facts about a 403(b) plan

As someone who works in education, research, or for a nonprofit organization, you may be eligible for a retirement plan sponsored by your employer called a 403(b) retirement plan.

What is a "403(b)" plan?

Named for the section of the Internal Revenue Code that created it, 403(b) plans enable an employer to offer an annuity contract or mutual fund custodial account to employees. Employees can make pre-tax contributions and if the plan permits, Roth after-tax contributions.

What can a 403(b) plan do for me?

- **Easy, direct savings —** Your contributions are deducted directly from your paycheck, and are invested with the funding vehicle you choose (among choices offered by your employer).
- **Contributions and earnings —** If you make pre-tax contributions, these will not be taxed at the time of the contribution. Pre-tax contributions and any earnings are taxed when you take the money out. If your employer's plan permits Roth contributions, these contributions are made with after-tax dollars. When distributed, Roth 403(b) earnings are not subject to federal income taxes (and possibly state income taxes) provided they have been held for at least five years prior to distribution and one of the following qualifying events has occurred: age 59½, disability, or death.
- **Supplement retirement income —** Since many people are living longer in retirement, you can use your 403(b) account to supplement any pension or Social Security payments.
- **Matching contributions —** Some employers "match" their employees' contributions to the plan—this means that the employer contributes a percentage of the amount you contribute to your account. Employees who choose not to participate in the plan give up this valuable benefit.

Your 403(b) in Action

Assume your contributions earn $1,000 annually. If you were in a fully taxable investment, you would owe $300 of that in taxes (assuming a combined 30% tax bracket). But in a 403(b) plan, taxes on earnings are deferred, so all of your earnings remain invested for the future.

How does a 403(b) plan allow me to contribute more?

A 403(b) plan allows you to contribute more toward retirement than a taxable investment. Let's assume you are in a hypothetical 30% tax bracket and you can contribute $1,000 monthly on a pre-tax basis toward retirement. Your 403(b) contributions are not taxed immediately, and you can potentially contribute more — up to $1,428.50 and your take-home pay is only reduced by $1,000. But, in a taxable investment, when you set aside $1,000 from your pay, you will see your take-home pay reduced by $1,000. Here are a few hypothetical examples of the power of this tax deferral.

If you think you can contribute...	You can potentially contribute:
$100	$142.85
$250	$357.13
$500	$714.25
$750	$1,071.38
$1,000	$1,428.50

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Frequently Asked Questions

- **How much can I contribute?** The contribution limit is the lesser of 100% of your compensation, or up to $17,500.[1]
- **I had a 401(k) in my old job. Can I roll that over into my 403(b)?** You can roll over funds from other retirement plans, including governmental 457(b), 401(k), 401(a), SEP, or IRA, into your 403(b) plan and vice versa, if the employer's plan permits.
- **I should have started earlier! Is there any way to contribute more money?** If you are age 50 or older, you can make extra "catch-up" contributions of $5,500.[1] Also, if you have 15 years of service with the same employer, you may be eligible to make a catch-up contribution of $3,000 a year up to a maximum of $15,000.
- **Once I start, do I have to keep contributing until I retire?** You can stop elective deferrals at any time; other changes regarding investments are according to the plan.
- **Can I take loans from my account?** If your employer's plan permits loans, you can borrow a percentage of your account value. You must repay the loan within five years, unless you use the money to buy your primary residence. In that case, you can repay the loan over a 10-year period.
- **When can I access the money?** Plan provisions vary, but generally some distributions are required to start at age 70½ or retirement, whichever is later. Withdrawals prior to age 59½, unless due to death, disability, severance from employment in the year you turn age 55 or older, or hardship, may incur an additional 10% federal income penalty tax.

Things to consider

- **Number of options offered —** Because a 403(b) plan is intended for retirement and is a long-term commitment, it's important to have a funding vehicle with access to different kinds of investment options. You should look for a provider whose product offers a well-rounded mix of investment options and the service of a financial professional who can guide you as you choose your own investment strategy.
- **Flexibility in investment options —** Can you change where your money is invested after you have made a choice? How often? Are there any restrictions?
- **Sales charges or fees —** What sales charges or administrative fees does the company charge? Are they ever waived? Can you access your money before retirement without a fee? Ask if performance figures are shown net of fees.
- **Special services —** Do you have 24-hour access to your account information? Can you make transfers or other changes via the Internet? What reports will you receive? Does the company provide personal attention, and if so, what kind?

Contact

Your local financial professional can answer questions and help you get started investing toward your retirement.

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1 This limit is effective through December 31, 2013, and may be indexed in future years.

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