

FAQ for 403(b) and 457(b) Plans



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Information provided should not be considered as tax advice. Please consult with your tax professional.

1. What is a 403(b)/457(b) plan?

The 403(b) plan and 457(b) plan is a tax deferred retirement savings plan. Both plans are available to employees of public schools. The names refer to the section in the Internal Revenue Code.

2. What does tax-deferred mean?

Your pre-tax contributions are deducted from your paycheck before taxes, thereby reducing your taxable income, which may reduce the federal and state income tax you pay each year. These deductions are still subject to FICA (social security) tax. Your balance and investment earnings grow tax deferred until you take the money out at retirement. At that time both your contributions and earnings are taxed as income.

Some plans permit after-tax Roth 403(b) and/or 457(b) payroll deduction contributions to be deducted from your paycheck on a post-tax basis, so you are paying the income taxes today on your contributions. The earnings on your account balance are tax deferred and when you retire you never pay income tax on any of the income distributions you receive (subject to minimum IRS requirements). Yes, 100% tax free retirement income.

3. Why contribute to a 403(b)/457(b) when you already have a state pension?

A 403(b)/457(b) plan can supplement your pension income. Most pension plans, even when combined with Social Security benefits, may not provide enough income to make it through retirement, especially with growing health care costs.

4. Will contributions to my 403(b)/457(b) plans reduce my Social Security benefits?

No. Your 403(b)/457(b) contributions do not reduce wages for the purpose of determining Social Security benefits.

5. Can I invest with a vendor of my choice?

In order to participate in the 403(b) plan and/or 457(b) plan, you must invest with your employer's approved vendor(s) for the plans. A listing of approved vendors is available online at www.envoyplanservices.com in the Client Center.

6. Why would I want to deposit my 403(b)/457(b) funds that I have with my previous employer or previous investment provider, into my new plan?

You may wish to exchange for a variety of reasons: consolidation, loan provisions, more varied investment selection, lower expenses, better investment performance, etc.

7. How much can I contribute?

For 2020, you can contribute via payroll deduction up to \$19,500. If you have both a 403b and a 457b, you may contribute the annual maximum to both; indexed annually by the IRS.

403(b): if you are 50 or older at any time during 2020 you can contribute an additional \$6,500.

457(b): If you are 50 or older at any time during 2020, you can contribute an additional \$6,500. During the three years before your normal retirement age, you can utilize a “special catch-up feature” where you can contribute up to twice the annual limit. Check with your plans’ administrator Envoy Plan Services (Envoy) if you are interested in this feature.

8. Can I change the amount I contribute toward my 403(b)/457(b) retirement plan?

Yes, most employers allow you to change your contribution amount at any time; confirm with your plans’ administrator, Envoy.

9. Can I stop contributing altogether?

Yes, you may stop your payroll deduction contributions at any time.

10. What if I have a financial crisis and need the money in my account?

A Hardship Withdrawal or Unforeseeable Emergency withdrawal is permitted in most plans. Restrictions and/or penalties may apply. Contact Envoy, your plan administrator for details.

11. Can I rollover or withdraw my 403(b)/457(b) account if I leave employment with my Employer?

Yes. If you change jobs, there are several options:

- Transfer the money into your new employer's retirement savings plan
- Rollover into an IRA
- Leave your account funds invested where they are
- Take a lump sum payment (taxes, fees, and penalties may apply).

Your money is always 100% yours (vested) and can be rolled over into your new retirement plan when you leave employment. If you withdraw your money, taxes are generally due on the distribution amount and there may be an IRS pre-mature distribution penalty depending upon your plan and your age. Contact Envoy, your plan administrator for details.

12. When can 403(b)/457(b) money be accessed without an IRS penalty?

403(b): In most cases you can make a withdrawal from your 403(b) account without incurring an IRS penalty when you reach age 59 ½, if you retire at age 55 (or later) or if you become disabled or die. If you retire before age 55, you may be eligible to receive a series of periodic payments without penalty.

457(b): IRS penalties do not apply to withdrawals from your 457(b) account when you retire or separate from service with your employer; and if you are still working you are permitted to make withdrawals when you reach age 59 ½, and if you become disabled, or die.

13. What if I get a divorce?

A withdrawal and distribution to an "alternate payee" is permitted if all or part of the account is awarded to an ex-spouse by divorce judgment.

14. What happens to my 403(b)/457(b) if I die?

When you open your 403(b) and/or 457(b) retirement savings plan, you will designate a beneficiary.