

# Save more for retirement with a tax-deferred 457 Account

Dreaming about retirement?

If so, what you do now can help maintain your current lifestyle by supplementing your County pension with funds from your personal 457 deferred compensation plan.

With the new Fiscal Year and annual raises just around the corner, now is a good time to become educated about the importance of saving for the future. Be sure to contact the Personnel Office to schedule an appointment **Thursday, June 8, 2017** with Deferred Compensation Advisor Shantel Washington.

Kent County Levy Court has offered a tax deferred 457 (*the government employee version of a 401K*) plan through ICMA-Retirement Corporation for more than 20 years. This plan allows participating employees to defer current compensation and associated taxes into various investment vehicles—from ultra conservative to high risk.

Often employees ask how they benefit from making contributions to the County's 457 deferred compensation plan. The clear answer is obvious: the contributions when invested for the optimum return will serve as a cushion in retirement years. However, contributing to a 457 can also provide an immediate return in tax savings and in the future.

All income is subject to FICA (Medicare and social security taxes—normally at 7.65%), but your 457 contribution is deducted from wages before federal and state taxes are calculated. This is better known as an adjustment before tax (ABT) and is often the reason the gross income figure on your W-2 issued in January is lower than your annual salary figure.

<b>Possible deferred compensation tax savings example:</b>		
<i>Annual</i>	<i>457 contribution</i>	<i>Doing nothing</i>
Gross Wages	\$15,000.00	\$15,000.00
Less: ICMA 457	<u>\$1,200.00</u>	<u>\$0.00</u>
Taxable Income	\$13,800.00	\$15,000.00
Federal Taxes 15%	<b>\$1,258.75</b>	<b>\$1,438.75</b>
FICA taxes 7.65%	<u>\$1,147.50</u>	<u>\$1,147.50</u>
Net Pay	\$11,393.75	\$12,413.75
<i>Saved for retirement:</i>	<i>\$1,200.00</i>	<i>\$0.00</i>
<i>Tax savings:</i>	<i>\$180.00</i>	<i>\$0.00</i>
<i>Per pay period cost:</i>	<i>\$39.23</i>	<i>\$6.92</i>

The example in the box illustrates what the difference in taxes could be. The difference is in the amount of immediate tax reduction and the amount contributed to your individual plan.

The first column shows that an annual contribution of just \$1,200 per year or under \$40 per pay period can save \$180 per year or just under \$7 per pay in taxes withheld. The second column identifies the higher amount of taxes withheld due to the lack of contribution to an employee's individual retirement plan with nothing saved for future retirement. This example is simplified to illustrate the possible immediate tax savings, but keep in mind that when distributions begin in the future the employee may be paying a lower tax rate due to retirement.

ICMA-RC provides County employees a link for resources to plan for their retirement at: <http://www.icmarc.org>.

Employees can start participating in deferred compensation at any time (open enrollment is not required). (Posted 04/20/17)