

403(b) PLAN

A 403(b) plan is a tax-advantaged retirement plan for employees of public schools, colleges and universities, hospitals, and churches. 403(b) plans may also be available for employees of tax-exempt, nonprofit organizations. In some plans, employers may contribute. This plan is an important supplement to pension plans and/or Social Security.

With a 403(b) plan, employees put a portion of their earnings into an employer-sponsored plan on a tax-advantaged basis. Employees may choose between a traditional pre-tax contribution and a Roth contribution.

- Traditional pre-tax contributions – Contributions are made on a pre-tax basis, reducing the employee’s taxable income. Earnings accumulate on a tax-deferred basis. All distributions are taxed as ordinary income.
- Roth contributions – Contributions are made on an after-tax basis. Earnings accumulate on a tax-deferred basis, and distributions are tax-free if made five years after the initial contribution to the plan and the employee is over 59½.

EMPLOYER CONTRIBUTIONS

The employer may choose to make contributions to the plan on a required (money purchase), discretionary (profit-sharing) or matching basis.

EMPLOYEE CONTRIBUTIONS

Through the convenience of payroll deduction, in 2023 a participant may elect to defer up to the lesser of \$22,500 or 100% of their includible compensation. The total of employer and employee contributions for 2023 may not exceed the lesser of \$66,000 or 100% of the employee’s includible compensation.

Should a participant find themselves unable to contribute the maximum amount in a given year, a 403(b) provides special “catch-up” rules: the 15-year catch-up rule and the Age 50+ catch-up rule.

15-Year Catch-Up

If permitted by a specific 403(b) plan, employees who have 15 or more years of service may choose to increase their deferral limit to the lesser of:

- \$3,000;
- \$15,000, reduced by the amount of additional elective deferrals made in prior years using this rule; or
- \$5,000 times the number of years the employee has been employed by their organization, minus the total elective deferral made for earlier years using this rule.

Age 50+ Catch-Up

If a participant is age 50 or older at the end of the calendar year, they also can make elective contributions of up to \$7,500 for 2023. Employees who are age 50 or older with 15-plus years of service may use both catch-up provisions.

2023 Limitations

Annual Deferral Limit	\$22,500
Age 50+ Catch-Up Limit	\$7,500
Total	\$30,000

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ACCOUNT ACCESS

A participant may generally withdraw funds from their 403(b) plan under the following qualifying circumstances: retirement, severance of employment, disability, hardship, and loan. Eligible circumstances are contingent upon the specific plan. There are many considerations—the form of payment, the tax consequences, and other forms of retirement income. Participants should review several considerations before making a decision about distribution, including:

- Taxes, if applicable, are paid only on withdrawn amounts. Funds that remain in the account, and any future investment earnings, continue to accumulate tax-advantaged until they are withdrawn.
- The participant may continue to direct the investment of the assets that remain in the account as allowed by the employer's plan.
- In the event of the participant's death, any remaining account balance will be available for distribution to designated beneficiaries.
- Withdrawals prior to age 59½ or the plan's normal retirement age, whichever is less, may be subject to a 10% early withdrawal penalty from the IRS.
- Withdrawals are subject to a 20% mandatory federal tax withholding if the participant elects to directly receive funds eligible for rollover to another employer plan or an IRA.
- Distribution of assets must begin no later than April 1st of the year following the year the participant reaches age 72.

The benefits of participation include:

- Save for retirement on a tax-advantaged basis.
- Pre-tax contributions are not subject to federal and (in most cases) state income taxes until withdrawn.
- Roth contributions are made on an after-tax basis and are tax-free on withdrawal.
- Additional contributions may be made if a participant is age 50 or older, or with 15 or more years of service (see catch-up provisions above).
- Flexibility to consolidate savings in another qualified retirement plan or a Traditional IRA if the participant changes employers.
- Distributions may be exempt from state income tax (varies by state).
- Flexible payment options are available; the participant determines the payment schedule and maintains control of their account even after taking distributions.
- In the event of the participant's death, their designated beneficiaries are entitled to receive all remaining vested assets.
- **Access to Managed Account Services** – Retirement Plan Advisors' *PortfolioPlus* program is an optional managed account service specifically designed for employer-sponsored defined contribution plans. With *PortfolioPlus*, participants can have increased confidence knowing that they have delegated the fund manager selection and ongoing monitoring of their account to the investment professionals at RPA.