan, as it involves deferring a portion of one's current compensation until a later date, typically retirement.

Direct Rollover: A transfer of retirement funds directly from one retirement plan to another, without the money being paid to the participant first. This avoids tax withholding and potential penalties.

E

Eligible Employer: The types of employers that can offer a 457(b) plan. These typically include state and local government agencies (governmental 457(b) plans) and certain tax-exempt organizations (non-governmental 457(b) plans).

Employee Retirement Income Security Act of 1974 (ERISA): A federal law that sets minimum standards for most voluntarily established retirement and health plans in private industry to provide protection for individuals in these plans. Governmental 457(b) plans are generally not subject to ERISA.

Early Withdrawal Penalty (10%): A penalty that typically applies to withdrawals from qualified retirement plans (like Roth accounts before age 59½). A key distinction of 457(b) plans is that withdrawals after separation from service are generally not subject to this 10% early withdrawal penalty, although they are still subject to ordinary income tax.

G

Governmental 457(b) Plan: A 457(b) plan offered by a state or local government agency. These plans have certain distinctions compared to non-governmental 457(b) plans, particularly regarding creditor protection and rollover options.

H

Hardship Withdrawal (Unforeseeable Emergency): A distribution from a 457(b) plan allowed in cases of severe financial hardship caused by an unforeseeable emergency, such as an illness, accident, eviction/foreclosure, funeral expenses, or property loss. The withdrawal amount must be limited to what is reasonably necessary to satisfy the emergency.

I

In-Service Distribution: A withdrawal from a retirement plan while the participant is still employed. 457(b) plans typically have limited in-service withdrawal options, often restricted to unforeseeable emergencies or reaching the RMD age as set forth by the IRS.

Indirect Rollover: A rollover where the retirement plan distribution is paid directly to the participant, who then has 60 days to deposit the funds into another eligible retirement account to avoid taxes and penalties.

Internal Revenue Service (IRS): The U.S. government agency responsible for tax collection and tax law enforcement, including regulations related to 457(b) plans.

Investment Options: The various funds or products (e.g., mutual funds) available for participants to invest their 457(b) contributions.

N

Non-Governmental 457(b) Plan: A 457(b) plan offered by a tax-exempt organization (e.g., certain hospitals, charities). These plans have different rules than governmental 457(b) plans, notably regarding creditor protection (funds may be at risk if the employer goes bankrupt) and distribution rules.

Non-Qualified Plan: A retirement plan that does not meet all the requirements of ERISA. 457(b) plans are generally considered non-qualified plans, which provides them with certain flexibilities, such as the absence of the 10% early withdrawal penalty upon separation from service.

Normal Retirement Age: The age specified in the plan document when a participant is generally expected to retire and can access their funds without restriction. This is relevant for the Special 457(b) Catch-Up contribution.

P

Pre-Tax Contributions: Contributions made to a retirement account before income taxes are deducted from the participant's paycheck. These contributions reduce the participant's current taxable income, and earnings grow tax-deferred until withdrawal. Distributions taxed upon withdrawal.

Primary Beneficiary: The first person(s) designated to receive the benefits from a 457(b) account upon the participant's death.

Q

Qualified Distribution (Roth 457(b)): A tax-free withdrawal from a Roth 457(b) account, requiring that at least five years have passed since the first Roth contribution, the participant is at least 59½, and the participant has separated from service.

R

Required Minimum Distribution (RMD): The minimum amount that a retirement account holder must withdraw from their account each year once they reach a certain age (currently 73).

Record Keeper: A 457(b) plan record keeper is responsible for maintaining accurate records of a retirement plan, including assets, contributions, and distributions. This role is crucial for ensuring the plan operates correctly, complies with regulations, and provides participants with accurate information.

Rollover: The transfer of funds from one retirement account to another.

Roth 457(b): An option within some 457(b) plans that allows participants to make after-tax contributions. Qualified distributions from a Roth 457(b) account are tax-free in retirement, if qualifying factors are met.

S

Separation from Service: The event of leaving employment with the employer sponsoring the 457(b) plan. This is a common trigger for eligibility to withdraw funds from a 457(b) plan.

Special 457(b) Catch-Up Contribution: A unique catch-up provision for 457(b) plans that allows participants to contribute up to twice the normal annual limit in the three years immediately preceding their normal retirement age, provided they have not previously contributed the maximum allowable amount in earlier years.

T

Tax-Deferred Growth: Investment earnings grow within the 457(b) account without being subject to taxes until the funds are withdrawn in retirement.

U

Unforeseeable Emergency: See Hardship Withdrawal.

V

Vesting: The process by which an employee gains non-forfeitable rights to employer contributions in a retirement plan. While employee contributions to a 457(b) plan are always 100% vested, employer contributions (if any) may have a vesting schedule.