Contents

List of Questions ......................................................... xxxix

CHAPTER 1

The History of 457 Plans .................................................. 1-1

Deferred Compensation Before Code Section 457 .................... 1-2

Code Section 457 Enactment ........................................... 1-3

Extensions of Code Section 457 in the 1980s .......................... 1-3

Changes in the 1990s: Code Section 457 Plans Start to Look More Like Retirement Plans 1-7

EGTRRA ................................................................. 1-8

2002 Through 2006 Legislation ......................................... 1-16

Final 457 Treasury Regulations ........................................ 1-20

The American Taxpayer Relief Act of 2012 .......................... 1-22

Supreme Court Cases on Same-Sex Marriage ........................ 1-22
CHAPTER 2

Eligible 457 Plans .................................................. 2-1
  Eligible Employers and Participants ................. 2-3

Plans Subject to Code Section 457 .................. 2-16

Eligible 457(b) Plan Requirements and Design ...... 2-22

Deferral Limits for 457(b) Plans ......................... 2-47

Distributions: Tax Consequences, Reporting and Withholding ........................................... 2-63

457(b) Errors and Corrections .................... 2-99

Governmental 457(g) Trusts ...................... 2-101

Eligible Plans and Insurance ......................... 2-112

Accounting for Governmental 457(b) Plans ....... 2-116

References ....................................................... 2-119

CHAPTER 3

Distribution Rules .................................................. 3-1

Overview of the 457 Distribution Rules ............... 3-2

Early Distribution Rule ........................................ 3-5

Minimum Distribution Rule ............................... 3-18

Distributions from Designated Roth Accounts ...... 3-35

Rollovers and Transfers ....................................... 3-40
Direct Rollovers to Roth IRAs .............................................. 3-46
In-Plan Roth Rollovers (IRRs) .............................................. 3-49
Direct Plan-to-Plan Transfers .............................................. 3-53
Special Distribution Rules for Public Safety Employees and Officers .............................................. 3-58
DPSERA (Defending Public Safety Employees’ Retirement Act) (2015) .............................................. 3-59
Distributions from Automatic Contribution (Enrollment) Arrangements .............................................. 3-62
Distributions for Employees on Active Military Duty .............................................. 3-67
Disaster Relief Distributions .............................................. 3-69
Other Distribution Rules .............................................. 3-70

CHAPTER 4
Investments .............................................. 4-1
Permitted Investments for Deferred Compensation Plans .............................................. 4-2
Types of Investments .............................................. 4-3
Rabbi Trusts .............................................. 4-12
Trusts for Governmental Deferred Compensation Plans .............................................. 4-13
Employer Responsibility for Plan Investments .............. 4-16
Participant-Directed Investment ...................... 4-17

Providing Investment Education and Investment Advice ................................................ 4-19

Paying Plan Administration Expenses ................ 4-21

Timely Investment of Contributions .................. 4-22

CHAPTER 5

Beneficiary Designations .................................... 5-1

Making a Beneficiary Designation ...................... 5-3

Family Rights That Restrain a Beneficiary Designation ........................................... 5-23

How Divorce Might Affect a Beneficiary Designation .............................................. 5-32

Other Events That Might Affect a Beneficiary Designation ........................................ 5-36

Giving Advice About Making a Beneficiary Designation ........................................... 5-46

Common Mistakes ........................................... 5-49

CHAPTER 6

ERISA, Its Exemptions, and Other Nontax Considerations for 457 Plans ....................... 6-1

ERISA in General ........................................... 6-1

Governmental Plans ....................................... 6-3
<table>
<thead>
<tr>
<th>Contents</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Church Plans</td>
<td>6-6</td>
</tr>
<tr>
<td>Top-Hat Plans</td>
<td>6-15</td>
</tr>
<tr>
<td>Excess Benefit Plans</td>
<td>6-17</td>
</tr>
<tr>
<td>Severance and Welfare Plans</td>
<td>6-17</td>
</tr>
<tr>
<td>Selected Securities and Insurance Law Issues for 457 Plans</td>
<td>6-19</td>
</tr>
<tr>
<td>ERISA and Tax Consequences of Funded 457(f) Plans</td>
<td>6-20</td>
</tr>
</tbody>
</table>

**CHAPTER 7**

| Mergers and Acquisitions                                              | 7-1  |
| 457 Plan Considerations                                              | 7-1  |
| Severance Pay and 457(b) Plans                                       | 7-5  |

**CHAPTER 8**

| Defining a Top-Hat Plan in Connection with 457 Plans                | 8-1  |
| 457 Plans and ERISA                                                 | 8-2  |
| Top-Hat Group                                                       | 8-9  |
| Advisory Opinions and Case Law                                      | 8-10 |
| Other Definitional Issues                                           | 8-19 |
| Future DOL Guidance                                                 | 8-25 |
| Applying the Rules                                                  | 8-25 |
CHAPTER 9

Creditors’ Rights .................................................. 9-1

Shumate and ERISA Qualified Plans ......................... 9-2

Shumate and 457 Plans Before the SBJPA .................. 9-3

Shumate and 457 Plans After the SBJPA .................... 9-5

Contributions to 457 Plans as Disposable Income ....... 9-8

Exemptions from the Bankruptcy Estate .................... 9-11

Judgment Creditors in Nonbankruptcy Situations ....... 9-12

Consequences of Availability of Benefits to Creditors .... 9-16

Consequences of the Bankruptcy of the Plan Sponsor .... 9-16

Judgment Creditors in Bankruptcy ............................. 9-17

CHAPTER 10

Application of Federal Securities Law to 457 Plans ....... 10-1

Federal Securities Laws and 457 Plans Generally ......... 10-2

Eligible Public Employer 457 Plans Under Code Sections 457(b) and 457(e)(1)(A) .................. 10-13

Eligible Tax-Exempt Employer 457 Plans Under Code Sections 457(b) and 457(e)(1)(B) ............ 10-17

Noneligible 457 Plans Under Code Section 457(f) ....... 10-18

Standards of Conduct Applicable Under the 1934 Act and the Advisers Act .......................... 10-18

xxx
IRS Form 945—Annual Return of Withheld Federal Income Tax ........................................... 12-19

Reporting Distributions on Form 1099-R .................. 12-20

Rollover Distribution Notice ................................. 12-39

Taxpayer Identification Numbers ......................... 12-41

IRS Form W-2—Wage and Tax Statement ................. 12-43

IRS Form W-3—Transmittal of Wage and Tax Statements .................................................. 12-53

IRS Form W-4—Employee’s Withholding Allowance Certificate .................................................. 12-55

IRS Form W-4P—Withholding Certificate for Pension or Annuity Payments ................................ 12-55

IRS Form 5329—Additional Taxes Attributable to Qualified Retirement Plans (Including IRAs), Annuities, and Modified Endowment Contracts .......................... 12-56

IRS Form 1040—Individual Income Tax Return .......... 12-57

IRS Form 990—Return of Organization Exempt from Income Tax .......................................... 12-61

IRS Form 990-T—Exempt Organization Business Income Tax Return ........................................ 12-62

CHAPTER 13

Domestic Relations Orders .................................... 13-1

The Need for Domestic Relations Orders to Divide Section 457 Plans ..................................... 13-3
Elements of a Domestic Relations Order 13-4

Elements of an Approved Domestic Relations Order 13-8

Distribution to an Alternate Payee Before a Participant’s Severance from Employment 13-13

Death or Survivor Benefits 13-15

Effect of a Participant Loan on Distribution to Alternate Payee 13-16

Administration of Court Orders 13-17

Tax Treatment—Eligible Section 457 Plans 13-21

Tax Treatment—Ineligible Section 457 Plans 13-23

CHAPTER 14

Miscellaneous Issues 14-1

Agencies, Tribes, and International Organizations 14-2

Independent Contractor Problems 14-5

Failed 457(b) Plans; Restrictions on Investments of Eligible Plans 14-6

Governmental Form Filings 14-13

Limitations on Compensation Affecting 457 Plans 14-14

Matching Contributions 14-21

Benefit Reductions 14-22
<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rollover Contributions</td>
<td>16-26</td>
</tr>
<tr>
<td>457 Plan Features</td>
<td>16-27</td>
</tr>
<tr>
<td>Military Service Issues</td>
<td>16-30</td>
</tr>
<tr>
<td>Record keeping Concerns</td>
<td>16-34</td>
</tr>
<tr>
<td>Administering Communications</td>
<td>16-38</td>
</tr>
<tr>
<td>Roth Account Administrative Considerations</td>
<td>16-42</td>
</tr>
<tr>
<td>In-Plan Roth Rollovers</td>
<td>16-46</td>
</tr>
<tr>
<td>Disaster Relief</td>
<td>16-50</td>
</tr>
</tbody>
</table>

**Chapter 17**

Current Funding, Investment, Disclosure and Legal Issues with Governmental Defined Benefit Plans | 17-1

Funding Issues with Public-Sector Pension Plans | 17-2

Disclosure Issues with Public-Sector Pension Plan Costs | 17-8

Investment Issues with Public-Sector Pension Plan Assets | 17-12

**Chapter 18**

Fiduciary Responsibility to a Governmental Deferred Compensation Plan | 18-1

Governing Law | 18-4
<table>
<thead>
<tr>
<th>Topic</th>
<th>Pages</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fiduciaries</td>
<td>18-7</td>
</tr>
<tr>
<td>Fiduciary Duties Generally</td>
<td>18-12</td>
</tr>
<tr>
<td>Using Plan Assets to Pay for Necessary Services</td>
<td>18-41</td>
</tr>
<tr>
<td>Exculpatory Provisions, Immunities, and Insurance</td>
<td>18-44</td>
</tr>
<tr>
<td><strong>APPENDIX A</strong></td>
<td></td>
</tr>
<tr>
<td>Extracts from Relevant Code Sections</td>
<td>A-1</td>
</tr>
<tr>
<td><strong>APPENDIX B</strong></td>
<td></td>
</tr>
<tr>
<td>Income Tax Regulations</td>
<td>B-1</td>
</tr>
<tr>
<td><strong>APPENDIX C</strong></td>
<td></td>
</tr>
<tr>
<td>Model Rabbi Trust Provisions (Rev. Proc. 92-64)</td>
<td>C-1</td>
</tr>
<tr>
<td><strong>APPENDIX D</strong></td>
<td></td>
</tr>
<tr>
<td>Ineligible 457(f) and 409A Church Hospital Plan</td>
<td>C-1</td>
</tr>
<tr>
<td><strong>APPENDIX E</strong></td>
<td></td>
</tr>
<tr>
<td>Model State Enabling Statute</td>
<td>C-1</td>
</tr>
<tr>
<td><strong>APPENDIX F</strong></td>
<td></td>
</tr>
<tr>
<td>Specimen Top-Hat Statement</td>
<td>F-1</td>
</tr>
<tr>
<td><strong>APPENDIX G</strong></td>
<td></td>
</tr>
<tr>
<td>Employee Benefit Limits</td>
<td>G-1</td>
</tr>
<tr>
<td><strong>TABLES</strong></td>
<td></td>
</tr>
<tr>
<td>Internal Revenue Code</td>
<td>T-1</td>
</tr>
<tr>
<td>Treasury Regulations</td>
<td>T-9</td>
</tr>
</tbody>
</table>
Contents

Letter Rulings, Revenue Procedures, and Revenue Rulings ........................................ T-13

Notices and Announcements ........................................ T-15

Employee Retirement Income Security Act .............. T-17

Department of Labor Regulations and Advisory Opinions ................................................... T-19


Table of Cases ........................................................... T-25

INDEX ................................................................. IN-1
List of Questions

Chapter 1 The History of 457 Plans

Deferred Compensation Before Code Section 457

Q 1:1 On what guidance did employers previously rely to establish deferred compensation arrangements? 1-2
Q 1:2 How did the IRS control the design of nonqualified plans? 1-2
Q 1:3 How would the 1978 proposed regulation have affected nonqualified deferred compensation plans? 1-2
Q 1:4 Which kinds of employers would have been affected by the 1978 proposed regulation? 1-3

Code Section 457 Enactment

Q 1:5 Why was Proposed Treasury Regulations Section 1.61-16 never finalized? 1-3
Q 1:6 Which kinds of employers were subject to Code Section 457 in 1978? 1-3
Q 1:7 How did the Technical Corrections Act of 1979 affect 457 plans? 1-3

Extensions of Code Section 457 in the 1980s

Q 1:8 How did the Tax Equity and Fiscal Responsibility Act of 1982 affect 457 plans? 1-3
Q 1:9 How did the Tax Equity and Fiscal Responsibility Act of 1982 affect governmental deferred compensation plans other than state judicial plans? 1-4
Q 1:10 When was Section 457 coverage expanded to include nongovernmental tax-exempt employers? 1-4
Q 1:11 How did Code Section 457 affect plan design for affected employers? 1-4
Q 1:12 In what other ways did TRA 1986 affect plan design for governmental employers? 1-4
Q 1:13 What other important changes did the Tax Reform Act of 1986 bring about? ............................................ 1-5
Q 1:14 What important change did TAMRA make to 457 plans? ...... 1-6

Changes in the 1990s: Code Section 457 Plans Start to Look More Like Retirement Plans
Q 1:15 How did the Small Business Job Protection Act of 1996 affect 457 plans? ....................................................... 1-7
Q 1:16 Were any changes made to Code Section 457 under the Taxpayer Relief Act of 1997? ................................. 1-8

EGTRRA
Q 1:17 How does EGTRRA affect 457 plans? ............................. 1-8
Q 1:18 How does EGTRRA affect contribution limitations for 457 plans? ................................................................. 1-8
Q 1:19 How does EGTRRA affect the definition of compensation for purposes of 457 plans? ................................. 1-9
Q 1:20 How did EGTRRA affect the coordination between 457 plans and other deferred compensation plans? .......... 1-9
Q 1:21 What changes did EGTRRA make in the distribution requirements for 457 plans? ........................................... 1-10
Q 1:22 What changes did EGTRRA make in the timing of taxation for amounts deferred under governmental 457 plans? ........ 1-10
Q 1:23 How did EGTRRA affect distributions under domestic relations orders? ......................................................... 1-11
Q 1:24 What changes did EGTRRA make in reporting requirements for governmental 457 plans? ................................. 1-11
Q 1:25 How did EGTRRA change the life expectancy tables used to calculate required minimum distributions? .......... 1-12
Q 1:26 How did EGTRRA change rollover rules and portability between plans? .............................................................. 1-12
Q 1:27 In what ways did EGTRRA expand the ability to purchase service credit? ............................................................ 1-12
Q 1:28 What other important changes did EGTRRA make that affected 457 plans? ........................................................ 1-14
Q 1:29 What are the effective dates of EGTRRA? ................................. 1-15

2002 Through 2006 Legislation
Q 1:30 How did the Job Creation and Worker Assistance Act modify EGTRRA? .............................................................. 1-16
Q 1:31 How did the American Jobs Creation Act of 2004 affect deferred compensation plans? .................................................... 1-17
Q 1:32 How did the Bankruptcy Abuse Prevention and Consumer Protection Act of 2005 affect 457 plans? .............. 1-17
| Q 1:33 | How did the Pension Protection Act of 2006 affect 457 plans? | 1-17 |
| Q 1:34 | What changes did PPA 06 make regarding employee retention plans of educational institutions? | 1-17 |
| Q 1:35 | What changes did PPA 06 make regarding voluntary early retirement incentives for educational institutions? | 1-18 |
| Q 1:36 | What changes did PPA 06 make regarding unforeseeable emergency distributions? | 1-18 |
| Q 1:37 | What changes did PPA 06 make regarding rollovers to nonspouse beneficiaries? | 1-18 |
| Q 1:38 | What changes did PPA 06 make regarding conversions to Roth IRAs? | 1-18 |
| Q 1:39 | What changes did PPA 06 make regarding distributions from governmental plans for health and long-term care insurance? | 1-19 |
| Q 1:40 | What changes did PPA 06 make regarding withdrawal of automatic contributions during the first 90 days? | 1-19 |
| Q 1:41 | What clarification of the participation rules under Section 457 did PPA 06 make? | 1-19 |

**Final 457 Treasury Regulations**

| Q 1:42 | Have final regulations under Code Section 457 been issued? | 1-20 |
| Q 1:43 | What change allows deferrals from post-severance pay? | 1-20 |

**The American Taxpayer Relief Act of 2012**

| Q 1:44 | What conversions of pretax contributions to Roth contributions were permitted before the American Taxpayer Relief Act? | 1-22 |
| Q 1:45 | What changes were made to 457 plans by the ATRA? | 1-22 |
| Q 1:46 | Is a plan required to allow conversion of pretax contributions to Roth contributions? | 1-22 |
| Q 1:47 | What is the tax effect on the plan participant of making a Roth conversion? | 1-22 |

**Supreme Court Cases on Same-Sex Marriage**

| Q 1:48 | What recent Supreme Court cases have dealt with the issue of same-sex marriage? | 1-22 |
| Q 1:49 | What is the effect of the Supreme Court’s June 26, 2013 decision in *United States v. Windsor*? | 1-23 |
| Q 1:50 | What is the effect of the Supreme Court’s June 26, 2015 decision in *Obergefell v. Hodges*? | 1-23 |
| Q 1:51 | What is the effect of these two decisions on employee benefits? | 1-23 |
| Q 1:52 | Will the Supreme Court’s decision in *United States v. Windsor* require a nongovernmental 457 plan to provide a spousal benefit to a same-sex spouse? | 1-23 |
| Q 1:53 | What federal laws might preclude a nongovernmental 457 plan from discriminating against same-sex spouses? | 1-23 |
Q 1:54 What state laws might preclude a nongovernmental 457 plan from discriminating against same-sex spouses? ........................................ 1-24
Q 1:55 If state law prohibits discrimination on the basis of sexual orientation, will this preclude a nongovernmental plan from providing spousal benefits only to opposite-sex spouses but not same-sex spouses? ............................................. 1-24
Q 1:56 What contractual provisions might preclude a nongovernmental 457 plan from discriminating against same-sex spouses? ............................................. 1-24
Q 1:57 Will the Supreme Court’s decision in United States v. Windsor require a governmental 457 plan to provide a spousal benefit to a same-sex spouse? ............................................. 1-25
Q 1:58 What Constitutional theories might preclude a governmental 457 plan from discriminating against same-sex spouses? ................ 1-25
Q 1:59 What federal laws might preclude a governmental 457 plan from discriminating against same-sex spouses? ................ 1-25
Q 1:60 What state laws might preclude a governmental 457 plan from discriminating against same-sex spouses? ................ 1-25
Q 1:61 What contractual provisions might preclude a nongovernmental 457 plan from discriminating against same-sex spouses? ................ 1-25
Q 1:62 In what other ways could the decisions in United States v. Windsor and Obergefell v. Hodges affect a 457 plan? ................ 1-25
Q 1:63 In what way could the decisions in United States v. Windsor and Obergefell v. Hodges affect minimum distribution requirements? ............................................. 1-26
Q 1:64 In what way could the decisions in United States v. Windsor and Obergefell v. Hodges affect rollover rights? ................ 1-26
Q 1:65 Who is considered a legal same-sex spouse after United States v. Windsor and Obergefell v. Hodges? ................ 1-26
Q 1:66 What is the importance of whether the couple’s marriage was legal when it was celebrated? ............................................. 1-27
Q 1:67 To what extent do the decisions in United States v. Windsor and Obergefell v. Hodges apply retroactively? ................ 1-27
Q 1:68 What is the effect of the decisions in United States v. Windsor and Obergefell v. Hodges on employers that have already been treating same-sex spouses the same as opposite-sex spouses for plan purposes? ............................................. 1-28

Chapter 2 Eligible 457 Plans

Eligible Employers and Participants

Eligible Employers

Q 2:1 Which employers are subject to Section 457 of the Internal Revenue Code? ............................................. 2-3
**List of Questions**

| Q 2:2  | Which tax-exempt organizations are affected by Code Section 457? | 2-4          |
| Q 2:3  | What is a Section 501(c) tax-exempt employer? | 2-4          |
| Q 2:4  | What is a state? | 2-7          |
| Q 2:5  | What is a political subdivision; what is an agency? | 2-7          |
| Q 2:6  | Can plans sponsored by Indian tribes be governmental plans? | 2-10         |
| Q 2:7  | What types of church and church-related employers are not subject to Code Section 457? | 2-11         |
| Q 2:8  | What is a church? | 2-11         |
| Q 2:9  | What is a qualified church-controlled organization? | 2-11         |
| Q 2:10 | What is a rural cooperative? | 2-12         |
| Q 2:11 | What types of plans can a rural cooperative establish? | 2-12         |
| Q 2:12 | Can an ineligible employer establish an eligible 457(b) plan? | 2-12         |
| Q 2:13 | Can an ineligible employer establish an ineligible 457 plan? | 2-12         |
| Q 2:14 | Can a union representing governmental employers offer and administer a governmental 457(b) plan? | 2-13         |
| Q 2:15 | What does Revenue Ruling 2004-57 require for a union that offers and administers a governmental 457(b) plan? | 2-13         |
| Q 2:16 | What impact does Revenue Ruling 2004-57 have on governmental plan status under ERISA? | 2-14         |
| Q 2:17 | What is the disposition of a union-sponsored plan that was in place prior to Revenue Ruling 2004-57 and that does not meet the requirements of the Revenue Ruling? | 2-15         |

**Eligible Participants**

| Q 2:18 | Who can participate in an eligible 457(b) plan? | 2-15         |
| Q 2:19 | Who is a participant? | 2-16         |
| Q 2:20 | Must an eligible 457(b) plan cover all employees? | 2-16         |
| Q 2:21 | May seasonal and part-time employees participate in an eligible 457(b) plan? | 2-16         |

**Plans Subject to Code Section 457**

| Q 2:22 | What types of plans are subject to Code Section 457? | 2-16         |
| Q 2:23 | Are elective and nonelective plans subject to Code Section 457? | 2-17         |
| Q 2:24 | What types of plans are excluded from Code Section 457? | 2-17         |
| Q 2:25 | What types of plans are grandfathered from 457? | 2-18         |
| Q 2:26 | How are grandfathered amounts taken into account in applying the Section 457(b) deferral limit? | 2-20         |
| Q 2:27 | What are the tax consequences under a grandfathered plan? | 2-20         |
| Q 2:28 | Can Code Section 457 apply to a state’s regular retirement system? | 2-21         |
Q 2:29 Is a 401(k) plan better than a 403(b) plan for a nongovernmental tax-exempt employer? ...................................................... 2-21
Q 2:30 What are the advantages of a 403(b) plan? .................. 2-21

Eligible 457(b) Plan Requirements and Design

Eligible Plans
Q 2:31 What is an eligible 457(b) plan? .............................. 2-22
Q 2:32 What are the mandatory features of an eligible 457(b) plan? .. 2-22
Q 2:33 Must a 457(b) plan be in writing? .................................. 2-24
Q 2:34 What permissive features can be included in an eligible 457(b) plan? ............................................................. 2-24

Roth 457(b) Plans
Q 2:35 Can Roth contributions be made to a 457(b) plan? .......... 2-26
Q 2:36 If my governmental 457(b) plan allows for Roth contributions, can I do an in-plan conversion of my prior pre-tax elective contributions to Roth contributions? .......................... 2-26

Agreements to Defer Compensation
Q 2:37 When can compensation be deferred? .......................... 2-26
Q 2:38 Must newly hired employees make elections prior to the month in which amounts are deferred? ................................. 2-27
Q 2:39 Must elections be made prior to the month in which amounts are deferred if the plan is newly implemented or amended? ..... 2-27
Q 2:40 How will compensation deferred under the plan be distributed? ... 2-27
Q 2:41 When are benefits payable from an eligible 457(b) plan? ...... 2-27
Q 2:42 Will amounts be considered made available if the participant chooses the form of distribution or when payments will begin? .................................................. 2-28
Q 2:43 Can a participant change the investment mode? .................. 2-30
Q 2:44 Can a participant accelerate or postpone an election to defer commencement of distributions? ............................. 2-30
Q 2:45 Is an employee required to defer a minimum amount? ........ 2-31

Contributions by Employers
Q 2:46 Can employers make contributions to an eligible 457(b) plan? ... 2-32
Q 2:47 May employer contributions be made subject to a vesting schedule? ........................................................................... 2-32
Q 2:48 Is a minimum vesting schedule required? ................................ 2-32
Q 2:49 Why might an employer make a matching contribution? ........ 2-32
Q 2:50 How might an employer make a matching contribution? ........ 2-32
List of Questions

Q 2:51 Can the employer choose the employees who will receive matching contributions? ........................................... 2-33
Q 2:52 Must the match be made to a 457(b) plan? .......................... 2-33
Q 2:53 Do higher-paid employees benefit more from a deferral or from employer matching contributions? ..................... 2-33
Q 2:54 How do vesting schedules cause problems? ....................... 2-34

Military Leave

Q 2:55 Does the Uniformed Services Employment and Reemployment Rights Act of 1994 apply to eligible 457(b) plans? ........ 2-34
Q 2:56 What rights are protected under USERRA? ....................... 2-34
Q 2:57 What retirement benefit rights does USERRA protect? ........ 2-35
Q 2:58 How are elective deferral rights protected under USERRA? ... 2-35
Q 2:59 How are conflicts with the Code resolved? ........................ 2-36
Q 2:60 Are vesting schedules affected by USERRA? .................... 2-36
Q 2:61 How are plan loan repayment schedules affected? ............ 2-36
Q 2:62 What additional rules for qualified military service were added by the Heroes Earnings Assistance and Relief Tax (HEART) Act of 2008? ........................................... 2-36

IRS Approval

Q 2:63 Does the IRS require that an eligible 457(b) plan be submitted to it for approval? ....................................................... 2-37
Q 2:64 How is a 457(b) plan submitted to the IRS for a ruling? ........ 2-37
Q 2:65 Is there IRS model language for amending 457(b) plans to reflect changes in the law by the SBJPA and TRA 1997? .... 2-38
Q 2:66 Is there IRS model language for 457(b) plans reflecting the PPA? ................................................................. 2-38
Q 2:67 What changes does the PPA make to 457(b) plans? ............ 2-38
Q 2:68 What do the model amendments of Revenue Procedure 98-41 include? ............................................................ 2-38
Q 2:69 Is there IRS model language for governmental 457(b) plans reflecting EGTRRA? ............................ 2-39
Q 2:70 What new interpretations are provided by the model amendments in Revenue Procedure 2004-56? ......................... 2-39
Q 2:71 What are some of the plan design assumptions in the model language of Revenue Procedure 2004-56? .................... 2-40
Q 2:72 What effect does adopting the model amendments of Revenue Procedure 2004-56 have on an existing governmental 457(b) plan? .......................................................... 2-43
Q 2:73 What effect do the model amendments of Revenue Procedure 2004-56 have on private letter ruling requests? ............ 2-43
Q 2:74 What is the deadline for amending 457(b) plans for the Pension Protection Act of 2006 and subsequent changes in the law? ... 2-44
Negative Election Plans

Q 2:75 What is a negative election deferral? .................................................. 2-45
Q 2:76 How does the employer or plan trustee invest the negatively enrolled participant’s deferrals? .......................................................... 2-45

Plan Termination

Q 2:77 Can an eligible plan be frozen or terminated? ................................. 2-45
Q 2:78 Can a governmental 457(b) plan invest in a group trust? ................. 2-46

Deferral Limits for 457(b) Plans

Determining Compensation

Q 2:79 On what are 457(b) plan contribution limits based? ...................... 2-47
Q 2:80 What is includible compensation? .................................................... 2-47
Q 2:81 What was gross compensation before 2002? .................................. 2-47
Q 2:82 Does includible compensation include employer matching or nonelective contributions? ......................................................... 2-48
Q 2:83 Can sick pay, vacation pay, and back pay be deferred to an eligible plan? ................................. 2-48
Q 2:84 What is the taxable year for computing compensation? .................. 2-48
Q 2:85 May a participant who receives compensation from another employer participate in that employer’s plan? ............................... 2-49
Q 2:86 How are deferrals without readily ascertainable value taken into account? ................................................................................. 2-49
Q 2:87 When is compensation determined? .................................................. 2-49
Q 2:88 What is the present value of a normal salary reduction deferral agreement? ............................................................................ 2-49
Q 2:89 How is compensation determined for an independent contractor who agrees to perform services for some compensation payable currently and additional compensation payable in a later taxable year? ...................................... 2-49
Q 2:90 What if future payments are forfeitable? ............................................. 2-49
Q 2:91 Do community property laws apply in determining includible compensation? ............................................................... 2-50

Limitations on Contributions

Q 2:92 What are the maximum deferral limitations before 2002? .............. 2-50
Q 2:93 What was the dollar limit before 2002? ........................................... 2-51
Q 2:94 What are the maximum deferral limitations after 2001? .................. 2-51
Q 2:95 Which contributions are subject to the maximum deferral limitations? ............................................................................. 2-52
Q 2:96 On what is the percentage limitation on contributions based? ....... 2-53
**List of Questions**

| Q 2:97 | Can an employer make a contribution equal to the maximum deferral amount for each participant or selected participants? | 2-53 |
| Q 2:98 | Can an employer have more than one eligible 457(b) plan? | 2-54 |
| Q 2:99 | Are the contribution limits imposed on the employer or the employee? | 2-54 |
| Q 2:100 | Is the dollar amount indexed for cost-of-living increases? | 2-54 |
| Q 2:101 | Is the $15,000 maximum catch-up amount increased? | 2-54 |
| Q 2:102 | What is the last-three-years catch-up provision before 2002? | 2-55 |
| Q 2:103 | How are catch-up provisions changed after 2001? | 2-55 |
| Q 2:104 | Are there other restrictions on using a plan’s last-three-years catch-up provisions? | 2-56 |
| Q 2:105 | Can deferrals exceed the participant’s compensation? | 2-56 |
| Q 2:106 | How are the limits determined in an eligible 457(b) plan that is structured as a defined benefit plan? | 2-56 |
| Q 2:107 | Could an eligible 457(b) plan that is structured as a defined benefit plan apply an aggregate limit to the total accrued benefit? | 2-57 |
| Q 2:108 | How is the annual limit determined if an employee participates in both an eligible 457(b) defined benefit pension plan and an eligible 457(b) defined contribution plan? | 2-57 |
| Q 2:109 | Are contributions or benefits considered if they are forfeitable? | 2-57 |
| Q 2:110 | Are eligible defined benefit 457(b) plans subject to minimum funding requirements? | 2-57 |
| Q 2:111 | Can the Section 457(b) deferral limits be circumvented by forming an affiliated organization or through leasing arrangements? | 2-58 |
| Q 2:112 | Can contributions be made after a participant attains age 70½? | 2-58 |
| Q 2:113 | Can contributions be made by participants over age 70½ who are receiving distributions? | 2-58 |

**Coordination of Deferrals with Other Plans or Other Employers**

| Q 2:114 | Do the dollar and the percentage of includible compensation limitations apply to an individual who is a participant in more than one eligible 457 plan, even if the plan sponsors are not related? | 2-58 |
| Q 2:115 | What should a participant do if he or she participates in more than one plan? | 2-58 |
| Q 2:116 | How are deferrals coordinated with other plans for years before 2002? | 2-58 |
| Q 2:117 | How are 457(b) plan deferrals coordinated with contributions to other plans after 2001? | 2-60 |
| Q 2:118 | Is the maximum amount that can be deferred under the eligible plan reduced if a participant has amounts contributed by a different employer for the purchase of a tax-sheltered annuity under Code Section 403(b)? | 2-61 |
Q 2:119 How are amounts that exceed the dollar limit or percentage of includible compensation limitation treated? .................. 2-61
Q 2:120 Can an employee who participates in an eligible 457(b) plan defer more than the dollar limit if he or she also participates in a 403(b) tax-sheltered annuity plan? .................. 2-61
Q 2:121 Does the Section 402(g) limit apply to an individual who participates only in a 457 plan? .................. 2-63

Distributions: Tax Consequences, Reporting and Withholding

Federal Tax Consequences
Q 2:122 What is the primary tax benefit of an eligible 457(b) plan? ...... 2-63
Q 2:123 What are the tax consequences to participants in an unfunded 457 plan? .................................................. 2-63
Q 2:124 When is compensation deferred under an eligible 457(b) plan subject to federal income tax? .................. 2-64
Q 2:125 When is deferred compensation under an ineligible 457 plan subject to federal income tax? .................. 2-64
Q 2:126 When are amounts held in a 457(g) trust includible in gross income? .................................................. 2-65
Q 2:127 What is a substantial risk of forfeiture? .................. 2-65
Q 2:128 What happens if a participant assigns or alienates 457 plan benefits? .................................................. 2-65
Q 2:129 How are participants in a funded nonqualified plan treated for tax purposes? .................................................. 2-65
Q 2:130 Will the IRS rule on the taxable year of inclusion in the case of an independent contractor? .................. 2-66
Q 2:131 How are 457(b) plans taken into account for purposes of the new Code Section 4960 excise tax? .................................................. 2-66
Q 2:132 Are deferrals made to eligible plans currently included in the gross income of a participant for state income tax purposes? ...... 2-66

Withholding and Reporting
Q 2:133 What are the withholding and reporting requirements applicable to eligible 457 plans before 2004? .................. 2-67
Q 2:134 When were the rules contained in Notice 2000-38 effective? ... 2-68
Q 2:135 What are the rules for withholding and reporting for 457(b) plans effective after 2003? .................. 2-68
Q 2:136 What are the income tax withholding and reporting rules for annual deferrals made to an eligible 457 plan? .................. 2-70
Q 2:137 What are the income tax withholding rules for distributions from eligible 457 plans? .................. 2-70
List of Questions

Q 2:138 How is income tax withholding calculated under an eligible 457 plan? .................................................. 2-70
Q 2:139 Who is the person responsible for income tax withholding on eligible 457 plan distributions? ................................................................. 2-71
Q 2:140 How are distributions to a participant or former participant reported? ................................................................. 2-71
Q 2:141 How are distributions to a beneficiary of a deceased participant under an eligible 457 plan reported to the IRS? ......................... 2-71
Q 2:142 How are income tax deposits with respect to an eligible 457 plan trust reported for plans of tax-exempt employers and for years prior to 2004 for governmental employers? ..................... 2-72
Q 2:143 To whom do the FICA and FUTA tax reporting rules apply? ........ 2-73
Q 2:144 When are Social Security, Medicare, and FUTA taxes imposed? ................................................................. 2-73
Q 2:145 Must deposits relating to Social Security, Medicare, and FUTA taxes be aggregated? ................................................................. 2-75
Q 2:146 How are annual deferrals to eligible 457 plans of tax-exempt organizations reported? ................................................................. 2-75
Q 2:147 How are annual deferrals to 457(g) trusts reported, since 457(g) trusts do not have to file IRS Form 990? ......................... 2-75

State Taxation of Nonresidents

Q 2:148 Are nonresidents of a state subject to the state’s income tax on distributions from an eligible 457(b) plan? .................... 2-76
Q 2:149 What type of income is protected by the Pension Source Act? ... 2-76
Q 2:150 What is retirement income under the Pension Source Act? ... 2-76
Q 2:151 How much income is protected from source taxation? ....... 2-77
Q 2:152 Are distributions from an ineligible plan protected by the Pension Source Act? ................................................................. 2-77
Q 2:153 What is a mirror plan? ................................................................. 2-77
Q 2:154 Will all mirror plans benefit from the Pension Source Act? .... 2-78
Q 2:155 Are in-service payments under a window plan protected from source taxation? ................................................................. 2-79

Excise Taxes

Q 2:156 Are distributions from an eligible 457(b) plan subject to the premature distribution penalty tax? ................................................................. 2-79
Q 2:157 Are excess 457(b) plan deferral amounts invested in mutual fund custodial accounts subject to the special 6 percent excess contribution penalty tax? ................................................................. 2-79
Q 2:158 Are participants subject to the 50 percent excise tax on excess accumulations in a 457 plan? ................................................................. 2-79
Q 2:159 Do 457(b) contributions or distributions count towards the $1 million threshold for the 21 percent penalty under Code Section 4960? ................................................................. 2-80
Q 2:160 Are participants subject to the 10 percent excise tax on excess elective contributions? ........................................ 2-80
Q 2:161 Are employers or employees subject to excise tax penalties if nondeductible contributions are made to a 457 plan? ........ 2-80
Q 2:162 Are employers subject to the 10 percent or 15 percent prohibited transaction excise tax under the Code or ERISA? .......... 2-80
Q 2:163 Must an eligible 457(b) plan specify when benefits are payable from the plan? ............................................. 2-82
Q 2:164 When can distributions be made from an eligible 457(b) plan? .................................................................. 2-82
Q 2:165 Can an employer offset plan benefits by the amount due from the participant? .......................................... 2-82
Q 2:166 Can a secured creditor of the employer make a claim on 457 plan assets? .................................................... 2-83
Q 2:167 Are plan distributions excludable from the bankruptcy estate? ................................................................. 2-83

In-Service Withdrawals

Q 2:168 Under what conditions may a participant receive a distribution while employed? ............................................. 2-83
Q 2:169 Can rollovers be ignored for cash-outs? .......................... 2-84
Q 2:170 What constitutes an unforeseeable emergency? ............... 2-84
Q 2:171 What are dependents? .................................................. 2-84
Q 2:172 What other circumstances must exist to grant a withdrawal to a participant with an unforeseeable emergency? ....... 2-85
Q 2:173 What amounts may be distributed as a result of this withdrawal? ............................................................... 2-85
Q 2:174 May distributions be made for a foreseeable event within the control of an employee under the rules applicable to 401(k) plans? ............................. 2-86
Q 2:175 Are any penalties associated with unforeseeable emergency withdrawals? .................................................. 2-86
Q 2:176 How do unforeseeable emergency withdrawals differ from safe harbor hardship withdrawals from 401(k) plans? ............... 2-86

Retirement Distributions

Q 2:177 What is normal retirement age? ...................................... 2-87
Q 2:178 Can plan elections affect the determination of normal retirement age? ........................................................... 2-87
Q 2:179 Must a normal retirement age be specified in the plan? .......... 2-88
Q 2:180 What if a participant works beyond the normal retirement age specified in the plan? ...................................... 2-88
Q 2:181 When must a plan commence distributions? ...................... 2-88
Separation from Service and Deferred Distributions

Q 2:182 Can participants who retire early defer the commencement of distributions? .............................................. 2-88
Q 2:183 When must a participant elect when distributions commence? .............................................. 2-88
Q 2:184 If distributions are deferred, when are these amounts considered to be “made available” to the participant? ...................... 2-89
Q 2:185 When is an employee treated as having separated from service under an eligible 457(b) plan for years prior to 2002? .............. 2-89
Q 2:186 Would a merger of plan sponsors be considered a separation from service? .............................................. 2-89
Q 2:187 Are there special rules for distributions of amounts less than $5,000 from eligible plans? .............................................. 2-90
Q 2:188 When must the election be made to receive a lump-sum benefit? .............................................. 2-90
Q 2:189 Can a participant defer commencement of distributions that are already scheduled to begin? .............................................. 2-91

Distributions to Independent Contractors

Q 2:190 What constitutes severance of employment if the participant is an independent contractor? .............................................. 2-91
Q 2:191 Is there a safe harbor approach for determining when an independent contractor separates from service? .............................................. 2-92
Q 2:192 What are the minimum distribution requirements? .............................................. 2-92

Plan-Approved Domestic Relations Orders

Q 2:193 What is a plan-approved domestic relations order? ..................... 2-92
Q 2:194 Are 457 plans subject to the QDRO rules? ..................... 2-93
Q 2:195 Can payment be made under a PADRO? ..................... 2-93
Q 2:196 What form of benefit may the alternate payee receive under a PADRO/QDRO? ..................... 2-93
Q 2:197 What are the tax consequences of a PADRO/QDRO distribution? ..................... 2-93
Q 2:198 When can PADRO amounts be distributed? ..................... 2-94
Q 2:199 Can a distribution from a 457 plan under a PADRO/QDRO be rolled over into an IRA? ..................... 2-94

Transfers Between Plans

Q 2:200 Are amounts transferred from one eligible plan to another required to be included in gross income? ..................... 2-95
Q 2:201 Can contributions made to an eligible plan in which the employee was not eligible to participate be transferred to an eligible plan in which the employee is a participant? ..................... 2-96
### Governmental Plan Rollovers

<table>
<thead>
<tr>
<th>Q 2:202</th>
<th>Can transfers be made between eligible plans of employers located in different states?</th>
<th>2-96</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Q 2:203</th>
<th>Are rollovers to and from governmental 457(b) plans permitted?</th>
<th>2-96</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Q 2:204</th>
<th>Can amounts rolled into a governmental 457(b) plan be distributed from the recipient plan without another distributable event?</th>
<th>2-96</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Q 2:205</th>
<th>What notice is required for governmental plan rollovers?</th>
<th>2-97</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Q 2:206</th>
<th>Are amounts rolled over to a governmental 457(b) plan from another plan subject to the 10 percent excise tax on early withdrawals?</th>
<th>2-97</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Q 2:207</th>
<th>Can distributions to qualified public safety employees be paid directly to pay health insurance premiums without being taken into income?</th>
<th>2-98</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Q 2:208</th>
<th>Can after-tax monies be rolled over to a governmental 457(b) plan?</th>
<th>2-98</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Q 2:209</th>
<th>Can a surviving spouse roll over a governmental 457(b) plan distribution?</th>
<th>2-98</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Q 2:210</th>
<th>Can a nonspouse beneficiary roll over a governmental 457(b) plan distribution?</th>
<th>2-98</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Q 2:211</th>
<th>Can a participant in a governmental defined benefit plan purchase service credit with 457(b) monies?</th>
<th>2-98</th>
</tr>
</thead>
</table>

### 457(b) Errors and Corrections

<table>
<thead>
<tr>
<th>Q 2:212</th>
<th>What if an eligible 457(b) plan is administered in a manner inconsistent with the requirements of Code Section 457(b)?</th>
<th>2-99</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Q 2:213</th>
<th>When does an eligible governmental 457(b) plan administered in a manner inconsistent with the requirements of Code Section 457(b) become an ineligible plan?</th>
<th>2-99</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Q 2:214</th>
<th>What happens if the eligible governmental 457(b) plan corrects the inconsistency?</th>
<th>2-99</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Q 2:215</th>
<th>When does an eligible nongovernmental 457(b) plan administered in a manner inconsistent with the requirements of Code Section 457(b) become an ineligible plan?</th>
<th>2-100</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Q 2:216</th>
<th>Can double taxation result when a plan becomes ineligible?</th>
<th>2-100</th>
</tr>
</thead>
</table>

### Governmental 457(g) Trusts

<table>
<thead>
<tr>
<th>Q 2:217</th>
<th>What were the 457(b) trust requirements prior to the Small Business Job Protection Act of 1996?</th>
<th>2-101</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Q 2:218</th>
<th>What is the trust requirement for eligible deferred compensation plans of state and local governments?</th>
<th>2-101</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Q 2:219</th>
<th>When does the trust requirement apply?</th>
<th>2-101</th>
</tr>
</thead>
</table>
Q 2:220 Can amounts held in trust (or in a custodial account or an annuity contract) be loaned to governmental plan participants or beneficiaries? ................................................................. 2-101
Q 2:221 Is a 457(g) plan trust required to permit loans? ................. 2-102
Q 2:222 Do loans from multiple 457(b) plans and other plans have to be aggregated for the loan limits? ................................................................. 2-103
Q 2:223 Do the income inclusion rules of Code Sections 83 and 402(b) apply in the case of a 457(g) plan trust (or custodial account or annuity contract)? ................................................................. 2-103
Q 2:224 Are all annuity contracts and custodial accounts treated as 457(g) trusts? ................................................................. 2-103
Q 2:225 Who should be the owner of an annuity contract under a governmental 457(b) plan? ................................................................. 2-103
Q 2:226 Does a custodial account or annuity contract offer the same protection as a trust? ................................................................. 2-104
Q 2:227 How are gains from the disposition of property treated in a 457(g) trust? ................................................................. 2-104
Q 2:228 Can 457 plan assets be combined in a group trust with the assets of a qualified plan? ................................................................. 2-104
Q 2:229 Are custodial accounts and annuity contracts treated as trusts for the purpose of the exclusive benefit requirement applicable to eligible governmental 457(b) plans? ................................................................. 2-104
Q 2:230 Who is treated as the trustee of such an account or contract? ................................................................. 2-105
Q 2:231 Are contributions to a 457(g) plan trust irrevocable? ................................................................. 2-105
Q 2:232 Is income or gain generated on assets held in a 457(g) trust subject to tax? ................................................................. 2-106
Q 2:233 Is a 457(g) trust subject to UBIT? ................................................................. 2-106
Q 2:234 Who must hold the assets of a custodial account used as a 457(g) trust? ................................................................. 2-107
Q 2:235 What is a bank? ................................................................. 2-107
Q 2:236 Under what criteria will the IRS grant approval for a nonbank custodian? ................................................................. 2-107
Q 2:237 Can a governmental retirement board qualify as a nonbank custodian? ................................................................. 2-112

Eligible Plans and Insurance
Q 2:238 Can a tax-exempt organization purchase an annuity contract? ................................................................. 2-112
Q 2:239 Are social clubs subject to any special investment restrictions? ................................................................. 2-112

Life Insurance
Q 2:240 Can premiums or mortality expense charges be based on gender-based rates? ................................................................. 2-114
Q 2:241 Can life insurance protection be purchased in an unfunded, nongovernmental eligible 457(b) plan? ................................................................. 2-114
Q 2:242 If life insurance is purchased in an unfunded eligible 457(b) plan, is the yearly renewable term cost or PS-58/Table 2001 cost included in the participant’s gross income? .................. 2-114

Q 2:243 How are death benefits from an unfunded eligible plan treated for tax purposes? ............................................. 2-115

Q 2:244 How are PS-58/Table 2001 costs reported in an unfunded eligible plan? ...................................................... 2-115

Q 2:245 Can a funded eligible governmental 457 plan purchase life insurance protection? ........................................... 2-115

Q 2:246 Is the cost of the pure life insurance protection (PS-58/Table 2001 cost) currently taxable to the participant in a funded 457 plan? .......................................................... 2-115

Q 2:247 Are death proceeds from life insurance contracts purchased in a funded 457 plan taxable to the recipient? ................ 2-115

Q 2:248 How much of the proceeds are excludable from the recipient’s gross income when received from an eligible funded governmental 457 plan? .............................................................. 2-116

Q 2:249 How are PS-58/Table 2001 costs reported in a 457(g) trust? ... 2-116

Accounting for Governmental 457(b) Plans

Q 2:250 Does Code Section 457 require a specific method of financial reporting? ...................................................... 2-116

Q 2:251 What types of employers are subject to the rules of the Governmental Accounting Standards Board? ..................... 2-116

Q 2:252 How should a governmental employer report 457 plan assets? ... 2-116

Q 2:253 When are 457 plan assets held in a trustee capacity for balance sheet reporting purposes? ................................. 2-117

Q 2:254 How should 457 plan assets be valued in financial reports under GASB rules? .................................................. 2-117

Q 2:255 Is there any additional disclosure required on the financial reports? ................................................................. 2-118

415(m) Qualified Governmental Excess Benefit Arrangement

Q 2:256 What is a qualified governmental excess benefit arrangement? ... 2-118

Q 2:257 What rules apply to qualified governmental excess benefit arrangements? ....................................................... 2-118

Q 2:258 What are some of the considerations in establishing a grantor trust to hold assets under a qualified governmental excess benefit arrangement? ...................................................... 2-118

Q 2:259 What are some of the considerations in designing qualified governmental excess benefit arrangements? ............. 2-119

Q 2:260 How are distributions from qualified governmental excess benefit arrangements reported? ............................... 2-119

liv
List of Questions

Q 2:261 Are contributions to or distributions from a qualified governmental excess benefit arrangements subject to FICA? .................. 2-119

References

Chapter 3 Distribution Rules

Overview of the 457 Distribution Rules

Q 3:1 What are commonly raised 457(b) distribution rules? .............. 3-2
Q 3:2 How do the 457(b) plan document rules impact plan distributions? .............................................................. 3-2
Q 3:3 What restrictions apply to distributions from an eligible plan? ... 3-3
Q 3:4 What are some of the major differences and similarities between 457(b) plans of tax-exempt employer and governmental employers? .............................................................. 3-4

Early Distribution Rule

Q 3:5 What does the early distribution rule require? ...................... 3-5

Unforeseeable Emergency Distributions

Q 3:6 May a plan permit a distribution on account of an unforeseeable emergency? .............................................................. 3-6
Q 3:7 What could an unforeseeable emergency include? ................. 3-6
Q 3:8 Is every event that is beyond the control of a participant an unforeseeable emergency? .............................................................. 3-7
Q 3:9 Has additional guidance been issued clarifying unforeseeable emergency distributions for “other situations that are beyond the participant’s control”? .............................................................. 3-7
Q 3:10 What if an unforeseeable emergency has been relieved through insurance or other similar compensation? ......................... 3-8
Q 3:11 Does the fact that a participant has other money to meet the emergency preclude a distribution? .............................................................. 3-8
Q 3:12 Can amounts in a governmental 457(b) plan’s designated Roth account be used for unforeseeable emergency distributions? .............................................................. 3-8
Q 3:13 Could a participant’s divorce be an unforeseeable emergency? ... 3-8
Q 3:14 Is there a limit on how much may be distributed to meet an unforeseeable emergency? .............................................................. 3-9
Q 3:15 Who is considered a dependent for unforeseeable emergency purposes? .............................................................. 3-9
Q 3:16 What additional guidance has been issued for qualifying relatives as tax dependents? .............................................................. 3-10
Q 3:17 How has the definition of a qualifying child as a tax dependent been clarified? ....................................................... 3-11
Q 3:18 Is the plan administrator required to maintain documentation demonstrating that the participant qualified for a distribution for an unforeseeable emergency? ........................................ 3-11
Q 3:19 May an eligible plan provide for in-service distributions and not violate the early distribution rule? ........................................ 3-15
Q 3:20 How does an eligible plan permit in-service distributions of small amounts? ........................................................... 3-15

Severance from Employment
Q 3:21 What is a severance from employment? ......................... 3-16
Q 3:22 When is an independent contractor severed from employment? ... 3-16
Q 3:23 When is an employer considered to intend to contract again? ... 3-17
Q 3:24 What may a plan provide to meet the severance-from-employment rules? .......................................................... 3-17
Q 3:25 May a plan allow a distribution to a participant’s spouse or former spouse before the participant 2020 is entitled to a distribution if required by a domestic relations order? .......................... 3-17

Minimum Distribution Rule
Q 3:26 What is the required minimum distribution rule? .............. 3-18
Q 3:27 How would governmental plans, including governmental 457(b) plans, comply with the RMD rules? ........................... 3-18
Q 3:28 Are designated Roth accounts subject to the RMD rules? ...... 3-18
Q 3:29 What do the minimum distribution rules require for distributions prior to a participant’s death? .............................. 3-19
Q 3:30 What is the required beginning date? ............................ 3-19
Q 3:31 May a governmental 457(b) plan require that minimum distribution begin at age 72 while participants are still working? ........ 3-19
Q 3:32 When does a plan participant attain age 72? ................. 3-20
Q 3:33 Could a 457(b) plan be aggregated with another plan the employer sponsors, an IRA, or deemed IRA, for purposes calculating and paying minimum distributions? .......................... 3-20
Q 3:34 What IRS tables are used for calculating minimum distributions and when are they used? ................................. 3-20
Q 3:35 How are required minimum distributions usually calculated for most individual account plans including 457(b) plans? ....... 3-21
Q 3:36 After the initial required distribution, when must distributions be made? ............................................................... 3-21
Q 3:37 How are RMDs calculated when the plan holds annuity contracts or qualified longevity contracts? .............................. 3-22
Q 3:38 In determining the life expectancy, how is current age determined? ................................................................. 3-23
| Q 3:39 | How is life expectancy determined for years beginning with the first distribution year up through the year of the participant’s death? | 3-23 |
| Q 3:40 | What is the distribution period for the years after the year of the participant’s death? | 3-24 |
| Q 3:41 | What is the applicable date for determining the designated beneficiary? | 3-24 |
| Q 3:42 | How is a participant’s designated beneficiary determined? | 3-24 |
| Q 3:43 | Whose life expectancy is used if a participant has more than one designated beneficiary? | 3-24 |
| Q 3:44 | Must the designated beneficiary be specified under the plan? | 3-25 |
| Q 3:45 | What if a participant’s interest passes to someone by operation of applicable law? | 3-25 |
| Q 3:46 | Must a person be specified as a designated beneficiary by name? | 3-25 |
| Q 3:47 | May a participant name the participant’s estate, a charity, or other nonnatural person as his or her designated beneficiary? | 3-25 |
| Q 3:48 | May a participant name a trust as his or her designated beneficiary? | 3-26 |
| Q 3:49 | What documents must be furnished to a plan administrator for a beneficiary of a trust to be considered a designated beneficiary? | 3-26 |
| Q 3:50 | What requirements must be met for the beneficiary of a trust to be considered a designated beneficiary for purposes of required minimum distributions that begin before death? | 3-26 |
| Q 3:51 | What requirements must be met for the beneficiary of a trust to be considered a designated beneficiary for purposes of required minimum distributions that begin after death? | 3-27 |
| Q 3:52 | Will a plan violate the minimum distribution rules because it allows participants to elect the method of payment? | 3-27 |
| Q 3:53 | May a plan honor a domestic relations order without violating the minimum distribution rules? | 3-27 |
| Q 3:54 | What minimum distribution rules apply if a distribution is treated as having begun before the participant’s death? | 3-27 |
| Q 3:55 | When is a distribution deemed to begin for purposes of the minimum required distribution rules? | 3-28 |
| Q 3:56 | What minimum distribution rules apply to a post-death distribution? | 3-28 |
| Q 3:57 | What minimum distribution rules apply if distributions are treated as not having begun before the participant’s death? | 3-29 |
| Q 3:58 | What is the five-year rule? | 3-29 |
| Q 3:59 | What provisions may a plan sponsor adopt using the five-year rule? | 3-29 |
| Q 3:60 | When must a participant’s entire interest be distributed in order to satisfy the five-year rule? | 3-30 |
How did the 2009 RMD waiver affect the five-year rule? 
When did a governmental 457(b) plan have to be amended to reflect the 2009 RMD waiver? 
Have other deadlines been affected by the 2009 RMD waiver? 
How is the life expectancy rule applied after the participant’s death? 
When must distributions to a designated beneficiary begin under the life expectancy rule? 
When must distributions begin under the life expectancy rule to a designated nonspouse beneficiary? 
When must distributions begin for a beneficiary who is the participant’s surviving spouse? 
If a participant dies after his or her required beginning date, what is the applicable distribution period? 
What if the participant’s spouse is the sole designated beneficiary and the spouse dies after the participant dies, but before distributions begin to the surviving spouse? 
What if a plan does not state whether the life expectancy or another rule applies? 
Can a participant rollover his or her account balance to another eligible retirement plan to avoid taking a minimum distribution payment from the plan? 
How are required minimum distributions affected if a designated nonspouse beneficiary elects to “roll” a deceased participant’s account balance into an inherited IRA? 
How is the required minimum distribution for a nonspouse beneficiary determined if the participant dies on or after his or her required beginning date? 
How is the required minimum distribution from the inherited IRA determined after the designated nonspouse beneficiary has the distribution directly rolled into the inherited IRA? 
How is a required minimum distribution calculated if the participant’s benefit is divided into separate accounts? 
What are the consequences to a nongovernmental 457(b) plan and its participants if the plan does not make timely required minimum distributions? 
Is a state or local government 457(b) plan subject to consequences if it fails to comply with making timely minimum distributions to participants? 
Has guidance been issued specifically for RMDs from government plans? 
What is a designated Roth account? 
What types of contributions may be included in a designated Roth account?

Distributions from Designated Roth Accounts

What is a designated Roth account? 
What types of contributions may be included in a designated Roth account?
Q 3:81 What are the two types of distributions that are available from a designated Roth account? .................................................. 3-36
Q 3:82 How are distributions from a designated Roth account taxed? ... 3-36
Q 3:83 What is a nonqualified distribution from a designated Roth account and how is it taxed? .................................................. 3-37
Q 3:84 What designated Roth account distributions are never qualified distributions? ................................................................. 3-37
Q 3:85 When does the five-taxable-year period of participation begin in a designated Roth account? ............................................. 3-38
Q 3:86 Is the five-taxable-year period for determining participation in the designated Roth account ever re-determined? ............... 3-38
Q 3:87 Whose age is used to determine if a distribution to an alternate payee or beneficiary from a participant’s designated Roth account is a qualified distribution? ................................................................. 3-39
Q 3:88 How is the five-taxable-year period of participation determined when nonqualified distributions from designated Roth accounts are rolled over to a recipient plan? ................................................................. 3-39
Q 3:89 What information does a distributing plan have to provide to a recipient plan for eligible rollover distributions from the distributing plan’s designated Roth account? ................................................................. 3-40
Q 3:90 What information does a recipient plan that accepts a 60-day rollover of a distribution from a designated Roth account have to report to the IRS? ................................................................. 3-40
Q 3:91 Can amounts distributed from a Roth IRA be rolled into a plan’s designated Roth account? ................................................................. 3-40

Rollovers and Transfers

Q 3:92 May distributions from a 457(b) plan be rolled over into another eligible retirement plan? ................................................................. 3-41
Q 3:93 Are default contributions that are withdrawn from a governmental 457(b) eligible automatic contribution arrangement eligible for rollover? ................................................................. 3-41
Q 3:94 What is an eligible retirement plan that can accept rollovers? ......................................................................................... 3-42
Q 3:95 Why may a participant in a 457(b) plan not want to roll money into another type of eligible retirement plan? ................................................................. 3-42
Q 3:96 If an eligible retirement plan separately accounts for rollover contributions, do restrictions on timing of 457(b) distributions otherwise applicable to the plan apply? ................................................................. 3-42
Q 3:97 When are eligible rollover distributions from a governmental 457(b) plan subject to a mandatory 20 percent withholding tax? ................................................................. 3-43
Q 3:98 Are distributions from a 457(b) plan subject to the 10 percent additional tax on early distributions? ........................................ 3-43
Q 3:99 May a 457(b) plan accepts rollovers from Roth 401(k), Roth 403(b) accounts, or Roth IRAs? ................................................................. 3-43
Q 3:100 May a governmental 457(b) plan accept rollovers of employee after-tax contributions from qualified plans and 403(b) plans that are not designated Roth contributions? .................. 3-44

Q 3:101 What are the automatic rollover rules for mandatory distributions? .......................................................... 3-44

Q 3:102 Do the automatic rollover rules for plans that provide for mandatory distributions apply to both governmental and nongovernmental 457(b) plans? ........................................... 3-44

Q 3:103 What governmental 457(b) plan distributions are subject to the automatic rollover requirements? ........................................... 3-44

Q 3:104 How can a governmental 457(b) plan satisfy the automatic rollover requirement? ........................................... 3-45

Q 3:105 When may a plan administrator of a governmental 457(b) plan establish an individual retirement plan for a participant who is receiving mandatory distributions? ........................................ 3-45

Q 3:106 Do the DOL regulations on automatic rollovers apply to governmental 457(b) plans? ........................................... 3-45

Q 3:107 Is a governmental 457(b) plan required to offer a rollover option to designated nonspouse beneficiaries? ........................................... 3-46

Q 3:108 Does the direct rollover of a distribution by a nonspouse beneficiary to an inherited IRA have to meet all the requirements of a direct rollover? ........................................... 3-46

Direct Rollovers to Roth IRAs

Q 3:109 May eligible retirement plan participants have their 457(b) plan distributions directly rolled into a Roth IRA? .......................... 3-46

Q 3:110 Is a governmental 457(b) plan required to offer direct rollovers to a Roth IRA? ........................................... 3-47

Q 3:111 When are rollovers from the 457 plan to a Roth IRA taxable? ........................................... 3-47

Q 3:112 Would a deemed traditional IRA that is part of a governmental 457(b) plan be permitted to directly rollover over account balances to Roth IRAs? ........................................... 3-48

Q 3:113 Will the 10 percent early distribution tax apply to direct rollovers from an eligible retirement plan to a Roth IRA? ........................................... 3-48

Q 3:114 Can Roth and non-Roth amounts that are directly rolled over from a plan in a single distribution to multiple locations be allocated by the participant? ........................................... 3-48

In-Plan Roth Rollovers (IRRs)

Q 3:115 What is an IRR? ........................................... 3-49

Q 3:116 Does the plan have to have a qualified Roth contribution program in place to accept an IRR? ........................................... 3-49

Q 3:117 May employer matching contributions be allocated to the participant’s DRA? ........................................... 3-50

Q 3:118 May plan forfeitures be placed into a DRA? ........................................... 3-50
Q 3:119 Who can make an IRR? ........................................ 3-50
Q 3:120 What are the recordkeeping requirements for multiple IRRs? .... 3-51
Q 3:121 How are IRRs taxed when contributed to the plan’s designated Roth account? ................................................................. 3-51
Q 3:122 Is a direct IRR treated as a distribution in all cases? ............... 3-51
Q 3:123 Can a plan add an in-plan Roth direct rollover option for amounts that are not distributable under the plan, but would be under the Code if permitted by the plan? .......................... 3-51
Q 3:124 Are there special rules applicable to the taxable amount of the IRR when distributions are made from the IRR account? ........ 3-52
Q 3:125 Does the recapture tax apply to both qualified and nonqualified distributions? ................................................................. 3-52
Q 3:126 How are amounts allocated to the taxable portion of an IRR for purposes of the recapture tax? ........................................ 3-52
Q 3:127 May a 457 plan participant who elects an IRR later unwind (re-characterize) like contributions to a Roth IRA to be re-characterized as a traditional IRA if certain time frames are met? ................................................................. 3-53
Q 3:128 When does 457 plan have to adopt an amendment permitting IRRs? ....................................................................................... 3-53
Q 3:129 Will rollover distributions from a retirement plan including a governmental 457(b) plan reduce unemployment compensation? ................................................................. 3-53

**Direct Plan-to-Plan Transfers**

Q 3:130 What are the major differences between direct plan-to-plan transfers and rollovers? ................................................................. 3-53
Q 3:131 What are some examples of a distribution that has the characteristics of both a direct plan-to-plan transfer and a rollover? ....................................................................................... 3-56
Q 3:132 What is an in-plan Roth transfer? ........................................ 3-57
Q 3:133 What is the effective date for in-plan Roth transfers? .......... 3-57
Q 3:134 Could a participant in a 403(b) plan transfer his or her 403(b) account balance into his or her government employer’s 457 plan? ....................................................................................... 3-57
Q 3:135 May a participant transfer amounts from his or her governmental 457 plan to buy service credit in a governmental defined benefit plan? ....................................................................................... 3-57
Q 3:136 Could an employer merge or transfer a 401(k) plan into 457 plan? ....................................................................................... 3-58

**Special Distribution Rules for Public Safety Employees and Officers**

Q 3:137 When does the waiver of the 10 percent early distribution tax apply to public safety employees for distributions from a defined benefit plan or defined contribution plan? .......................... 3-58
**Q 3:138**  Who is a qualified public safety employee for purposes of the early distribution tax waiver? ........................................ 3-58

**DPSERA (Defending Public Safety Employees’ Retirement Act) (2015)**

**Q 3:139**  Does the waiver of the 10 percent early distribution penalty for distributions made to public safety employees from their defined benefit plans apply if the distribution is rolled into a governmental 457(b) plan? .......................................................... 3-59

**Q 3:140**  How can retired and disabled public safety officers use retirement plan distributions to pay qualified health and long-term care premiums? .......................................................... 3-60

**Q 3:141**  Is an eligible governmental plan required to offer this election? ... 3-60

**Q 3:142**  Who is an eligible public safety officer for purposes of this exclusion? .......................................................... 3-60

**Q 3:143**  How is a public safety officer defined for purposes of the $3,000 exclusion from gross income? .......................................................... 3-60

**Q 3:144**  Under what circumstances are the favorable tax provisions of Code Section 402(l) available for eligible retired public safety officers? .......................................................... 3-61

**Q 3:145**  Will an eligible retired public safety officer be entitled to favorable tax treatment under Code Section 402(l) for benefits attributable to service other than as a public safety officer? .......................................................... 3-61

**Q 3:146**  If the public safety officer dies, are amounts subtracted from distributions to the decedent’s surviving spouse or dependents eligible for favorable tax treatment under Code Section 402(l)? .......................................................... 3-61

**Q 3:147**  Are amounts used to pay qualified health insurance premiums that are excluded from gross income taken into account for purposes of determining the itemized deduction for medical care expenses under Code Section 213? .......................................................... 3-62

**Distributions from Automatic Contribution (Enrollment) Arrangements**

**Q 3:148**  What is an automatic contribution arrangement? ................. 3-62

**Q 3:149**  What are the EACA requirements? .............................. 3-62

**Q 3:150**  What are the QACA requirements? .............................. 3-63

**Q 3:151**  Do the automatic enrollment provisions preempt state wage withholding laws? .......................................................... 3-64

**Q 3:152**  Has guidance been issued for permissive withdrawal of contributions made for automatically enrolled employees who later elect to not to participate in the plan? .......................................................... 3-64

**Q 3:153**  Must a 457(b) plan meet the EACA requirements to have an automatic enrollment program? .......................................................... 3-64

**Q 3:154**  Is an EACA a required plan provision? .......................................................... 3-64
List of Questions

Q 3:155 Does the employer have to offer EACA withdrawals to all employees covered by the EACA? .......................... 3-64
Q 3:156 What is the EACA uniformity requirement? .......................... 3-65
Q 3:157 How can the EACA notice requirement be satisfied? .......................... 3-65
Q 3:158 When is the EACA notice required to be provided to employees? .......................... 3-65
Q 3:159 When does the 90-day period begin for requesting permissive EACA withdrawals? .......................... 3-66
Q 3:160 What amounts are included in a permissive EACA withdrawal? .......................... 3-66
Q 3:161 Are there any restrictions on fees that may be charged for EACA withdrawals? .......................... 3-66
Q 3:162 When are EACA distributions included in an employee’s gross income? .......................... 3-67
Q 3:163 How are matching contributions treated when default elective contributions are withdrawn from the plan? .......................... 3-67

Distributions for Employees on Active Military Duty

Q 3:164 Can qualified reservists withdraw deferrals from a governmental 457(b) plan while on active military duty without violating the plan’s withdrawal restrictions? .......................... 3-67
Q 3:165 Would the 10 percent early distribution tax be waived if a qualified reservist takes early distributions from his or her deemed IRA that is part of the employer’s governmental 457(b) plan? .......................... 3-68
Q 3:166 Could qualified reservists re-contribute their withdrawals from a 401(k) or 403(b) annuity to a deemed IRA that is a component of a governmental 457(b) plan? .......................... 3-68
Q 3:167 Can qualified reservists receive federal income tax refunds if they paid an early distribution tax on withdrawals from their 401(k), 403(b), or IRA? .......................... 3-68
Q 3:168 What are the special rules governing distributions from governmental 457(b) plans for employees serving in the military? .......................... 3-68
Q 3:169 Are there any restrictions that apply to individuals on active military duty who elect to take withdrawals from their governmental 457(b) plan? .......................... 3-69

Disaster Relief Distributions

Q 3:170 What type of disaster relief can the IRS provide to 457 plans? .......................... 3-70

Other Distribution Rules

Q 3:171 May a participant elect to defer commencement of a distribution? .......................... 3-70
Q 3:172 What is required to meet the payment term provisions of pre-EGTRRA Code Section 457(d)(2)(B)? .......................... 3-71
Q 3:173 Must a distribution be nonincreasing? .......................... 3-71
Q 3:174 What are substantially nonincreasing amounts? .......... 3-71
Q 3:175 May a plan make distributions in decreasing amounts? ... 3-71
Q 3:176 Are distributions from 457(b) plans included in the definition of "remuneration" for purposes of the Code Section 4960 excise tax? ........................................ 3-71

Chapter 4 Investments

Permitted Investments for Deferred Compensation Plans

Q 4:1 What kinds of investments may be used for a deferred compensation plan? ........................................ 4-2
Q 4:2 What is an investment alternative? .......................... 4-2
Q 4:3 What is an enabling statute? .................................. 4-2

Types of Investments

Q 4:4 What is a fund? .................................................. 4-3
Q 4:5 What is a mutual fund? ........................................ 4-3
Q 4:6 What is a registered investment company? ................. 4-3
Q 4:7 What is a regulated investment company? ................. 4-4
Q 4:8 How does a mutual fund set its adviser’s fee? .......... 4-4
Q 4:9 What is a collective trust fund? ............................. 4-4
Q 4:10 What is a “UCITS” fund? ................................... 4-5
Q 4:11 Is a church plan governed by securities laws? .......... 4-6
Q 4:12 How is a fund invested? ..................................... 4-6
Q 4:13 What is a stable-value fund? ............................... 4-7
Q 4:14 What is an annuity contract? ............................... 4-7
Q 4:15 What is a fixed annuity contract? .......................... 4-8
Q 4:16 How does an insurer invest to support its fixed annuity contract? ..................................................... 4-8
Q 4:17 Is an index annuity contract a security? ................ 4-8
Q 4:18 What is a variable annuity contract? ..................... 4-9
Q 4:19 What is a brokerage account? ............................. 4-10
Q 4:20 May deferred compensation plan amounts be invested in brokerage accounts? .......................... 4-10
Q 4:21 May nongovernmental deferred compensation be invested in brokerage accounts? .......................... 4-10
Q 4:22 May governmental deferred compensation be invested in brokerage accounts? .......................... 4-10
Q 4:23 May an eligible deferred compensation plan invest in a participant loan? ...................................... 4-11
Q 4:24 Must a plan fiduciary collect repayments on a participant loan? ... 4-11
Rabbi Trusts

Q 4:25 What is a rabbi trust? ........................................... 4-12
Q 4:26 May a participant get insurance against an employer’s failure to pay deferred compensation? ........................................... 4-12
Q 4:27 Must a rabbi trust file a tax return? ........................................... 4-13

Trusts for Governmental Deferred Compensation Plans

Q 4:28 What is a Section 457(g) trust? ........................................... 4-13
Q 4:29 Who can be trustees of a Section 457(g) trust? ........................................... 4-14
Q 4:30 Is a Section 457(g) trust governed by ERISA’s prohibited-transaction rules? ........................................... 4-14
Q 4:31 Must a Section 457(b) plan file a tax return? ........................................... 4-15
Q 4:32 Must a Section 457(g) trust be audited? ........................................... 4-15

Employer Responsibility for Plan Investments

Q 4:33 What is an employer’s investment responsibility for a nongovernmental tax-exempt organization’s deferred compensation plan? ........................................... 4-16
Q 4:34 What is an employer’s investment responsibility for a state or local government’s eligible deferred compensation plan? ........................................... 4-16
Q 4:35 Does ERISA’s safe harbor for selecting an annuity insurer apply for a Section 457 plan? ........................................... 4-17

Participant-Directed Investment

Q 4:36 May a nongovernmental deferred compensation plan provide for participant-directed investment? ........................................... 4-17
Q 4:37 Should a nongovernmental deferred compensation plan provide for participant-directed investment? ........................................... 4-17
Q 4:38 May a governmental eligible deferred compensation plan provide for participant-directed investment? ........................................... 4-18
Q 4:39 Should a governmental eligible deferred compensation plan provide for participant-directed investment? ........................................... 4-18
Q 4:40 Does participant-directed investment mean that the employer avoids all liability? ........................................... 4-18
Q 4:41 What investment information should be furnished to a participant? ........................................... 4-19

Providing Investment Education and Investment Advice

Q 4:42 Must an employer give advice to participants? ........................................... 4-19
Q 4:43 Should an employer make investment education or advice available to participants? ........................................... 4-19
Q 4:44 What rules apply to providing investment information? ........................................... 4-20
Q 4:45 How should a person evaluate an investment adviser? .......... 4-20
Q 4:46 Should an investment adviser be independent? .................. 4-20

Paying Plan Administration Expenses

Q 4:47 May the expenses of administering a deferred compensation plan be paid from the plan investments? ......................... 4-21

Timely Investment of Contributions

Q 4:48 How quickly must an employer invest contributions? .......... 4-22

Chapter 5  Beneficiary Designations

Making a Beneficiary Designation

Q 5:1 What law governs a beneficiary designation under a deferred compensation plan? ................................................. 5-3
Q 5:2 Is a deferred compensation plan benefit disposed of by a participant’s will? ......................................................... 5-4
Q 5:3 Are there reasons other than providing a benefit why a participant would want to name a beneficiary? .......................... 5-5

Who May Make a Beneficiary Designation

Q 5:4 Who may make a beneficiary designation? ......................... 5-6
Q 5:5 What is an interpleader, and in what circumstances might a plan’s administrator use it? .................................................. 5-6
Q 5:6 May a plan’s administrator decide whether a document presented as a beneficiary designation is invalid because it is a forgery, or was made under undue influence? .......................... 5-7
Q 5:7 Why should a participant read a beneficiary-designation form? ... 5-8
Q 5:8 Must a beneficiary designation be witnessed? .................... 5-8
Q 5:9 Will a beneficiary designation made under a power of attorney be accepted? .............................................................. 5-8
Q 5:10 May a participant’s agent name the participant’s beneficiaries? ... 5-9
Q 5:11 May a participant’s agent appoint himself or herself as the participant’s beneficiary? ................................................. 5-10

Who Can Be a Beneficiary

Q 5:12 Who can be a beneficiary? ............................................ 5-10
Q 5:13 May a minor be a beneficiary? .................................... 5-10
Q 5:14 May a participant designate his or her beneficiaries by describing a class? ............................................................... 5-10
Providing for a Pet Animal

Q 5:15  May a participant designate his or her dog or cat as a beneficiary? .................................................. 5-12
Q 5:16  May a trust provide for a pet animal’s care? ......................... 5-13
Q 5:17  How might a participant make a beneficiary designation to provide for his or her pet animal’s care? ......................... 5-13

Charitable Gifts

Q 5:18  May a participant name a charity as a beneficiary? ............... 5-14
Q 5:19  If a charity is a beneficiary, what is the tax treatment of the deferred compensation? ............................................ 5-15

Using Trusts

Q 5:20  What is a living trust? ........................................... 5-15
Q 5:21  May a participant hold his or her deferred compensation in a living trust? .................................................. 5-15
Q 5:22  May a trust be a beneficiary under a deferred compensation plan? .................................................. 5-15

Tenancy by the Entirety

Q 5:23  May a participant transfer deferred compensation into a tenancy by the entirety? ........................................... 5-16

What Is a Beneficiary Designation

Q 5:24  What is a beneficiary designation? .................................. 5-16
Q 5:25  Must a beneficiary designation be in its maker’s handwriting? ... 5-17
Q 5:26  May a beneficiary designation be made by electronic means? ... 5-17

Substantial Compliance

Q 5:27  Will a participant’s attempt to make a beneficiary designation be honored? ........................................... 5-18
Q 5:28  What is the doctrine of substantial compliance? .................. 5-18
Q 5:29  Does the doctrine of substantial compliance apply to a non-ERISA plan? ........................................... 5-18
Q 5:30  Does the doctrine of substantial compliance apply to an ERISA plan? ........................................... 5-19

Lost Beneficiary Designation

Q 5:31  What should a plan administrator do if it cannot locate a beneficiary designation because the plan’s records were destroyed? ........................................... 5-22
Default Beneficiary Designation

Q 5:32 Who is entitled to a death benefit if a deceased participant did not make a beneficiary designation? ...................... 5-22

Family Rights That Restrain a Beneficiary Designation

Q 5:33 How might a family member’s rights restrain a participant’s beneficiary designation? .......................... 5-23

Failing to Provide for a Child

Q 5:34 Can a participant make a beneficiary designation that does not provide for his or her child? ............................. 5-23

Failing to Provide for a Spouse

Q 5:35 Can a participant make a beneficiary designation that does not provide for his or her spouse? ..................... 5-24
Q 5:36 May a governmental plan participant make a beneficiary designation that does not provide for his or her spouse? ........................................ 5-26
Q 5:37 Must a plan administrator tell an ex-spouse when a participant changes his or her beneficiary designation contrary to a court order? .......................................... 5-26

Spouse’s Rights

Q 5:38 What are the ways a participant’s surviving spouse might have rights to a participant’s deferred compensation? .............. 5-27

Elective-Share Rights

Q 5:39 What is an elective-share right? ................................. 5-27
Q 5:40 How much is a surviving spouse’s elective share? .................. 5-27
Q 5:41 Is an elective share computed on all property? .................... 5-28

Community Property

Q 5:42 What is community property? ................................. 5-28
Q 5:43 Which states are community-property states? .................. 5-28
Q 5:44 May community-property law be applied to nonspouses? .... 5-29
Q 5:45 How does community-property law affect payment of benefits under a deferred compensation plan governed by ERISA? .................................................. 5-29
Q 5:46 How does community-property law affect payment of benefits under a deferred compensation plan that is not governed by ERISA? .......................................... 5-29
### List of Questions

#### Premarital and Marital Agreements

| Q 5:47 | What is a premarital agreement? | 5-30 |
| Q 5:48 | What is a marital agreement? | 5-31 |
| Q 5:49 | How does a premarital or marital agreement affect a plan trustee’s or employer’s payment of deferred compensation? | 5-31 |
| Q 5:50 | Can an agreement waive a spouse’s right to a deferred compensation plan benefit? | 5-32 |

#### How Divorce Might Affect a Beneficiary Designation

| Q 5:51 | Does a divorce revoke a beneficiary designation? | 5-32 |
| Q 5:52 | If a deferred compensation plan pays a benefit according to the plan’s provisions but contrary to an order or agreement that binds that beneficiary, does the participant’s estate or another taker have a claim against the plan beneficiary? | 5-34 |
| Q 5:53 | Why would a divorced participant not want to name his or her young child as a beneficiary? | 5-35 |
| Q 5:54 | What happens when a beneficiary designation is contrary to an external agreement? | 5-36 |
| Q 5:55 | May an executor participate in a court proceeding concerning a disputed benefit? | 5-36 |

#### Other Events That Might Affect a Beneficiary Designation

| Q 5:56 | Beyond a marriage or divorce, what events might affect a beneficiary designation? | 5-36 |

#### Simultaneous Death

| Q 5:57 | What should a payer do if there is doubt about the order of deaths? | 5-37 |
| Q 5:58 | What is the typical simultaneous-death rule? | 5-37 |
| Q 5:59 | Is there a federal common law of ERISA concerning simultaneous deaths? | 5-38 |

#### Absentees

| Q 5:60 | What should a payer do when someone says a participant or beneficiary is absent and presumed dead? | 5-38 |

#### Slayer Rule

| Q 5:61 | What is the slayer rule? | 5-40 |
| Q 5:62 | Does a slayer rule apply under a deferred compensation plan? | 5-40 |
| Q 5:63 | How is it decided that a person is a slayer? | 5-40 |
| Q 5:64 | If a slayer rule applies, who gets the death benefit? | 5-41 |
Disclaimers

Q 5:65 What is a disclaimer? ............................................. 5-42
Q 5:66 Is a disclaimer permitted under a deferred compensation plan? ... 5-42
Q 5:67 What is the effect of a beneficiary’s disclaimer? .................. 5-42
Q 5:68 What is the tax effect of a disclaimer? .......................... 5-43
Q 5:69 Why would someone want to make a disclaimer? .............. 5-43
Q 5:70 Is a disclaimer that harms the disclaimant’s creditors invalid? ... 5-44
Q 5:71 What is a fraudulent transfer? .................................. 5-44
Q 5:72 Can a beneficiary’s executor or agent disclaim? ................. 5-44
Q 5:73 What are the requirements for a valid disclaimer? .............. 5-45

Giving Advice About Making a Beneficiary Designation

Q 5:74 May a financial-services representative give advice about a beneficiary designation? ............................................. 5-46
Q 5:75 Can written materials give guidance about beneficiary designations? .................................................. 5-48
Q 5:76 Does the lawyer who drafts someone’s will need to know about his or her beneficiary designations? ........................ 5-48

Common Mistakes

Q 5:77 What are some of the common mistakes people make with beneficiary designations? ................................. 5-49

Chapter 6 ERISA, Its Exemptions, and Other Nontax Considerations for 457 Plans

ERISA in General

Q 6:1 What requirements does ERISA impose on 457 plans? ........ 6-1
Q 6:2 What are the consequences to a 457 plan of being governed by ERISA? .................................................. 6-2
Q 6:3 What exemptions from ERISA are available? ..................... 6-2

Governmental Plans

Q 6:4 What is a governmental plan exempt from ERISA? .............. 6-3
Q 6:5 How much of a relationship with a governmental unit must a plan sponsor have to be a governmental plan? .................. 6-3
Q 6:6 Can plans sponsored by charter schools be governmental plans? .................................................. 6-4

Church Plans

Q 6:7 What is a church plan exempt from ERISA? ..................... 6-6
### List of Questions

| Q 6:8 | What does church mean under Code Section 3121(w)(3)(A)? | 6-6 |
| Q 6:9 | What does qualified church-controlled organization mean under ERISA? | 6-6 |
| Q 6:10 | What is required of a plan before it qualifies as a church plan? | 6-7 |
| Q 6:11 | How does ERISA define church? | 6-7 |
| Q 6:12 | What individuals who are not employees of a church or a convention or association of churches may nevertheless be covered by a church plan as deemed employees? | 6-8 |
| Q 6:13 | When is an organization controlled by a church or a convention or association of churches? | 6-9 |
| Q 6:14 | When is an organization associated with a church or convention or association of churches? | 6-9 |
| Q 6:15 | May a church plan cover employees employed in an unrelated trade or business? | 6-9 |
| Q 6:16 | When is an employee employed in an unrelated trade or business? | 6-9 |
| Q 6:17 | How is it determined that a plan is established or maintained primarily for employees of an unrelated trade or business? | 6-10 |
| Q 6:18 | When a nondenominational employer employs a minister, what is the effect on that employer’s pension plan? | 6-10 |
| Q 6:19 | When is a plan established and maintained by a church or a convention or an association of churches or by an organization described in Code Section 414(e)(3)(A)? | 6-11 |
| Q 6:20 | Can a church plan seek a ruling that it meets the definition in Code Section 414(d)? | 6-13 |
| Q 6:21 | How can a church plan elect to be covered under ERISA? | 6-14 |
| Q 6:22 | What impact does the current litigation challenging the church plan definition for church-related hospital 401(a) defined benefit plans have on 457 plans? | 6-14 |
| Q 6:23 | What are the consequences if a plan fails to meet the requirements for being a church plan? | 6-15 |
| Q 6:24 | Are nonelecting church plans required to file annual information returns? | 6-15 |

#### Top-Hat Plans

| Q 6:25 | What is a top-hat plan under ERISA? | 6-15 |
| Q 6:26 | What does select group mean under ERISA? | 6-16 |
| Q 6:27 | What are the reporting and disclosure requirements for top-hat plans? | 6-16 |
| Q 6:28 | What are the consequences if an employer has failed to make the one-time top-hat plan filing? | 6-16 |

#### Excess Benefit Plans

| Q 6:29 | What is an excess benefit plan as defined under ERISA? | 6-17 |
Q 6:30  How is an excess benefit plan treated under ERISA? ............ 6-17

Severance and Welfare Plans

Q 6:31  Are severance pay plans, death benefit plans, and other types of benefit arrangements subject to ERISA? ....................... 6-17
Q 6:32  What is a severance plan under ERISA? ......................... 6-18

Selected Securities and Insurance Law Issues for 457 Plans

Q 6:33  Are there securities-law issues for a 457 plan? ................. 6-19
Q 6:34  Are church plans subject to the securities laws? ............... 6-19
Q 6:35  Are there insurance law issues for a non-ERISA 457 plan? .. 6-20

ERISA and Tax Consequences of Funded 457(f) Plans

Q 6:36  Can an employer maintain a funded ineligible 457 plan? .... 6-20
Q 6:37  How is a secular trust taxed? .................................. 6-20
Q 6:38  Can a funded 457(f) plan hold assets in an employee-grantor trust? ................................................................. 6-21

Chapter 7  Mergers and Acquisitions

7457 Plan Considerations

Q 7:1  What happens if an employer sponsoring a 457(b) plan is acquired by another tax-exempt or governmental employer? .............. 7-1
Q 7:2  What happens to an acquiree’s 457(b) plan if the acquiror is not tax exempt or governmental? ........................................... 7-2
Q 7:3  What should be done with the acquiree’s 457(b) plan if the acquiror is not tax exempt or governmental? .............................. 7-3
Q 7:4  Can an acquiror refuse to accept responsibility for a tax-exempt acquiree’s 457(b) plan? ....................................................... 7-4
Q 7:5  Can an acquiree’s 457 plan be terminated? ......................... 7-4
Q 7:6  Can 457(b) plans be merged? ...................................... 7-4
Q 7:7  Does the merger or acquisition of a 457(b) plan sponsor constitute a separation from service or severance of employment that would permit distributions? .............................................. 7-4

Severance Pay and 457(b) Plans

Q 7:8  Can severance pay be deferred under a 457(b) plan as a salary reduction contribution? ......................................................... 7-5
Chapter 8  Defining a Top-Hat Plan in Connection with 457 Plans

457 Plans and ERISA

Q 8:1  In general, what is a top-hat plan? ........................................... 8-2
Q 8:2  What type of 457 top-hat plan might elect alternate compliance? ........................................... 8-2
Q 8:3  What are the ERISA requirements to which top-hat plans are subject? .................................................. 8-2
Q 8:4  What are the limited reporting and disclosure requirements? .................................................. 8-2
Q 8:5  Who is the administrator of a 457 plan? ........................................... 8-3
Q 8:6  Who is the plan sponsor of a 457 plan? ........................................... 8-3
Q 8:7  Do the limited reporting and disclosure requirements apply to all deferred compensation plans that are maintained by an employer? .................................................. 8-4
Q 8:8  How do the top-hat statement requirements vary in conjunction with a top-hat plan that covers a "controlled group of corporations" or a "group of trades or businesses under common control"? .................................................. 8-4
Q 8:9  How often must the top-hat statement be filed? ........................................... 8-5
Q 8:10  Where is the top-hat statement filed? ........................................... 8-5
Q 8:11  Must a top-hat statement be filed electronically? ........................................... 8-5
Q 8:12  What happens if the (top-hat) statement is not filed with the DOL? .................................................. 8-6
Q 8:13  Can the sponsor of a Code Section 457(b) plan use the DFVCP to avoid civil penalties under ERISA? .................................................. 8-7
Q 8:14  Why is the top-hat plan exemption under ERISA important for 457 plans? .................................................. 8-7

Top-Hat Group

Q 8:15  What is the meaning of the words used under ERISA to describe a top-hat plan? ........................................... 8-9

Advisory Opinions and Case Law

Q 8:16  What DOL guidance can be used to determine the meaning of the words used under ERISA to describe a top-hat plan? ........................................... 8-10
Q 8:17  What guidance exists on what constitutes a select group of management or highly compensated employees? ........................................... 8-11
Q 8:18  Is an asset purchaser liable for top-hat benefits? ........................................... 8-17
Q 8:19  Can an employer's label cause a group to be a top-hat group? ........................................... 8-19

Other Definitional Issues

Q 8:20  What does the term primarily mean as used under ERISA? ........................................... 8-19
Q 8:21 What is the definition of deferred compensation? 8-21
Q 8:22 What is the definition of management employees? 8-21
Q 8:23 What is the definition of highly compensated employees under ERISA? 8-23
Q 8:24 Is the word or in the phrase “select group of management or highly compensated employees” conjunctive? 8-23
Q 8:25 What does the term select mean? 8-24
Q 8:26 What does the term select group mean? 8-25

Future DOL Guidance
Q 8:27 Is there likely to be any future DOL guidance on this issue? 8-25

Applying the Rules
Q 8:28 What are the general rules for determining the existence of a top-hat group? 8-25
Q 8:29 What groups of employees would be considered to be part of a top-hat group? 8-26
Q 8:30 What groups of employees would not be considered to be part of a top-hat group? 8-26

Chapter 9 Creditors’ Rights

Shumate and ERISA Qualified Plans
Q 9:1 What was the holding of Patterson v. Shumate? 9-2
Q 9:2 What does ERISA qualified mean? 9-2

Shumate and 457 Plans Before the SBJPA
Q 9:3 Can a 457 plan be ERISA qualified? 9-3

Shumate and 457 Plans After the SBJPA
Q 9:4 What change did the SBJPA make with respect to 457 plans? 9-5
Q 9:5 For purposes of the availability of benefits to creditors, are government-sponsored 457 plans now exactly like qualified retirement plans under Code Section 401(a)? 9-6
Q 9:6 Is there any other way that a participant’s benefits in a government-sponsored 457 plan may be excluded from his or her bankruptcy estate under Shumate and Bankruptcy Code Section 541(c)(2)? 9-7
Q 9:7 Can 457 plan benefits, payable from plans that do not literally have trusts, have the same protection from creditors that is available to ERISA qualified plans under Shumate and its progeny? ...................................................... 9-8

Q 9:8 Are amounts withheld from wages as contributions to 457 plans included in the definition of disposable income under the Bankruptcy Code for a Chapter 7 filing? ......................... 9-8

Q 9:9 Are amounts withheld from wages as contributions to 457 plans included in the definition of disposable income under the Bankruptcy Code for a Chapter 13 filing? ......................... 9-9

Q 9:10 Are amounts necessary to repay 457 plan loans included in the definition of disposable income under the Bankruptcy Code? .............................................................. 9-10

Exemptions from the Bankruptcy Estate

Q 9:11 Even if a 457 plan participant’s benefits are not excluded from his or her bankruptcy estate under Bankruptcy Code Section 541(c)(2) and Shumate, may the benefits still be protected from bankruptcy creditors? ........................................ 9-11

Judgment Creditors in Nonbankruptcy Situations

Q 9:12 If a creditor is unable to reach a participant’s interest in his or her benefits from the 457 plan, could the creditor force the plan to make the contributions available to the participant’s estate? ......................................................... 9-12

Q 9:13 When a 457 plan participant has not filed for bankruptcy, but a creditor has a court judgment against him or her, are the 457 plan assets available to the creditor? ........................................ 9-12

Q 9:14 If the 457 plan participant’s creditor is the participant’s spouse in a divorce proceeding, are the 457 plan assets available to the creditor-spouse? ......................................................... 9-13

Q 9:15 Can a 457 plan participant’s account be frozen and then ordered to be used to satisfy a property settlement with the participant’s spouse? ......................................................... 9-13

Q 9:16 Can a court award a lump sum payment to a spouse in dividing a governmental 457 plan account, rather than a percentage which would account for gains and losses during the time between the rendering of the court’s decision and the implementation of that decision? ......................................................... 9-14

Q 9:17 If the 457 plan participant’s creditor is the United States in a garnishment proceeding resulting from the Mandatory Victim Restitution Act, are the 457 plan assets available to the creditor? ......................................................... 9-14

Q 9:18 Does New York law protect the assets in a 457 plan account from attachment by a plan participant’s creditors? ................................. 9-15
Consequences of Availability of Benefits to Creditors

Q 9:19 If a participant’s 457 plan benefits are determined to be available to his or her creditors, will the participant be taxed on the benefits? ................................................... 9-16

Q 9:20 If a participant’s 457 plan benefits are paid to his or her creditors at a time when that participant is not eligible to receive a distribution under Code Section 457(d), will the plan retain its designation as an eligible deferred compensation plan under Code Section 457? ................................................... 9-16

Consequences of the Bankruptcy of the Plan Sponsor

Q 9:21 What happens if the sponsor of the 457 plan files for bankruptcy relief? ................................................... 9-16

Judgment Creditors in Bankruptcy


Q 9:23 How does BAPCPA protect eligible 457 plan assets, if a participant files for bankruptcy? ................................................... 9-17

Q 9:24 How are ineligible 457 plan assets protected if a participant files for bankruptcy? ................................................... 9-18

Q 9:25 Are rollovers from an eligible 457 plan protected in bankruptcy? ................................................... 9-18

Q 9:26 What are the implications of the Supreme Court’s ruling in Rameker? ................................................... 9-19

Q 9:27 Are there any dollar limits on the protection in bankruptcy for eligible 457 plan assets? ................................................... 9-21

Q 9:28 Once funds are distributed from a 457 plan, do they retain any exempt status from creditors? ................................................... 9-22

Chapter 10 Application of Federal Securities Law to 457 Plans

Federal Securities Laws and 457 Plans Generally

Q 10:1 What federal securities laws may apply to 457 plans? … 10-2

Q 10:2 Are all federal securities laws and rules addressed in this chapter? ................................................... 10-3

Q 10:3 Are the federal securities laws applicable to 457 plans well-developed? ................................................... 10-3

Q 10:4 When might the 1933 Act, 1934 Act, or 1940 Act apply to 457 plans? ................................................... 10-3

Q 10:5 What type of security might be issued in connection with a 457 plan? ................................................... 10-3
Q 10:6 What is the SEC staff analysis of traditional nonqualified deferred compensation plans? ........................................... 10-4
Q 10:7 What is the SEC staff analysis of qualified plans? ................. 10-5
Q 10:8 What conclusions may be drawn about 457 plans from the SEC staff analysis of traditional nonqualified deferred compensation plans and qualified plans? ....................................... 10-6
Q 10:9 What is the definition of offer and sale under the 1933 Act and the 1934 Act? ................................................................. 10-7
Q 10:10 Are definitions under the 1934 Act different from those under the 1933 Act? ................................................................. 10-7
Q 10:11 When must the issuer of a registered security issued in connection with a 457 plan deliver a prospectus to prospective investors? ................................................................. 10-7
Q 10:12 What entities might be investment companies subject to the 1940 Act in connection with a 457 plan? ................................. 10-9
Q 10:13 What exemptions are available from the registration requirements of the 1933 Act? ......................................................... 10-9
Q 10:14 What exemptions are available from the registration and other requirements of the 1940 Act? ......................................................... 10-11
Q 10:15 What is the status of custodial accounts holding mutual fund shares? ................................................................. 10-12
Q 10:16 What exemptions are available from the requirements of the 1934 Act? ................................................................. 10-13

Eligible Public Employer 457 Plans Under Code Sections 457(b) and 457(e)(1)(A)
Q 10:17 What exemptions or exclusions generally apply to public employer 457 plans? ................................................................. 10-13
Q 10:18 What is a no-action letter? .............................................. 10-14
Q 10:19 What no-action positions has the SEC taken on Section 3(a)(2)(C)? ................................................................. 10-15
Q 10:20 How does exclusive-benefit funding affect the applicability of Section 3(a)(2)(C) of the 1933 Act to eligible public employer 457 plans? ................................................................. 10-16

Eligible Tax-Exempt Employer 457 Plans Under Code Sections 457(b) and 457(e)(1)(B)
Q 10:21 What exemptions or exclusions generally apply to tax-exempt employer 457 plans? ................................................................. 10-17

Noneligible 457 Plans Under Code Section 457(f)
Q 10:22 What exemptions or exclusions generally apply to noneligible 457 plans? ................................................................. 10-18
Standards of Conduct Applicable Under the 1934 Act and the Advisers Act

Q 10:23  What standards of conduct apply to federally registered broker-dealers and investment advisers that distribute a security deemed to be issued in connection with a 457 plan or offered as an investment option under a 457 plan?  ........................................... 10-18

Q 10:24  What standards of conduct apply to broker-dealers that recommend a security deemed to be issued in connection with a 457 plan or offered as an investment option under a 457 plan?  ...................................................... 10-19

Q 10:25  What standards of conduct apply to federally registered investment advisers that recommend a security deemed to be issued in connection with a 457 plan or offered as an investment option under a 457 plan?  ................................................. 10-19

Chapter 11  Ineligible Plans Under 457(f)

General Information

Q 11:1  What types of benefits are subject to Code Section 457(f)?  ........ 11-3

Q 11:2  When does a plan or arrangement provide for the deferral of compensation?  ................................................................. 11-4

Q 11:3  When does a plan become an ineligible plan subject to Code Section 457(f)?  ................................................................. 11-5

Q 11:4  How are Code Section 457(f) plans used?  ............................. 11-5

Q 11:5  What are the consequences of changing the provisions of a plan or arrangement after it is initially established?  ................ 11-6

Q 11:6  Can a plan that is unintentionally ineligible be cured under Code Sections 457(f) and 409A?  .............................................. 11-6

Tax Treatment of 457(f) Benefits

Q 11:7  What are the federal income tax consequences of application of Code Section 457(f) to deferred compensation?  ........ 11-7

Q 11:8  Are there any tax consequences to exempt organizations for payments subject to Code Section 457(f)?  ................................ 11-8

Q 11:9  What is the tax on excess tax-exempt organization executive compensation under Code Section 4960 imposed on?  ........ 11-8

Q 11:10  How is the amount of remuneration calculated for purposes of determining whether it exceeds $1,000,000 for this purpose?  ... 11-11

Q 11:11  What is an excess parachute payment subject to the Code Section 4960 tax?  ................................................................. 11-12

Q 11:12  Who is an applicable tax-exempt organization (“ATEO”) subject to Code Section 4960 tax?  .............................................. 11-15

Q 11:13  Are related organizations taken into account in determining the remuneration of a covered employee?  ......................... 11-15
List of Questions

Q 11:14 Who is a covered employee whose compensation may be the basis for the tax? ........................................... 11-16
Q 11:15 How much is the tax imposed by Code Section 4960? ........ 11-17
Q 11:16 How does an ATEO report the excess compensation and pay the applicable tax? ........................................ 11-17
Q 11:17 How is the present value of compensation deferred under an ineligible plan determined? ................................. 11-17
Q 11:18 How is the forfeiture or loss of the right to an amount previously included in income treated for purposes of Code Section 457(f)(1)? ........................................ 11-20
Q 11:19 How does Code Section 83 apply to an ineligible Code Section 457 plan? ........................................ 11-20
Q 11:20 How do you determine whether Code Section 457(f) or Code Section 83 determines the tax consequences of a transfer of property under an ineligible plan? ............................. 11-21
Q 11:21 How is Code Section 457(f) deferred compensation taxed for FICA and FUTA purposes? ........................................ 11-22
Q 11:22 How do states tax benefits from 457(f) plans? ................ 11-24
Q 11:23 Can distributions from a Code Section 457(f) plan be rolled over or directly transferred, tax-free, to an individual retirement account or annuity (IRA)? ........................................ 11-25

Substantial Risk of Forfeiture

Q 11:24 What are the general rules used in determining when the right to deferred compensation is subject to a substantial risk of forfeiture? ......................................................... 11-26
Q 11:25 What constitutes a substantial risk of forfeiture under an ineligible Code Section 457 plan? ........................................ 11-26
Q 11:26 Can a deferred compensation plan add or extend a risk of forfeiture after the participant has a legally binding right to the compensation being deferred? ................................. 11-28
Q 11:27 What constitutes a substantial risk of forfeiture for purposes of Code Section 83? .................................................. 11-29
Q 11:28 What is a “substantial risk of forfeiture” for purposes of Code Section 409A? ......................................................... 11-30
Q 11:29 How does the lapse of a substantial risk of forfeiture under Code Section 457(f) affect treatment of the amount under Code Section 409A? ......................................................... 11-32
Q 11:30 Can other conditions or restrictions defer taxation under Code Section 457(f)? ......................................................... 11-32
Q 11:31 Can a Section 457(f) plan be designed to extend a risk-of-forfeiture provision beyond retirement to avoid having all deferred compensation taxed in the year of retirement? ................................. 11-33
Certain Plans Not Subject to Code Section 457(f)

Q 11:32 Are there any exceptions to application of Code Section 457(f) to plans of eligible employers? .................................................. 11-34

Q 11:33 What types of plans of an eligible employer are treated as not providing for a deferral of compensation for purposes of Code Section 457(f)? ...................................................... 11-35

Q 11:34 Are amounts paid to teachers during a time when services are not being performed treated as deferred compensation subject to Code Section 457? .................................................. 11-39

Q 11:35 What is a short-term deferral that is treated as not providing for a deferral of compensation under Code Section 457(f)? .......... 11-40

Q 11:36 What is a bona fide severance pay plan to which Code Section 457 does not apply? .................................................. 11-41

Q 11:37 How do the rules regarding a nonqualified Code Section 402(b) trust affect a Code Section 457 Plan? ........................................ 11-46

Q 11:38 What is a qualified governmental excess benefit arrangement to which Code Section 457(f) does not apply? ................. 11-46

Q 11:39 What is an applicable employment retention plan exempt from Code Section 457(f)? .................................................. 11-47

Coordination of Code Section 409A and Code Section 457(f)

Q 11:40 What is a transfer of property “described” in Code Section 83? .... 11-49

Q 11:41 What is a bona fide death benefit plan to which Code Section 457 does not apply? .................................................. 11-49

Q 11:42 What is a bona fide disability pay plan to which Code Section 457 does not apply? .................................................. 11-50

Q 11:43 What are bona fide sick and vacation leave plans to which Code Section 457 does not apply? .................................. 11-50

Q 11:44 How is the tax paid when an amount is no longer subject to a risk of forfeiture but is not yet payable under the plan? .......... 11-51

Q 11:45 Are there limitations on or requirements for distributions from Code Section 457(f) plans? .................................................. 11-51

Coordination of Code Section 409A and Code Section 457(f)

Q 11:46 Under what authority does Code Section 409A impact ineligible 457 plans? .................................................. 11-52

Q 11:47 How does Code Section 409A affect ineligible Code Section 457 plans? .................................................. 11-53

Q 11:48 What additional taxes are imposed on deferred compensation that fails to meet the requirements of Code Section 409A? .... 11-54

Q 11:49 What is a “nonqualified deferred compensation plan” for purposes of Code Section 409A? .................................................. 11-54
| Q 11:50 | When may distributions be made under Code Section 409A? | 11-55 |
| Q 11:51 | May the plan permit the acceleration of benefits under Code Section 409A? | 11-56 |
| Q 11:52 | When can deferral elections be made under Code Section 409A? | 11-57 |
| Q 11:53 | Is a school employee’s election to have compensation paid throughout a 12-month period instead of the school year a deferral of compensation subject to Code Section 409A? | 11-58 |
| Q 11:54 | Do the Code Section 409A rules apply to Code Section 457 plans? | 11-58 |
| Q 11:55 | What is the treatment of earnings under Code Section 409A? | 11-58 |
| Q 11:56 | Are there employer aggregation rules under Code Section 409A? | 11-58 |
| Q 11:57 | How is the amount of income to be included under Section 409A calculated? | 11-59 |
| Q 11:58 | How are short-term deferrals under 409A affected by Code Section 457(f)? | 11-60 |
| Q 11:59 | What are the requirements for reporting deferred amounts? | 11-60 |
| Q 11:60 | What are the effective dates under Code Section 409A? | 11-61 |
| Q 11:61 | Is there a voluntary correction procedure for violations of Code Section 409A? | 11-61 |
| Q 11:62 | Does Code Section 409A include rules for offshore property in a trust? | 11-62 |
| Q 11:63 | Does Code Section 409A regulate provisions triggered by an employer’s financial health? | 11-62 |

**Funding Requirements and ERISA Considerations**

| Q 11:64 | Must benefits under a Code Section 457(f) plan be funded under the ERISA funding standards? | 11-63 |
| Q 11:65 | Are Code Section 457(f) plans subject to the ERISA vesting standards? | 11-64 |
| Q 11:66 | Who constitutes the “top-hat group”? | 11-65 |
| Q 11:67 | Should a Code Section 457(f) plan be funded? | 11-65 |
| Q 11:68 | Can an employee direct the investments of deferred compensation amounts under a Code Section 457(f) plan? | 11-65 |
| Q 11:69 | Can a Code Section 457(f) plan be indirectly funded using a rabbi trust? | 11-66 |
| Q 11:70 | What are the ERISA reporting and disclosure requirements for Code Section 457(f) plans? | 11-67 |

**ERISA Administration and Enforcement**

| Q 11:71 | What are the ERISA administration and enforcement provisions applicable to Code Section 457(f) plans? | 11-67 |
Q 11:72 Are benefits under Code Section 457(f) plans protected against the participant’s creditors in the event of the participant’s bankruptcy? ................................................................. 11-67

Federal Securities Law

Q 11:73 Must a Code Section 457(f) plan be registered under federal securities law? .................................................. 11-68

Chapter 12 IRS Form Reporting and Related Issues

General Information

Q 12:1 How may additional information about form reporting be obtained? ................................................................. 12-2
Q 12:2 What if a compliance deadline falls on a weekend or legal holiday? ................................................................. 12-3
Q 12:3 What is a legal holiday? .................................................. 12-3
Q 12:4 What tax deposits are required to be transmitted electronically? ................................................................. 12-4
Q 12:5 Are any other holidays considered legal holidays? .......................... 12-4
Q 12:6 When is a document or payment that is mailed deemed filed or paid? ................................................................. 12-5
Q 12:7 Are the dates recorded or marked by a designated delivery service covered under the “timely mailing is timely filing” rule? ................................................................. 12-5
Q 12:8 What private delivery services may a filer use to have the delivery date treated as the postmark date? ......................... 12-5
Q 12:9 What rule applies if a document or payment is not timely filed or paid? ................................................................. 12-7
Q 12:10 Must a document be received to be considered delivered? ........ 12-7
Q 12:11 Must a payment be received to be considered paid? .................... 12-7
Q 12:12 What are the requirements for a valid mailing? ........................ 12-8
Q 12:13 Does a valid mailing include the use of mail services of another nation? ................................................................. 12-8
Q 12:14 What rule applies if the postmark date is wrong or illegible? .................. 12-8
Q 12:15 How may one overcome the risk that the document or payment will not be postmarked on the day it is deposited? ......................... 12-8
Q 12:16 What rules apply to U.S. registered and U.S. Certified mail? .... 12-9

General 457 Reporting Rules

Q 12:17 Are there requirements for preparers of federal tax returns? ................................................................. 12-9
Q 12:18 What IRS returns require (and what returns do not require) paid return preparers to have a PTIN? .......................... 12-9
### List of Questions

- **Q 12:19** How are distributions from eligible 457 plans reported? .......... 12-10
- **Q 12:20** Does the IRS change the forms used for a governmental 457(b) plan's reporting purposes? ........................................ 12-10

### ERISA Reporting Requirements

- **Q 12:21** What ERISA reporting requirements apply to 457 plans? .......... 12-10
- **Q 12:22** Must the ERISA disclosure and reporting requirements be met by a state or local government’s 457 plan? .......................... 12-10
- **Q 12:23** Do the ERISA reporting requirements apply to an unfunded plan for a select group of highly compensated or management employees? ........................................ 12-10
- **Q 12:24** What information must be included in the one-time filing for a select group of employees? .................................. 12-11
- **Q 12:25** Do the ERISA disclosure and reporting requirements apply to a plan maintained by a nongovernmental tax-exempt organization for other than a select group of employees? ................................. 12-11
- **Q 12:26** What reporting and disclosure requirements are avoided by plans that are not governed by ERISA? ................................. 12-11
- **Q 12:27** Why is it important to be sure that a plan is not governed by ERISA or that the alternative method of compliance is satisfied? ........................................... 12-12

### FICA and FUTA Taxes

- **Q 12:28** What are FICA taxes? .................................................. 12-12
- **Q 12:29** What is the FICA tax rate? ........................................... 12-12
- **Q 12:30** Are there additional Medicare taxes an employer may be required to withhold on an employee’s wages? .......................... 12-13
- **Q 12:31** Is compensation deferred by an employee into a 457 plan subject to FICA taxes? .................................................. 12-13
- **Q 12:32** Are differential wage payments that civilian employers pay to employees on active military duty subject to FICA taxes? .... 12-14
- **Q 12:33** When are FICA and FUTA taxes withheld on deferred compensation treated as wages? .................................. 12-14
- **Q 12:34** May deferred compensation be credited as wages more than once for FICA purposes? ......................................... 12-14
- **Q 12:35** Are deferrals to a 457(b) plan made in the form of matching or nonelective contributions subject to FICA taxes? ....... 12-15
- **Q 12:36** When are deferrals to a 457 plan treated as wages for FICA tax purposes? .......................................................... 12-15
- **Q 12:37** When does employment, for FICA purposes, include service as an employee for a state or local government employer? .... 12-15
- **Q 12:38** What is a qualifying retirement system? ............................. 12-15
- **Q 12:39** Are Medicare taxes eliminated under a FICA alternative plan? .......................................................... 12-16
**IRS Form 940—Employer’s Annual FUTA Tax Return**

Q 12:40 What are FUTA taxes? ........................................ 12-16
Q 12:41 Are all employers subject to federal unemployment tax?  . 12-16
Q 12:42 Are federally recognized Indian Tribal governments required to pay FUTA taxes? ........................................ 12-17
Q 12:43 Are deferrals made to a 457 plan in the form of matching or nonelective contributions FUTA wages subject to the Federal Unemployment Tax Act?  . 12-17
Q 12:44 How is FUTA tax reported? ........................................ 12-17
Q 12:45 What is the deadline for filing Form 940?  . 12-17
Q 12:46 What is the FUTA tax rate? ........................................ 12-18
Q 12:47 When does the FUTA tax credit reduction apply? . 12-18
Q 12:48 What is a credit reduction state?  . 12-18
Q 12:49 Who do Form 940 filers need to contact in order to complete Form 940? ........................................ 12-18

**IRS Form 945—Annual Return of Withheld Federal Income Tax**

Q 12:50 How is IRS Form 945 used? ........................................ 12-19
Q 12:51 Are Form 945 preparers required to have a PTIN?  . 12-19
Q 12:52 What voluntary withholding rates are available to recipients of state and federal payments?  . 12-20

**Reporting Distributions on Form 1099-R**

Q 12:53 Are distributions from governmental 457(b) plans reported on Form 1099-R? ........................................ 12-20
Q 12:54 Are direct transfers from a governmental 457 plan to a governmental defined benefit plan for the purpose of purchasing permissive service credits or direct transfers (that are not direct rollovers) between eligible governmental 457(b) plans reported on a 1099-R? ........................................ 12-21
Q 12:55 How are distributions from governmental 457(b) plans reported if the distribution includes both amounts attributable to rollover contributions and other 457(b) contributions?  . 12-21
Q 12:56 How are distributions from a deemed IRA established under a governmental employer’s 457(b) plan reported?  . 12-21
Q 12:57 What information about the payor is reported on Form 1099-R?  . 12-21
Q 12:58 What payors are required to file Copy A of Form 1099-R electronically with the IRS?  . 12-21
Q 12:59 Are there special 1099-R reporting requirements for the retirement plan distributions that are used to pay qualified health and long-term care premiums for retired public safety officers?  . 12-22
Q 12:60 What information about the recipient is reported on Form 1099-R?  . 12-22
Q 12:61 Are 1099-R filers permitted to truncate a recipient’s nine-digit identification number on the recipient’s paper copy of Form 1099-R? .............................................................. 12-22

Q 12:62 What information about a distribution is reported on Form 1099-R? ......................................................... 12-23

Q 12:63 What does the payor report in box 1, “Gross distribution,” of Form 1099-R for governmental plans? .............................................................. 12-24

Q 12:64 What does the payor report in box 2a, “Taxable amount,” of Form 1099-R? .............................................................. 12-24

Q 12:65 Does box 2a on Form 1099-R include amounts that are excluded from gross income for plan distributions that are used to pay health and long-term care premiums for retired public safety officers? .............................................................. 12-24

Q 12:66 How are distributions from a 457 designated Roth account reported? .............................................................. 12-24

Q 12:67 How are corrective distributions of excess deferrals from eligible governmental 457 plans reported? ................................. 12-25

Q 12:68 How are permissive withdrawals from an automatic contribution arrangement that is part of a governmental 457(b) plan reported on Form 1099-R? .............................................................. 12-25

Q 12:69 How is a deemed distribution of a governmental 457(b) plan loan reported? .............................................................. 12-26

Q 12:70 How is a loan offset used to repay a participant loan reported? .............................................................. 12-26

Q 12:71 When does a payor check box 2b, “Taxable amount not determined”? .............................................................. 12-26

Q 12:72 When does a payor check box 2b, “Total distribution”? .............................................................. 12-26

Q 12:73 Does box 3, “Capital gain (included in box 2a),” apply to governmental plans? .............................................................. 12-27

Q 12:74 What does a payor report in box 4, “Federal income tax withheld”? .............................................................. 12-27

Q 12:75 Are payors required to withhold the applicable 10 percent early distribution tax that may apply to distributions attributable to rollovers into the 457 from qualified plans and IRAs? .............................................................. 12-27

Q 12:76 Are distributions from any retirement plan including an eligible governmental 457(b) plan subject to the backup withholding requirements of Code Section 3406? .............................................................. 12-27

Q 12:77 What mandatory withholding rules apply to eligible rollover distributions? .............................................................. 12-27

Q 12:78 Are eligible rollover distributions from a deemed IRA that is part of a governmental 457(b) plan that are not directly rolled over to another eligible retirement plan or IRA subject to the mandatory 20 percent withholding rules? .............................................................. 12-28

Q 12:79 What withholding rules apply to distributions that are not eligible rollover distributions? .............................................................. 12-28

Q 12:80 What if the payee fails to furnish his or her tax identification number? .............................................................. 12-28
Q 12:81 What does a payor report in box 5, “Employee contributions, Designated Roth contributions or insurance premiums”? 12-29
Q 12:82 Does box 6, “Net unrealized appreciation in employer securities,” apply to governmental plans? 12-29
Q 12:83 What information is reported by the distribution codes that are used in box 7? 12-29
Q 12:84 May more than one code be reported on box 7? 12-29
Q 12:85 When is code 1, “Early distribution, no known exception,” used in box 7? 12-30
Q 12:86 When is code 2, “Early distribution, exception applies” used? 12-31
Q 12:87 Are there other exceptions to the early distribution tax? 12-31
Q 12:88 What additional guidance has been issued for in-plan Roth rollovers (conversions)? 12-32
Q 12:89 Could either type of IRR start the five-year participation requirement for a “qualified distribution” from the Roth account? 12-33
Q 12:90 Are in-plan Roth rollovers reported on Form 1099-R? 12-33
Q 12:91 How are in-plan Roth rollovers and in-plan Roth transfers reported? 12-33
Q 12:92 Do federal income tax withholding rules apply to “otherwise nondistributable amounts” that are used for in-plan Roth rollovers? 12-33
Q 12:93 Is a governmental 457(b) plan permitted to restrict the type of contributions eligible for an in-plan Roth rollover and the frequency of in-plan Roth rollovers? 12-34
Q 12:94 When does a governmental 457(b) plan have to be amended to permit in-plan Roth rollovers of otherwise nondistributable amounts? 12-34
Q 12:95 How is a distribution from a designated Roth account reported on Form 1099-R? 12-34
Q 12:96 When is code 3, “Disability,” used? 12-35
Q 12:97 When is code 4, “Death,” used? 12-35
Q 12:98 When is code 5, “Prohibited transaction,” used? 12-35
Q 12:99 Is code 6, “Section 1035 exchange,” used to report distributions from governmental 457(b) plans? 12-35
Q 12:100 When is code 7, “Normal distribution,” used for a 457(b) plan distribution? 12-35
Q 12:101 When is code 8, “Excess contributions plus earnings/excess deferrals (and/or earnings) taxable in 2020,” used? 12-36
Q 12:102 When is code 9, “Cost of current life insurance protection,” used? 12-36
Q 12:103 Is code A, “May be eligible for 10-year tax option,” used for distributions from a 457(b) plan? 12-36
Q 12:104 When is code D, “Annuity payments from nonqualified annuities and distributions from life insurance contracts that may be subject to taxation under section 1411,” used? 12-36
| Q 12:106 | Is there a special distribution code used on the 1099-R for nonspouse beneficiary rollovers? | 12-37 |
| Q 12:107 | What is the 1099-R distribution code for a direct rollover from the retirement plan to a Roth IRA? | 12-37 |
| Q 12:109 | What letter codes are not used to report distributions from a governmental 457(b) plan? | 12-37 |
| Q 12:110 | What does a payor report in box 8, “Other”? | 12-38 |
| Q 12:111 | What does a payor report in box 9a, “Your percentage of total distribution”? | 12-38 |
| Q 12:112 | What does a payor report in box 9b, “Total employee contributions”? | 12-38 |
| Q 12:113 | What is reported in box 10, “Amount allocable to In-plan Roth Rollovers made within 5 years”? | 12-38 |
| Q 12:114 | What is reported in box 11 for designated Roth contributions? | 12-38 |
| Q 12:115 | Are boxes 14 through 19, “State and local information,” required to be completed? | 12-39 |
| Q 12:116 | Is Form 1099-R reporting and withholding required if a governmental 457(b) plan distribution check is uncashed? | 12-39 |

**Rollover Distribution Notice**

| Q 12:117 | Must recipients of distributions from a governmental 457(b) plan eligible for rollover treatment be furnished a written explanation? | 12-39 |
| Q 12:118 | May a plan administrator make a distribution fewer than 30 days after the notice was provided? | 12-40 |
| Q 12:119 | May a plan administrator provide a 402(f) notice more than 180 days before a distribution? | 12-40 |
| Q 12:120 | What must the 402(f) notice contain? | 12-40 |
| Q 12:121 | Is a 402(f) notice required to be given to a nonspouse beneficiary who requests a distribution? | 12-40 |
| Q 12:122 | Will a direct rollover of any or all of a portion of a participant’s retirement plan account balance in a governmental 457(b) to a Roth IRA require a 402(f) notice? | 12-41 |
| Q 12:123 | Are 457 plans that offer designated Roth accounts and in-plan Roth rollovers required to include a description of these features in the 402(f) notice provided to participants receiving an eligible rollover distribution? | 12-41 |
| Q 12:124 | May the 402(f) notice and summary be made electronically? | 12-41 |
| Q 12:125 | What notice rules apply to periodic distributions? | 12-41 |
Taxpayer Identification Numbers

Q 12:126 Are there penalties for missing or incorrect Taxpayer Identification Numbers (TINs)? ................................. 12-41
Q 12:127 What actions must a filer take for missing TINs? ................. 12-42
Q 12:128 What actions must a filer take for incorrect TINs? ................... 12-42

IRS Form W-2—Wage and Tax Statement

Q 12:129 What information is reported on Form W-2? .............................. 12-43
Q 12:130 What period is used for reporting information on Form W-2? .... 12-43
Q 12:131 Which persons must file Form W-2? ........................................ 12-43
Q 12:132 When and how is Form W-2 filed? ......................................... 12-44
Q 12:133 What records must an employer maintain for Forms W-2 it files? ... 12-44
Q 12:134 What if the employee copy of Form W-2 is undeliverable? .... 12-44
Q 12:135 When is electronic filing of the Form W-2 required? ................... 12-44
Q 12:136 What information about the employer is reported on Form W-2? ................................................................. 12-45
Q 12:137 What information about the employee is reported on Form W-2? ... 12-45
Q 12:138 What boxes are included on Form W-2 for reporting income and information? ................................................................. 12-45
Q 12:139 How are differential wage payments reported on Form W-2 for former employees who are on active military duty? ........ 12-45
Q 12:140 How are designated Roth contributions to a governmental 457(b) plan reported on Form W-2? ......................................................... 12-46
Q 12:141 How are taxes reported on Form W-2 for an in-plan rollover that is contributed to the same plan’s designated Roth account? .... 12-46
Q 12:142 How are unfunded deferred compensation amounts reported on Form W-2? ................................................................. 12-46
Q 12:143 Is Form W-2 used to report distributions to beneficiaries? ............ 12-47
Q 12:144 Are distributions from a 457(b) plan of a nongovernmental tax-exempt employer subject to the special pension and deferred compensation withholding and election rules? ... 12-47
Q 12:145 Is a 457 plan distribution treated as income earned in the current year for purposes of the Social Security earnings test? ............. 12-47
Q 12:146 What is reported in box 3 on Form W-2 “Social Security Wages”? ................................................................. 12-48
Q 12:147 How is box 4 on Form W-2, “Social security tax withheld,” completed? ................................................................. 12-48
Q 12:148 How is box 5 on Form W-2, “Medicare wages and tips,” completed? ................................................................. 12-48
Q 12:149 Are there special rules for reporting wages for governmental employers that are subject to Medicare for only part of the year and full social security and Medicare taxes for part of the year? ................................................................. 12-48
Q 12:150 How is box 6, “Medicare tax withheld,” completed? .................... 12-49
Q 12:151 What is the purpose of box 11, “Nonqualified plans,” on Form W-2? .................................................. 12-49
Q 12:152 What is included in box 11? ........................................ 12-49
Q 12:153 How are deferred compensation “contributions” identified in box 11, if no distributions were made during the year? .............. 12-49
Q 12:154 Should box 11 be completed if an amount was distributed and deferrals are reported in boxes 3 and/or 5? ...................... 12-50
Q 12:155 How does a payor report a distribution from both a nonqualified plan and a 457 plan? ........................................ 12-50
Q 12:156 Are distributions from a governmental 457(b) plan reported on Form W-2? ........................................................... 12-50
Q 12:157 What is reported in box 12? ........................................ 12-50
Q 12:158 What are the box 12 deferred compensation codes? ........ 12-50
Q 12:159 How are amounts entered in box 12? ............................. 12-51
Q 12:160 How are make-up contributions for employees returning from military service as permitted under the Uniform Services Employment and Reemployment Rights of 1994 (USERRA) entered in box 12? ........................................ 12-51
Q 12:161 How are distributions of excess deferrals and designated Roth contributions from a governmental 457(b) reported on Form W-2? .................................................. 12-52
Q 12:162 When is box 13 checked? ........................................ 12-52
Q 12:163 When is the “Statutory employee” box checked? ............. 12-52
Q 12:164 When is the “Third-party sick pay” box checked? .......... 12-52
Q 12:165 When is the “Retirement plan” box checked? ................ 12-53
Q 12:166 What information may be reported in box 14? ............... 12-53
Q 12:167 How are boxes 15 through 20 used? ............................. 12-53

 IRS Form W-3—Transmittal of Wage and Tax Statements

Q 12:168 Who must file Form W-3? ........................................ 12-53
Q 12:169 What additional information is required for Form W-3? ...... 12-54
Q 12:170 What amounts are reported on Form W-3? ................... 12-54
Q 12:171 What records must an employer maintain for Forms W-3 it files? .................................................. 12-55

 IRS Form W-4—Employee’s Withholding Allowance Certificate

Q 12:172 How may an employee adjust the amount of wages withheld? ........................................ 12-55

 IRS Form W-4P—Withholding Certificate for Pension or Annuity Payments

Q 12:173 May a deferred compensation recipient use Form W-4P to inform a payor whether income tax is to be withheld from a nongovernmental 457 plan and on what basis? .............. 12-55
Q 12:174 What withholding rules apply if a participant in governmental 457 (b) plan fails to provide his or her correct taxpayer identification number (TIN) on Form W-4P? .................................. 12-55

Q 12:175 May a recipient in a governmental 457(b) plan use Form W-4P to inform a payor if income tax is to be withheld from a plan distribution? .................................................. 12-55

IRS Form 5329—Additional Taxes Attributable to Qualified Retirement Plans (Including IRAs), Annuities, and Modified Endowment Contracts

Q 12:176 When is Form 5329 filed? ............................................................ 12-56

Q 12:177 When would the IRS consider waiving the 50 percent excise tax on missed required minimum distributions? ................................. 12-56

Q 12:178 Are early distributions attributed to in-plan Roth rollovers reported on Form 5329? ............................................................ 12-57

IRS Form 1040—Individual Income Tax Return

Q 12:179 What are the Form 1040 filing requirements that apply to a same-sex couple beginning with a 2013 tax year? ....................... 12-57

Q 12:180 How are the amounts reported in box 1 of Form W-2 reported on the individual’s Form 1040? .................................................. 12-58

Q 12:181 Are contributions to a 457 plan reported on the IRA Deduction worksheet included in the Form 1040 Instructions? ................. 12-58

Q 12:182 How are excess 457 plan contributions reported? .................. 12-58

Q 12:183 May a deferral reported in box 12 of Form W-2 be deducted by the individual? ................................................................. 12-58

Q 12:184 How is a distribution from a governmental 457(b) plan that is reported on a Form 1099-R reported on a taxpayer’s Form 1040? .................................................. 12-59

Q 12:185 Can distributions from governmental 457(b) plan used to pay health and long-term care premiums for retired or disabled public safety officers be excluded from income on Form 1040? .................................................. 12-59

Q 12:186 How do eligible public safety officers exclude up to $3,000 of retirement plan distributions used to pay health and long-term care premiums on applicable Forms 1040? .................................. 12-60

Q 12:187 How would rollovers from a governmental 457(b) plan to a Roth IRA be reported on Form 1040? ........................................... 12-60

Q 12:188 How are in-plan Roth rollovers to the same plan’s designated Roth account reported on Form 1040? .................................. 12-60

IRS Form 990—Return of Organization Exempt from Income Tax

Q 12:189 Must a tax-exempt organization file a Form 990? ..................... 12-61

Q 12:190 Are there penalties for not filing the Form 990? ......................... 12-61
List of Questions

Q 12:191 Must a governmental 457(g) trust file a Form 990? .......................... 12-62

IRS Form 990-T—Exempt Organization Business Income Tax Return

Q 12:192 Is a governmental 457(g) trust required to file Form 990-T?  .... 12-62

Chapter 13  Domestic Relations Orders

The Need for Domestic Relations Orders to Divide Section 457 Plans

Q 13:1 Why did Congress create the qualified domestic relations order? .......................... 13-3
Q 13:2 Must a Section 457 plan follow a domestic relations order?  .................. 13-3
Q 13:3 May a Section 457(b) plan follow a domestic relations order?  .... 13-4

Elements of a Domestic Relations Order

Q 13:4 What is a domestic relations order? .......................... 13-4
Q 13:5 Can a private agreement between spouses qualify as a DRO? .......................... 13-4
Q 13:6 Is a wage withholding notice issued by a child support enforcement agency a DRO? .......................... 13-5
Q 13:7 May a DRO be used to pay spousal or child support? .................. 13-6
Q 13:8 Is an order directing payment to the alternate payee’s lawyer a DRO? .......................... 13-7
Q 13:9 Is an order directing payment to a state child support agency a DRO? .......................... 13-7

Elements of an Approved Domestic Relations Order

Q 13:10 What are the requirements for approval of a DRO? .......................... 13-8
Q 13:11 Are the requirements for approval of a DRO under a Section 457(b) plan the same as the requirements for approval of a DRO as a QDRO? .......................... 13-8
Q 13:12 Must a DRO contain every required element to be approved?  .................. 13-8
Q 13:13 Can a court order to refrain from changing a beneficiary be an approved DRO? .......................... 13-9
Q 13:14 Can a court order to refrain from taking a distribution be an approved DRO? .......................... 13-9
Q 13:15 What happens if a nonparticipant spouse fails to get an approved DRO? .......................... 13-10
Q 13:16 Must a plan administrator tell an ex-spouse when a participant changes his or her beneficiary designation contrary to a court order? .......................... 13-11
### Distribution to an Alternate Payee Before a Participant’s Severance from Employment

| Q 13:17 | Could a participant’s bad acts affect an alternate payee’s rights? ................................................ 13-11 |
| Q 13:18 | What should a plan administrator do if a DRO is ambiguous? ........................................ 13-11 |
| Q 13:19 | Can an order made after the participant’s death be a QDRO? ........................................ 13-12 |
| Q 13:20 | What is a nunc pro tunc order? ........................................ 13-13 |

### Death or Survivor Benefits

| Q 13:21 | May an ineligible deferred compensation plan permit a distribution to an alternate payee before the participant’s severance from service? ................................................ 13-13 |
| Q 13:22 | May an eligible deferred compensation plan permit a distribution to an alternate payee before the participant’s severance? .......... 13-13 |
| Q 13:23 | May a DRO provide for a spouse in a same-sex couple? .......... 13-14 |

### Effect of a Participant Loan on Distribution to Alternate Payee

| Q 13:24 | May an approved DRO provide survivor benefits to the alternate payee? ................................................ 13-15 |
| Q 13:25 | Must a Section 457 plan permit an alternate payee to designate a beneficiary? ................................................ 13-15 |

### Administration of Court Orders

| Q 13:27 | Who decides whether an order is an acceptable DRO? .......... 13-17 |
| Q 13:28 | Who is the plan administrator? ........................................ 13-17 |
| Q 13:29 | How does a plan administrator decide whether an order is an approved DRO? ................................................ 13-17 |
| Q 13:30 | Why is it desirable for a plan administrator to adopt a written procedure? ................................................ 13-17 |
| Q 13:31 | Should a plan administrator provide a model language for an approved DRO? ................................................ 13-17 |
| Q 13:32 | Is deciding whether an order is an approved DRO a fiduciary function? ................................................ 13-18 |
| Q 13:33 | Should a plan administrator retain a lawyer to advise it concerning whether an order is an approved DRO? ................................................ 13-18 |
| Q 13:34 | Should a plan administrator furnish confidential information to a prospective alternate payee? ................................................ 13-19 |
| Q 13:35 | Should a plan administrator or service provider give a participant or alternate payee legal advice about a DRO? ................................................ 13-19 |
Q 13:36 May a plan charge a special fee for processing an order? .................................................. 13-19
Q 13:37 Does a plan administrator have a duty to question a fraudulent divorce? .................................................. 13-20

Tax Treatment—Eligible Section 457 Plans
Q 13:38 What is the tax treatment of distributions from an eligible Section 457 plan under an order approved as a DRO? .... 13-21
Q 13:39 May an alternate payee roll over a distribution from an eligible Section 457 plan? .................................................. 13-21
Q 13:40 Must a plan administrator furnish a rollover notice to an alternate payee? .................................................. 13-21
Q 13:41 Can a participant use a DRO to obtain the tax treatment of Section 402(e)(1)(A) for a distribution already made? .......... 13-22
Q 13:42 What is the tax treatment of a distribution pursuant to a court order that is not an approved DRO? .......................... 13-22
Q 13:43 How does the payer report and withhold on payments to an alternate payee? .................................................. 13-23

Tax Treatment—Ineligible Section 457 Plans
Q 13:44 When does income arise from deferred compensation under an ineligible plan? ............................................. 13-23
Q 13:45 What is the tax treatment of a distribution from an ineligible plan? .................................................. 13-24
Q 13:46 Can a distribution from an ineligible Section 457 plan to an alternate payee be rolled over into an IRA or another similar plan? .................................................. 13-24

Chapter 14 Miscellaneous Issues

Agencies, Tribes, and International Organizations
Q 14:1 Can a federal government agency or instrumentality or an international organization have an eligible 457(b) plan? .... 14-2
Q 14:2 Can a Native American tribe maintain a 457(b) plan? ........ 14-2
Q 14:3 Are there alternatives to an eligible 457(b) plan for a federal government agency, an international organization, or a Native American tribal government? .......................... 14-3
Q 14:4 Can a bar association ever have an eligible 457(b) plan that includes rank-and-file employees? .......................... 14-4
Q 14:5 Can an eligible 457(b) plan cover volunteers, such as volunteer firefighters, who receive no payment for their services? .......................... 14-4
Independent Contractor Problems

Q 14:6 Can covering independent contractors in an eligible governmental 457(b) plan create problems? ................................. 14-5
Q 14:7 Will covering independent contractors always cause problems for an eligible governmental 457(b) plan? ......................... 14-5
Q 14:8 How can an eligible governmental employer cover independent contractors in an eligible 457(b) plan without creating problems for the plan? .............................................. 14-6

Failed 457(b) Plans; Restrictions on Investments of Eligible Plans

Q 14:9 Is there a way to correct problems under a purported governmental 457(b) plan that fails to meet the requirements of 457(b)? ................................................................. 14-6
Q 14:10 Is there a way to correct problems under a purported nongovernmental 457(b) plan that fails to meet the requirements of 457(b)? ................................................................. 14-7
Q 14:11 What are the tax and withholding consequences of a failed eligible 457(b) plan? ................................................................. 14-8
Q 14:12 What common state statutory provisions restrict the investments of a nongovernmental eligible 457(b) plan? ................. 14-8
Q 14:13 What common state constitutional provisions restrict the investments of an eligible governmental 457(b) plan? .......... 14-9
Q 14:14 What common state statutory provisions may restrict the investments of an eligible governmental 457(b) plan? ........ 14-9

Governmental Form Filings

Q 14:15 Does an eligible 457(b) plan have to file Form 5500? ............... 14-13
Q 14:16 Does an eligible 457(b) plan have to file Form 990? ............... 14-13

Limitations on Compensation Affecting 457 Plans

Q 14:17 What limitations on an employee’s compensation may affect 457 plans? ................................................................. 14-14
Q 14:18 What is the reasonable compensation requirement? ......................... 14-14
Q 14:19 What compensation is considered “reasonable”? ......................... 14-14
Q 14:20 What organizations are subject to the reasonable compensation requirement? ................................................................. 14-14
Q 14:21 What are the penalties on the organization for violation of the reasonable compensation requirement? ......................... 14-15
Q 14:22 What are the penalties on an employee for violation of the reasonable compensation requirement? ......................... 14-15
Q 14:23 How do the reasonable compensation rules affect 457 plans? ................................................................. 14-16
Q 14:24  What is the excise tax on excessive executive compensation? ........................................... 14-16
Q 14:25  What is remuneration? ................................................................. 14-16
Q 14:26  When are amounts included in remuneration? ................................. 14-17
Q 14:27  What employers are subject to the excise tax on excessive executive compensation? ................................................................. 14-18
Q 14:28  What employees are “covered employees” for purposes of the excise tax on excessive executive compensation? ......................... 14-19
Q 14:29  How does the excise tax on excessive executive compensation affect 457 plans? ................................................................. 14-19
Q 14:30  What is the excise tax on excess parachute payments? ...................... 14-20
Q 14:31  How does the excise tax on excess parachute payments affect 457 plans? ................................................................. 14-20
Q 14:32  Can the same severance payment trigger both the excise tax on excess compensation and the excise tax on excess parachute payments? ................................................................. 14-21

Matching Contributions

Q 14:33  Can a state or local government employer make matching contributions to an eligible 457(b) plan? ........................................ 14-21
Q 14:34  Can a nongovernmental employer make matching contributions to an eligible 457(b) plan? ........................................ 14-22

Benefit Reductions

Q 14:35  Can an employer reduce benefits under an eligible 457(b) plan? ................................................................. 14-22
Q 14:36  Can an employer distribute benefits to participants before they would otherwise be entitled to distributions on the termination of an eligible 457(b) plan? ................................................................. 14-23

Plan Choice Alternatives

Q 14:37  What are some considerations in choosing between an eligible 457(b) plan and a 403(b) plan, a 401(k) plan, or a deemed IRA? ................................................................. 14-23
Q 14:38  What is a mutual fund option plan? ........................................ 14-39
Q 14:39  Can a mutual fund option plan be used to avoid the limitations of Section 457(f)? ................................................................. 14-40
Q 14:40  What is split-dollar life insurance? ........................................ 14-40
Q 14:41  Can split-dollar life insurance still be used to avoid the limitations of Section 457(f)? ................................................................. 14-41

Leave Conversion Plan

Q 14:42  What is a leave conversion plan? ........................................ 14-41
Q 14:43 If an employee is permitted to choose whether to receive payment for unused leave immediately in cash, or to have the amount contributed to a 457(b) plan, will the employee who chooses a 457(b) plan contribution be immediately taxable on the amount of the contribution? ........................................ 14-41

Q 14:44 Can taxes on accumulated but unused leave be deferred if an employee makes an election to have the payment for such leave contributed to a 457(b) plan? ......................... 14-42

Q 14:45 What alternatives are there for permitting an employee to choose between receiving cash or increased retirement benefits in exchange for accumulated unused leave? ................. 14-42

Rollovers

Q 14:46 Are there any special pitfalls to making a rollover to a 457(b) plan? .......................................................... 14-43

Q 14:47 What is the advantage of a rollover over a direct transfer, if both are available? .......................................................... 14-43

USERRA and the HEART Act

Q 14:48 What is USERRA? .................................................. 14-43

Q 14:49 What 457 plan participants are eligible for USERRA rights? .... 14-43

Q 14:50 What rights does USERRA provide with respect to a 457 plan participant? .................................................. 14-44

Q 14:51 Is service in the National Guard considered military service for USERRA purposes? .................................................. 14-44

Q 14:52 Does the notice given to the employer before termination of service have to include notice of the employee’s intent to return? .... 14-45

Q 14:53 Does the employee have to begin military service immediately after leaving the civilian employer in order to have USERRA rights? .... 14-45

Q 14:54 When must the employer make up retirement plan contributions relating to the period of military service? ..................... 14-45

Q 14:55 What is the HEART Act? ............................................. 14-45

Q 14:56 What changes did the HEART Act make to USERRA? ........ 14-45

Q 14:57 Does the HEART Act apply to 457(b) plans? .................... 14-46

Q 14:58 When are the HEART Act changes effective? .................... 14-46

Q 14:59 What types of benefits are subject to Code Section 401(a)(37)? ... 14-46

Q 14:60 Does the HEART Act require that service credit for vesting purposes be provided for the period of a deceased participant’s period of qualified military service for purposes of providing death benefits under the plan? ..................... 14-46

Q 14:61 When did amendments have to be made to comply with the HEART Act? ............................................. 14-46
Chapter 15  457 Corrections Programs

In General

Q 15:1 What are the available Corrections Programs?  .................. 15-1

Corrections Programs Eligibility

Q 15:2 What types of plans are eligible to use the Corrections Programs?  .................................................. 15-2
Q 15:3 Can the sponsor of a Code Section 457(b) plan use EPCRS to correct an operational or document failure?  .......................... 15-2
Q 15:4 Can the sponsor of a Code Section 457(f) plan use EPCRS to correct operational and/or document failures?  .................. 15-3
Q 15:5 Can the sponsor of a Code Section 457(b) plan use the DFVCP to avoid civil penalties under ERISA?  .............................. 15-4

General Principles

Q 15:6 What are the general principles of correction under EPCRS?  ... 15-4
Q 15:7 Are there any exceptions to full correction for all participants and beneficiaries for all years?  ................................. 15-5
Q 15:8 What are the general principles of correction under DFVCP?  ... 15-6

Cessation of Eligible Status

Q 15:9 When does an eligible government 457(b) plan cease to be an eligible plan?  ......................................................... 15-6
Q 15:10 What happens if a governmental plan ceases to be an eligible plan?  ....................................................... 15-6
Q 15:11 What are some examples of failures that could cause an eligible governmental 457(b) plan to become an ineligible plan?  ... 15-7

Chapter 16  Administration of 457 Plans

In General

Q 16:1 What is the purpose of this chapter?  ................................. 16-2

The Plan Administrator’s Role

Q 16:2 What responsibilities does a plan administrator have under a 457 plan?  ................................................................. 16-2
Q 16:3 What is the plan administrator’s liability?  ............................ 16-3
Q 16:4 Does the type of 457 plan affect the plan administrator’s responsibilities?  ................................................................. 16-4
Q 16:5 Is there a checklist of installation and administrative issues for 457 plans? ................................................................. 16-7

Administrative Compliance

Q 16:6 How should a plan administrator address the common operational failures that occur in 457(b) eligible plans? .................. 16-11
Q 16:7 How does a plan administrator know if the provisions of a 457(b) governmental plan are up-to-date? .................................................. 16-12
Q 16:8 Is it possible for the plan administrator to use an IRS procedure to correct operational failures under a 457(b) eligible plan? ... 16-13
Q 16:9 Are there special administrative procedures for correcting excess deferrals under a 457(b) eligible plan? ................................. 16-14
Q 16:10 Are there required administrative procedures for locating a missing distributee? ................................................................. 16-15
Q 16:11 What administrative issues is the IRS focusing on in current examinations of 457 plans? .......................................................... 16-15
Q 16:12 What is the significance of “substantial risk of forfeiture” for an ineligible 457(f) plan? .................................................. 16-16
Q 16:13 How does 457(f) coordinate with 409A rules? ......................... 16-17
Q 16:14 How are annualized pay elections categorized? .................. 16-19

Working with 457 Plan Limits

Q 16:15 What contribution limits apply to eligible 457(b) plans? .......... 16-20
Q 16:16 How should catch-up contributions be administered? ............ 16-21
Q 16:17 Are certain administrative procedures required to ensure the proper coordination of 457(b) annual deferrals with 401(k) deferrals and/or 403(b) deferrals? ............................... 16-21
Q 16:18 When are nonvested employer contributions taken into account in applying the 457(b)(2) limitations? .............................. 16-22
Q 16:19 What forms and records are required by the plan administrator to process distributions under an eligible 457(b) plan? ........ 16-22

Tax Withholding

Q 16:20 What are the federal income tax withholding requirements for distributions from a 457(b) plan? ................................. 16-23

Unforeseeable Emergencies

Q 16:21 What administrative issues arise when 457 plans allow withdrawals due to an unforeseeable emergency? .................. 16-24

Automatic Contribution Arrangements

Q 16:22 What are the automatic contribution arrangement rules for governmental eligible 457(b) plans? ............................... 16-25
Rollover Contributions

Q 16:23  What changes under the PATH Act apply for eligible rollover distributions from governmental eligible 457(b) plans?  .......... 16-26
Q 16:24  When must the model 402(f) notice be provided for distributions from a governmental eligible 457(b) plan?  ....................... 16-26

457 Plan Features

Q 16:25  What are some other features of 457 plans?  ...................... 16-27
Q 16:26  Are there investment restrictions for 457 plans?  .................. 16-29
Q 16:27  Should the plan maintain separate accounts for non-457 rollovers?  ........................................... 16-29
Q 16:28  Can a 457 plan include a Roth contribution program?  ........ 16-29
Q 16:29  Can a 457(b) governmental plan include a deemed IRA program?  ........................................... 16-30

Military Service Issues

Q 16:30  Must a governmental plan establish a group trust for its 457(b) plan?  ........................................... 16-30
Q 16:31  What rights do 457 plan participants have under USERRA?  ... 16-32
Q 16:32  What rights do 457 plan participants have under the HEART Act?  ........................................... 16-33

Record keeping Concerns

Q 16:33  If a plan administrator is going to select an investment company or a third-party record keeper, what should a request for proposal include?  ........................................... 16-34
Q 16:34  What are the advantages and disadvantages of bundled service providers?  ........................................... 16-35
Q 16:35  What are the advantages and disadvantages of using an “unbundled” arrangement for the plan administrator?  .......... 16-35
Q 16:36  Does the plan administrator need to monitor the selected service providers?  ........................................... 16-36
Q 16:37  What are some steps required for a plan administrator to convert to another service/investment provider?  ........................................... 16-36
Q 16:38  When should the plan administrator consult with legal counsel with regard to 457 plans in general?  ........................................... 16-37

Administering Communications

Q 16:39  How can the plan administrator help employees understand the 457 plan?  ........................................... 16-38
Q 16:40  When should the plan administrator rely on materials provided by the plan vendor?  ........................................... 16-38
Q 16:41 What should the plan administrator hire a communications consultant? ................................................ 16-39
Q 16:42 What are the benefits of an employee communications program? .................................................. 16-40
Q 16:43 What events should trigger communications with employees? ...................................................... 16-40
Q 16:44 Are there times when employee communications are required by law for 457 plans? .................. 16-40
Q 16:45 What rules govern electronic forms of communications? ......................................................... 16-41

Roth Account Administrative Considerations
Q 16:46 What administrative issues should a governmental employer consider before adopting or amending a plan to allow Roth contributions? ...................................................... 16-42
Q 16:47 Is there a checklist of administrative differences between a pre-tax deferral account and a designated Roth contribution account? ................................................................. 16-42
Q 16:48 What is a “qualified distribution”? .......................................................... 16-45

In-Plan Roth Rollovers
Q 16:49 What amounts can be internally rolled over to a Roth account? .................................................. 16-46
Q 16:50 What types of in-plan Roth rollovers are available? .......................................................... 16-46
Q 16:51 Is a separate subaccount required for an in-plan Roth rollover? .................................................. 16-47
Q 16:52 Is an in-plan Roth “direct” rollover treated as a distribution for all purposes? .................................................. 16-47
Q 16:53 Are in-plan Roth “direct” rollovers subject to 20 percent mandatory withholding? .................................................. 16-48
Q 16:54 Is the 402(f) notice required to be modified if the plan permits in-plan Roth direct rollovers? .................................................. 16-48
Q 16:55 Who is eligible to make an in-plan Roth rollover? .......................................................... 16-48
Q 16:56 How does the United States v. Windsor decision affect 457(b) plans? .................................................. 16-48
Q 16:57 How does the Obergefell v. Hodges decision affect 457(b) plans? .................................................. 16-49
Q 16:58 What responsibilities do administrators have for overall plan governance? .................................................. 16-50

Disaster Relief
Q 16:59 Is there tax relief available for individuals affected by disaster situations? .................................................. 16-50
Q 16:60 What is a qualified disaster distribution? .......................................................... 16-51
Q 16:61 Are qualified disaster distributions “eligible rollover distributions”? .................................................. 16-52
Q 16:62 What are the federal income tax implications of a qualified disaster distribution? .................................................. 16-52
### List of Questions

#### Chapter 16  Qualifying Disaster Distributions

<table>
<thead>
<tr>
<th>Question</th>
<th>Text</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q 16:63</td>
<td>Are there limits on the amount of a qualified disaster distribution?</td>
</tr>
<tr>
<td>Q 16:64</td>
<td>May qualified disaster distributions be repaid?</td>
</tr>
<tr>
<td>Q 16:65</td>
<td>Is there any disaster tax relief available regarding plan loans?</td>
</tr>
<tr>
<td>Q 16:66</td>
<td>Are plans required to allow for qualified disaster distributions?</td>
</tr>
<tr>
<td>Q 16:67</td>
<td>Is a plan document amendment required?</td>
</tr>
</tbody>
</table>

#### Chapter 17  Current Funding, Investment, Disclosure and Legal Issues with Governmental Defined Benefit Plans

**Funding Issues with Public-Sector Pension Plans**

<table>
<thead>
<tr>
<th>Question</th>
<th>Text</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q 17:1</td>
<td>How are governmental pension plans funded?</td>
</tr>
<tr>
<td>Q 17:2</td>
<td>What happens if the governmental unit does not properly fund its pension obligations?</td>
</tr>
<tr>
<td>Q 17:3</td>
<td>What is the proper funding ratio for governmental pension plans?</td>
</tr>
</tbody>
</table>

**Disclosure Issues with Public-Sector Pension Plan Costs**

<table>
<thead>
<tr>
<th>Question</th>
<th>Text</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q 17:4</td>
<td>How are the costs of governmental pension plans disclosed on financial statements?</td>
</tr>
<tr>
<td>Q 17:5</td>
<td>What are the considerations in setting the discount rate for calculating the present value of liabilities?</td>
</tr>
</tbody>
</table>

**Investment Issues with Public-Sector Pension Plan Assets**

<table>
<thead>
<tr>
<th>Question</th>
<th>Text</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q 17:6</td>
<td>How can assets of governmental plans be invested?</td>
</tr>
<tr>
<td>Q 17:7</td>
<td>What investment strategies should public-sector pension fund managers pursue?</td>
</tr>
</tbody>
</table>

#### Chapter 18  Fiduciary Responsibility to a Governmental Deferred Compensation Plan

**Governing Law**

<table>
<thead>
<tr>
<th>Question</th>
<th>Text</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q 18:1</td>
<td>Which law does <em>not</em> apply to a governmental deferred compensation plan?</td>
</tr>
<tr>
<td>Q 18:2</td>
<td>Which law does govern a governmental deferred compensation plan?</td>
</tr>
<tr>
<td>Q 18:3</td>
<td>Which two general explanations of fiduciary law are helpful?</td>
</tr>
<tr>
<td>Q 18:4</td>
<td>Does the Uniform Trust Code apply for investments not held in a trust?</td>
</tr>
</tbody>
</table>
Q 18:5  Does the Restatement describe common law for fiduciary relationships other than a trust? ........................................... 18-7
Q 18:6  Is it sometimes helpful to consider ERISA? ........................................... 18-7

**Fiduciaries**

Q 18:7  How does a person become a fiduciary to a retirement plan? ........................................... 18-7
Q 18:8  Is a plan’s outside administrator a fiduciary? ........................................... 18-8
Q 18:9  Is the plan’s consultant a fiduciary? ........................................... 18-9
Q 18:10  Is an investment manager a fiduciary? ........................................... 18-9
Q 18:11  Is an investment adviser a fiduciary? ........................................... 18-10
Q 18:12  Is a securities broker-dealer or an insurance agency a fiduciary? ........................................... 18-10
Q 18:13  Does an investment adviser have cofiduciary duties concerning another fiduciary’s conduct? ........................................... 18-11
Q 18:14  Does a power to appoint or remove a fiduciary make the holder a fiduciary? ........................................... 18-12

**Fiduciary Duties Generally**

Q 18:15  What are a fiduciary’s duties? ........................................... 18-12
Q 18:16  Does the fact that a fiduciary serves without compensation lessen his or her duties? ........................................... 18-13

**Duty of Obedience**

Q 18:17  What is a fiduciary’s duty to obey the documents’ terms? ............... 18-13
Q 18:18  May a fiduciary ask a court for guidance about the meaning of a plan’s or trust’s terms? ........................................... 18-13
Q 18:19  What is the exception to a fiduciary’s duty to obey the documents’ terms? ........................................... 18-14
Q 18:20  May a plan’s fiduciaries follow a state’s investment direction? ............... 18-15
Q 18:21  What is a fiduciary’s duty to obey the law? ........................................... 18-16
Q 18:22  Must a fiduciary obey law about governmental conduct? ............... 18-16
Q 18:23  Must a fiduciary follow a participant’s investment directions? ............... 18-17
Q 18:24  Must a fiduciary follow another fiduciary’s direction? ............... 18-17
Q 18:25  Is a fiduciary relieved from responsibility if it follows a participant’s investment direction? ........................................... 18-18

**Duty to Segregate Trust or Quasi-Trust Property**

Q 18:26  What is a fiduciary’s duty to segregate trust property? ............... 18-18
Q 18:27  What is the Internal Revenue Code’s exclusive-benefit rule? ............... 18-18
Q 18:28  Is a trustee always required? ........................................... 18-19
Q 18:29  What is a fiduciary’s duty for custody of plan assets? ............... 18-19
Q 18:30  Must a fiduciary require prompt contributions? ........................................... 18-20
Q 18:31  Must a fiduciary enforce the plan’s claims? ........................................... 18-21
Duty of Loyalty

Q 18:32 What is a fiduciary’s duty of loyalty? .............................. 18-21
Q 18:33 What is self-dealing? ............................................. 18-22
Q 18:34 What is a recusal? ............................................... 18-23
Q 18:35 May a fiduciary participate in deciding a matter that affects his or her own benefit under the deferred compensation plan? .... 18-24
Q 18:36 May a fiduciary limit a plan’s investments to socially evaluated investments? ........................................... 18-24
Q 18:37 What are the remedies for a fiduciary’s breach of loyalty? ................................................................. 18-24
Q 18:38 Is a service provider that receives more than reasonable compensation liable to the plan? ........................................ 18-25
Q 18:39 Could a service provider’s or its employee’s political contributions result in undoing a service provider’s compensation? .... 18-26

Duty of Impartiality

Q 18:40 What is a fiduciary’s duty of impartiality? ...................... 18-27
Q 18:41 How does the duty of impartiality relate to considering domestic-relations orders? .......................................... 18-28
Q 18:42 Must a governmental plan’s administrator provide procedural due process? ............................................................... 18-29

Duty of Prudence

Q 18:43 What is a fiduciary’s standard of care? .......................... 18-29
Q 18:44 What is a fiduciary’s standard of care for an ERISA-governed plan? ................................................................. 18-29
Q 18:45 Under state law, must a fiduciary act as a prudent expert would? ............................................................... 18-30
Q 18:46 Does ERISA’s safe harbor for selecting an annuity insurer apply for a governmental plan? ........................................ 18-31
Q 18:47 Does ERISA’s safe harbor for lifetime-income disclosures apply for a governmental plan? ................................. 18-31
Q 18:48 Must a fiduciary be a prudent investor? .......................... 18-31
Q 18:49 What is a fiduciary’s duty in setting a “menu” for participant-directed investment? ................................. 18-32
Q 18:50 What is a fiduciary’s duty to manage expenses? ................ 18-33
Q 18:51 What information should a plan fiduciary consider when making an investment selection? ................................. 18-33
Q 18:52 Why should a fiduciary carefully read each prospectus? .... 18-34

Duty to Delegate Prudently

Q 18:53 What is a fiduciary’s duty concerning delegation? .............. 18-35
Q 18:54 Is using a consultant a delegation? .............................. 18-35
| Q 18:55 | If a fiduciary delegates a responsibility, what further duties apply? | 18-35 |
| Q 18:56 | Must a fiduciary use experts concerning investment decisions? | 18-36 |
| **Duty to Prevent or Remedy a Cofiduciary’s Breach** |  |
| Q 18:57 | What are a fiduciary’s duties regarding cofiduciaries? | 18-36 |
| Q 18:58 | What should a fiduciary do if the others make a decision that is imprudent? | 18-37 |
| **Duty of Communication** |  |
| Q 18:59 | What is a fiduciary’s duty of communication? | 18-37 |
| Q 18:60 | What is an “SPD” or summary plan description? | 18-38 |
| Q 18:61 | Who should write a plan summary? | 18-38 |
| Q 18:62 | What investment information should fiduciaries furnish to participants? | 18-39 |
| Q 18:63 | Should a fiduciary furnish a notice explaining a “blackout”? | 18-39 |
| **Duty to Make and Keep Records** |  |
| Q 18:64 | What is a fiduciary’s duty to make and keep records? | 18-39 |
| Q 18:65 | What is a fiduciary’s duty to account to participants? | 18-40 |
| Q 18:66 | How long should fiduciaries keep a plan’s and trust’s records? | 18-40 |
| **Duty to Furnish Reports** |  |
| Q 18:67 | Must a fiduciary furnish annual reports of a plan’s assets? | 18-40 |
| Q 18:68 | Must a governmental deferred compensation plan file a Form 5500? | 18-41 |
| **Using Plan Assets to Pay for Necessary Services** |  |
| Q 18:69 | May a fiduciary use plan assets to pay for necessary services? | 18-41 |
| Q 18:70 | What is a necessary service? | 18-41 |
| Q 18:71 | How much may a plan pay for a necessary service? | 18-42 |
| Q 18:72 | How should a fiduciary evaluate a service provider’s fees? | 18-42 |
| Q 18:73 | How does a governmental deferred compensation plan allocate expenses? | 18-43 |
| **Exculpatory Provisions, Immunities, and Insurance** |  |
| Q 18:74 | May a fiduciary negotiate a provision that relieves the fiduciary from liability? | 18-44 |
| Q 18:75 | Do governments and officials enjoy immunities from liability? | 18-45 |
| Q 18:76 | Are there special immunities for governmental retirement plans’ fiduciaries? | 18-46 |
| Q 18:77 | May a government agency insure against liability? | 18-46 |