Why choose a 401(a)?

Matching Contribution

A retirement plan that is established by a governmental employer to encourage employees to contribute to a 457(b) plan. The employer matches employee contributions.

OVERVIEW

- Incents employees to participate in the 457(b) plan
- Employee's ability to maximize 457(b) contributions is not affected
- Employee's taxable income does not increase
- Can subject the matching contribution to a vesting schedule

APPLICABLE FOR

- Employers looking to encourage employees to save for retirement
- Employers looking to retain employees

IMPLEMENTATION

- The effective date can be retroactive back to the first day of the plan year
- A written plan document is required
- Plan subject to IRS contribution limits
- Vesting schedule can be established to encourage employee retention
- Employees can be grouped into classes or excluded; contribution amounts can vary between the classes
- Contributions can only be made on behalf of employees; contractors are not eligible

CASE STUDY[1]

Example County has 1,000 employees to whom it offers a 457(b). Currently, 30% of its employees are contributing to the plan. The county would like to encourage all of its employees to participate.

By implementing a 401(a) plan, the county has determined it can set aside a budget of 2% of its current payroll to offer a matching program of $0.50 per dollar up to 4% of the total salary amount deferred.

Example:

- If an employee earning $30,000 elects to defer 4% into the 457(b), then the county would contribute $600 into his/her 401(a) account
- Employee deferral: $30,000 x 4% = $1,200
- Employer contribution: $1,200 x $0.50 = $600

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[1] Hypothetical example for illustrative purposes only.

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