



403(b)

403(b) plan is a tax-advantaged salary deferral retirement program for employees of educational institutions and certain other non-profit organizations. 403(b) plans must be sponsored by the institution, which then acts in the capacity of a fiduciary. The employer is responsible for establishing the plan and selecting the plan investments. Once the plan has been established, the employee defers a portion of his/her annual salary into the fund. The first 403(b) plan, which was established in 1961, was named after a section of the Internal Revenue Code.

ERISA 403(b)s are tax-qualified plans covered by the Employee Retirement Income Security Act of 1974 (ERISA), which states that 403(b) assets are protected from creditors. Other types of defined contribution retirement plans include 401(k) plans that cover workers in non-profit organizations, as well as the 457 plan, which covers local and state government employees.

Contributions Organizations offer 403(b) tax deferred retirement plans to eligible employees to allow for long term investment growth. Contributions to these plans generally take one of three forms:

- a.) The employer makes contributions to the plan through a salary-reduction agreement.
- b.) The employee makes contributions to the plan.
- c.) The employee makes contributions to the plan and the employer makes a matching contribution.

In 2004 the pre-tax contribution limit for a 403(b) retirement plan was \$13,000. The contribution limit increases to \$14,000 in 2005 and \$15,000 in 2006.

403(b) Age 50 + Catch-Up Participants who are age 50 and over are eligible to make additional annual contributions to the 403(b) plan beginning in the year they turn 50. If a participant is already contributing the maximum amount to his/her 403(b) plan, then he/she may also be able to contribute even more using the Catch-Up Contribution. In 2004, the Age 50+ catch-up contribution limit was \$3,000. That figure increases to \$4,000 in 2005 and \$5,000 in 2006.

403(b) Lifetime Catch-Up: This provision is available to employees who have completed at least 15 years of service, and allows participants to contribute up to \$3,000 in addition to the regular contribution limit. To qualify for the Lifetime Catch-Up, the 403(b) plan participant must also have contributed an average of less than \$5,000 a year to the plan. The maximum lifetime limit for this catch-up provision is \$15,000.

Taxes and Distributions

Taxes on 403(b) plan contributions and earnings are deferred until the plan owner takes a distribution from the plan. When money is withdrawn it is taxed as regular income. Withdrawals are typically made at or after the plan owner has reached the age of 59 1/2. If the plan owner withdraws money from the account prior to retirement age, then he/she will incur a 10% penalty payable to the IRS (unless specific circumstances apply).

403(b) Investment Options

Unlike 401(k) plans, 403(b) plan participants cannot invest in individual stocks. Investment options specific to 403(b) plans include:

- Annuity and variable annuity contracts with insurance companies.
- A custodial account that consists of mutual funds. This is called a 403(b) (7).
- Retirement income accounts for churches.

Questions and Answers:

1. Can a 403(b) be rolled into an IRA?

Yes. A 403(b) can be rolled into an IRA when the participant:

- Is no longer working at the organization.
- Retires.
- Becomes disabled.
- Dies.

2. What are the options for a 403(b) plan when changing jobs?

- Transfer the 403(b) plan assets into your new employer's 403(b) plan.
- Roll the 403(b) plan assets to a Rollover IRA.
- You can leave the 403(b) where it is, especially if you like your investment choices.

However, if the balance is below \$5,000, then some employers will require the plan participant to rollover the money.

- 403(b) assets cannot be rolled into a 401(k) and vice versa.

3. When can 403(b) money be withdrawn without penalty?

A plan participant can withdraw penalty-free distributions from a 403(b) as long as one of the following conditions applies:

Reaches age 59 1/2.

- Separates from service in order to retire.
- Becomes disabled.
- Through a loan (some companies will not allow this).
- Suffers financial hardship.
- Dies.