

RETIREMENT PLANNING

403(b) PLANS

CONCEPT APPLIED:

Employees of public school systems, state colleges and universities, and tax-exempt organizations (such as charities and hospitals) can maximize retirement savings in a 403(b) plan by starting early, contributing as much as possible, and taking full advantage of any employer matching funds.

HOW IT WORKS:

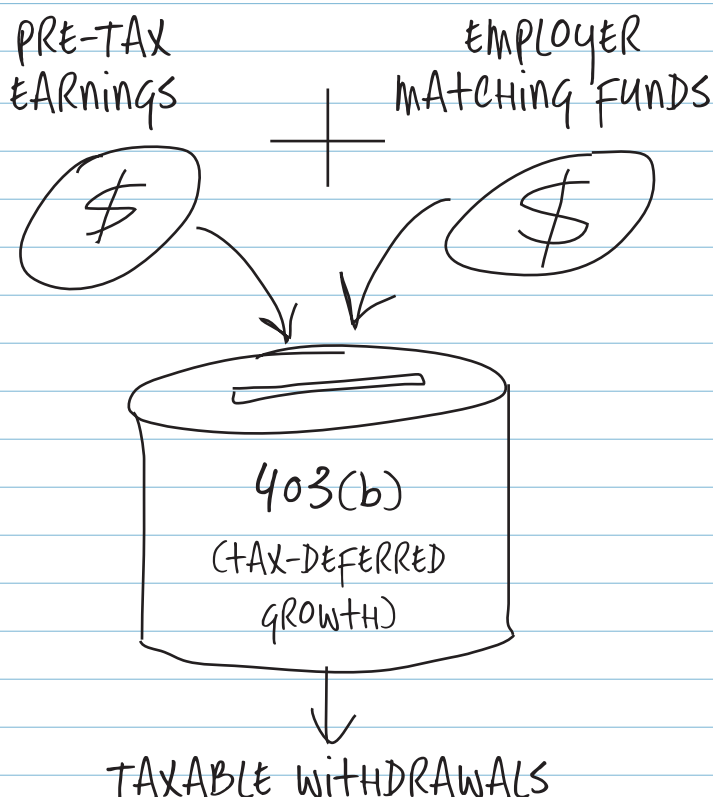
Eligible employees can defer a percentage of pre-tax salary up to the annual limit (\$19,500 in 2021, or \$26,000 for those over 50). Withdrawals are taxed as ordinary income. There is a 10% penalty on withdrawals before age 59½ (with some exceptions). Many employers match all or part of each contribution. In many cases, employees must begin taking annual required minimum distributions (RMDs) in the year they reach age 72.

WHY IS IT USEFUL?

Tax deferral has a significant impact on the overall growth of retirement accumulations. In addition, many retirees enjoy a lower tax bracket during retirement. This means retirees will pay lower taxes on withdrawals than they would have paid on the original contributions.

50 words or less

A 403(b) plan is a retirement plan similar to a 401(k) plan, but offered through a tax-exempt organization. With a 403(b) plan, employees defer a portion of pre-tax salary into an individual account, often matched by a specified employer contribution. Funds grow tax deferred; money is not taxed until withdrawn.



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