What is a 403(b)?

For more information about saving for retirement, contact your financial professional or call Security Benefit at 800.888.2461.

Which employers can have a 403(b) plan?

Your organization is eligible to adopt and maintain a 403(b) plan if it is exempt from federal income tax under IRC Section 501(c)(3) (a "tax-exempt organization"), or if it is a state-sponsored public school. Section 403(b) plans may also be adopted for certain ministers.

Tax-exempt Section 501(c)(3) organizations include entities organized and operated exclusively for religious, charitable, scientific, testing for public safety, literary, or education purposes. Section 501(c)(3) organizations can also include certain qualifying organizations that sponsor amateur competition, or that exist for the purpose of preventing cruelty to children or animals. Qualifying tax-exempt organizations include:

- Charities
- Social welfare agencies
- Private hospitals
- Healthcare organizations
- Private schools
- Religious institutions
- Research facilities

Public employers that have the same attributes as nonpublic 501(c)(3) organizations (for example, government-operated hospitals, libraries, and museums) may also qualify as 501(c)(3) organizations, and may adopt 403(b) plans.

Additional state-sponsored educational organizations and Indian tribal governments may also be eligible.

Tax advantages of 403(b) plans

As with many other types of retirement plans, employees who participate in a 403(b) plan may enjoy significant tax benefits, including the following:

- **Employees can make pretax contributions**
  If your plan permits, employee elective deferrals to a 403(b) plan can be made on a pretax (salary-reduction) basis. The contribution is taken directly from the employee's salary and invested in the 403(b) plan before any taxes are withheld. This means that the amount each employee defers to the plan is not included in his or her gross income. The employee pays less current income tax because his or her taxable income is lower than it would otherwise be.
- **Employees can make after-tax Roth contributions**
  If your plan permits, your employees can elect to designate all or part of their elective deferrals as Roth 403(b) contributions. Your employees' Roth contributions are made on an after-tax basis. Roth 403(b) contributions don't provide any up-front tax benefit, but they're always tax-free when distributed from the plan. Earnings on Roth contributions are also tax-free if paid to the employee in a qualified distribution.
- **Taxes deferred on employer contribution**
  Employees are not taxed on employer contributions to 403(b) plans until those contributions are distributed from the plan.
- **Tax-deferred growth**
  Funds held in a 403(b) plan grow on a tax-deferred basis. Any earnings on plan investments are not taxable as long as they remain in the plan. Only when an employee begins to

receive distributions from the plan will he or she pay income tax on the earnings (earnings on Roth contributions are tax-free if paid to the employee in a qualified distribution). Depending on investment performance, this creates the potential for more rapid accumulation (and therefore a larger retirement fund) than money invested outside a tax-deferred plan.

- **Employees age 50 or older and between 60-63 can contribute more than the annual deferral limit**
  If your plan permits, employees age 50 and older may make an additional yearly "Catch-up" contribution to the plan (over and above the regular employee elective deferral limit, and over and above the annual addition dollar limit). Employees aged 60-63 can make additional contributions. The purpose of this provision is to help older individuals increase their savings as they approach retirement. Catch-up contributions can be either pre-tax elective deferrals or, if your plan permits, after-tax Roth contributions.
- **Long-service employees can contribute more than the annual deferral limit**
  If your plan permits, employees with 15 or more years of service may also be eligible to make a special Catch-up contribution to the plan in addition to the age 50 Catch-up contribution. (This special Catch-up contribution is over and above the regular employee elective deferral limit, but is included in the annual addition dollar limit.)
- **Tax-free rollovers are allowed**

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