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

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?

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

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facts about Roth 403(b) contributions

If you are eligible to participate in a 403(b) plan and if your plan permits, you may be able to make after-tax contributions called "Roth 403(b) contributions" or "Roth elective deferral contributions."[1]

How Roth 403(b) Contributions Work

Contributions to a Roth 403(b) are made with after-tax dollars. Roth 403(b) contributions and earnings are not subject to federal income taxes (and possibly state income taxes) provided the account has been held for at least five years prior to distribution and one of the following qualifying events has occurred: age 59½, disability, or death.

- You can make traditional 403(b) pre-tax contributions, Roth 403(b) after-tax contributions, or a combination of both.
- Roth 403(b) contributions:
  - Are automatically deducted from your compensation,
  - Count toward annual 403(b) contribution limits, and
  - Cannot be converted to 403(b) pre-tax contributions.
- To make Roth 403(b) contributions, you do not have to meet adjusted gross income (AGI) requirements. (AGI applies to Roth IRA contributions.)
- You may be able to convert pre-tax 403(b) contributions in your account to Roth contributions. Check with your financial professional for details.
- You can roll over funds from a Roth 403(b) account to and from either a 403(b) plan or a 401(k) plan that accepts rollovers from designated Roth accounts. Additionally, you can roll over funds from a Roth 403(b) account to a Roth IRA account (but not vice versa) at which time Roth IRA rules will apply.
- Most other 403(b) rules apply to Roth 403(b) accounts, such as loans or required minimum distribution rules.

Retirement Planning

Roth 403(b) contributions offer you an opportunity to receive tax-free distributions at retirement. You may want to consider the Roth 403(b) option if:

- You want to reduce your potential taxes during retirement by receiving tax-free distributions from a 403(b) plan. This could be valuable if you expect your tax rate to be the same or higher at retirement than it is now. This may also be attractive if you expect to receive a taxable pension or other taxable retirement benefits.
- You have been limited by the lower maximum contribution limits in a Roth IRA. Or, because of the adjusted gross income eligibility requirement, you have not been eligible to contribute to a Roth IRA at all.
- You want your beneficiaries to receive tax-free distributions (provided you had your account for at least five years at the time of your death).
- You are currently in a relatively low income tax bracket and are more interested in tax-free distributions later than tax deferral now.

Learn More

Remember, Roth 403(b) contributions are after-tax salary reduction contributions, which makes them subject to federal and state income taxes (in states where those taxes apply) at the time the contributions are made. Roth 403(b) contributions may fit well into retirement planning where you seek balance between taxable and tax-free retirement income. Speak with your financial professional about your needs and goals.

1 Please note that 403(b) plans are not required to include Roth 403(b) contributions, which became available on January 1, 2006. Check with your employer or your financial professional to see if your 403(b) plan accepts Roth 403(b) contributions. The information in this summary is based on the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA), the Pension Protection Act of 2006, the Small Business Jobs Act of 2010, and applicable Treasury regulations.

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A Comparison of 403(b) Pre-Tax and Roth After-Tax Contributions

Feature	403(b) Pre-Tax	Roth 403(b) After-Tax
Salary reduction contributions	• $17,500[2] • Limit applies to the combined total of pre-tax and Roth after-tax contributions.	
Catch-up options	• $5,500[2] if age 50+ • Participants with 15 years of service or more may be eligible to contribute more. • Limit applies to the combined total of pre-tax and Roth after-tax contributions.	
Tax treatment on contributions	Not subject to federal and, in most states, state income taxes, when contributions are made.	Subject to federal and state income taxes when contributions are made.
Rollover rules	Rollovers are permitted for pre-tax funds from eligible retirement plans.[3]	Rollovers are permitted between Roth 403(b) accounts, between Roth 403(b) and Roth 401(k) accounts, and to a Roth IRA.
Qualifying events for distribution	Age 59½, death, disability, severance of employment,[4] or hardship.	
Tax treatment of cash distributions (not rolled over)	Ordinary income tax will apply to all amounts (a 10% federal income tax penalty applies if under age 59½ and no exception[4] applies).	• Contributions: tax-free • Earnings – Tax-free if the Roth 403(b) account has been held for at least five years and one of three Roth qualifying events[5] has occurred: age 59½, disability, or death. – Ordinary income tax will apply if the five-year holding period or one of three Roth qualifying events–age 59½, disability, or death–are not met. (A 10% federal income tax penalty also applies to the earnings portion if under age 59½ and no exception[4] applies.)
Required minimum distribution	Age 70½ or severance of employment with sponsoring employer (whichever occurs later).	

2 This limit is effective through December 31, 2013, and may be indexed in future years.
3 Eligible retirement plans include IRAs, 403(b) plans, governmental 457(b) plans, and qualified plans.
4 The 10% federal income tax penalty does not apply if severance of employment occurs in the same calendar year (or later) as the attainment of age 55, or if age 59½ or older.
5 Withdrawals from a Roth 403(b) for a first-time home purchase are not a qualifying event and therefore would not be tax-free for participants who are not yet age 59½.

For More Information, Visit www.axa-equitable.com.

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