BUILDING BLOCKS FOR RETIREMENT

Retirement Planning Essentials

401(k) vs. 403(b) Plans: Close but Not the Same

Anyone who has ever worked in the private and nonprofit sectors is probably aware of two common employer-sponsored retirement plans: 401(k)s and 403(b)s. Both plans offer a tax-advantaged vehicle to help employees save for retirement, and they are identical in many respects. But there are some differences you may want to be aware of.

Below is a summary of the two plans, their similarities, differences, and considerations for anyone transitioning from one to the other.

Similarities

- Employees may contribute up to $22,500 in 2023; $30,000 for those age 50 or more.
- Employers may match a portion of employee contributions. Total employee and employer contributions cannot exceed $61,000 in 2023.
- Traditional plans offer tax deferral on contributions and earnings until withdrawn in retirement.
- Roth plans feature after-tax contributions, but earnings and withdrawals are usually tax free in retirement.
- Contributions are invested in mutual funds, annuities, or other investments offered by the plan.
- Withdrawals before age 59½ are generally subject to a 10% early withdrawal tax.
- Required minimum distribution rules apply after age 73.
- Employees may borrow up to $50,000 from their vested account balance, if allowed under the specific plan.

Differences

- 403(b) plans are available only to employees of public educational institutions, churches, and charitable organizations exempt from tax under Section 501(c)(3) of the Internal Revenue Code.
- Employer matching contributions are more common among 401(k) plans than 403(b) plans.

701 Westchester Ave, Suite 320E, White Plains, New York, 10604

- 401(k) plans historically have offered more investment choices than 403(b) plans, but today, many 403(b) plans offer a comparable range of investment options as do 401(k) plans.
- 403(b) plans that do not have to comply with many of the provisions of the Employee Retirement Income Security Act (ERISA) may have lower administrative expenses and fees than a 401(k) plan. However, some 403(b) plans are subject to ERISA.
- Some 403(b) plans may allow employees with 15 years of service to contribute an additional $3,000 per year.

Portability

If you move between employers, you can transfer your account balance from one type of plan to the other without incurring any tax.[1] You can also roll over balances from either type of plan to an IRA. And, you are allowed to have both a 401(k) and a 403(b) plan at the same time. However, you are still subject to the individual annual contribution limits for your combined accounts.

Keep in mind that individual plans -- both 401(k)s and 403(b)s -- may differ in their eligibility, investing options, and other features. Contact your plan administrator for plan specifics.

Source/Disclaimer:

[1]If moving from a traditional plan to a Roth plan, you will have to pay taxes on transferred pretax balances.

PENTEGRA

701 Westchester Ave, Suite 320E, White Plains, New York, 10604