403(b) Plans - Frequently Asked Questions

What is a 403(b)?

The 403(b) is a tax deferred retirement plan available to employees of educational institutions and certain non-profit organizations as determined by section 501(c)(3) of the Internal Revenue Code. Contributions and investment earnings in a 403(b) grow tax deferred until withdrawal (assumed to be retirement), at which time they are taxed as ordinary income.

When was the 403(b) established?

The 403(b) was established in 1958 by the federal government to encourage employees in certain tax-exempt organizations to establish retirement savings programs. The name refers to the relevant section in the Internal Revenue Code.

Who can contribute to a 403(b)?

Employees of tax-exempt organizations established under section 501(c)(3) of the Internal Revenue Code. Participants include teachers, school administrators, school personnel, nurses, doctors, professors, researchers, librarians, and ministers.

Why Contribute to a 403(b)?

Most employees of educational institutions and other non-profit organizations are provided with a pension upon retirement. Few pension plans, however, provide an amount equal to salary. A 403(b) plan can provide a healthy supplement to a pension. Further, 403(b) contributions are made on a pre-tax basis which can greatly reduce your tax bill. Generally, if you contribute $100 a month to a 403(b) plan, you've reduced your Federal income taxes by roughly $27 (assuming you are in the 27% tax bracket). In effect, your $100 contribution costs you only $73 The tax savings are magnified as your 403(b) contribution increases.

How does a 403(b) plan work?

You set aside money for retirement on a pre tax basis through a salary reduction agreement with your employer. You choose from among the vendors offered by your employer where your money is to be invested. The money grows tax free until withdrawal at retirement.

Are part time employees eligible to contribute to a 403(b)?

In order to meet nondiscrimination requirements of the law, once a plan sponsor permits any employee to elect a salary deferral into the TSA, the opportunity must be extended to all employees of the organization who may elect to have the plan sponsor make contributions of more than $200 pursuant to a salary reduction agreement. This is known as universal availability.