

Comparing 403(b) and 457(b) Plans

Presented by PenServ Plan Services



What are 403(b) and 457(b) Plans?

- They are both **supplemental** and **voluntary** retirement plans
 - In contrast to the State retirement plan which mandatory for all employees
- **You must take action and make choices:**
 - Choose an Investment Provider
 - Decide how much to defer
 - Pre-tax and/or Roth
 - Make product and allocations choices

Why offer both Plans?



#1 Answer: You can max out in both plans at the same time!!

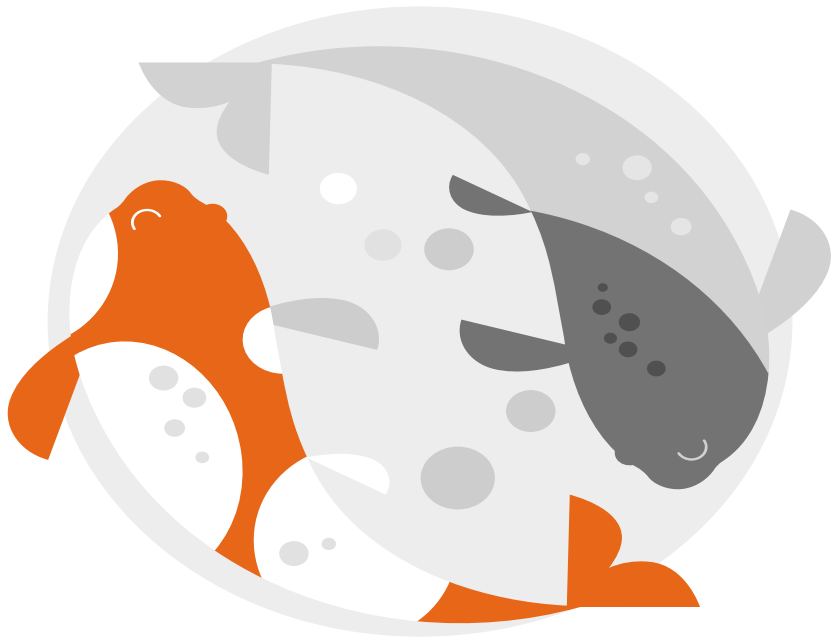


Example: In 2026, the basic limit in these plans is \$24,500 for those under age 50. This means someone can contribute a combined total of \$49,000 between the 2 plans (more if eligible for certain catch-ups).

...more reasons to offer both 403(b) and 457(b) plans

- Key differences between the plans that may make each beneficial for different reasons
- Secure 2.0's Roth Catch-up: 2 plans far better than one for that concern population making \$145k* and up

**For 2026, the concern population is those who made \$145k and up for the prior year. Note that amount will be indexed.*



What are the similarities?

- Same Basic Elective Deferral Limit (\$24,500 in 2026)
- Age-Based Catch-ups available*
 - Age 50 Catch-up* Ages 50-59 and 64+ (\$8,000 in 2026)
 - Super Catch-up* for Ages 60-63 (\$11,250 in 2026)
- One or more investment provider (vendor) choices
- Each vendor will have a list of products (investments) offered
- Pre-tax Traditional Deferrals and Roth After-Tax*
- Allows for Annuity or Mutual Fund investments
- Start, modification, and cancel Enrollment (SRA) at any time
- Distribute at Severance*
- Required Minimum Distribution at Age 73

**Catch-ups, Distribution Types, and Roth Contributions are subject to availability from the prevailing Plan Document and the Investment Contracts.*

Differences between the 403(b) and 457(b) Plans

	403(b)	457(b)
10% Early Withdrawal Penalty	Yes , if distributed before Age 59.5 unless an exception applies	No.
Special Catch-ups*	Yes, the 15 Years of Service Catch-up designed for long term employees with only modest prior contributions to the plan and is subject to eligibility verification. Catch-up Amount: up to \$3000	Yes, the 3 Year Catch-up. In the 3 years <u>proceeding</u> your retirement year you may be eligible to defer up to twice the basic limit. This is subject to eligibility verification.
Hardship Distributions*	Yes , under very specific circumstances and rules that apply: Post-Secondary Education, Funeral Expenses, Purchase of Primary Residence, Prevention of Eviction or Foreclosure, certain uncovered Medical Expenses, and Casualty Losses.	No , there is instead an Unforeseen Emergency Withdrawal for <u>unplanned</u> heavy financial need (based on facts and circumstances, the circumstances are not as specific as they are under Hardship)
Age 59.5 In Service Distributions*	Available in most 403(b) Plans	Only recently available for 457(b) plans (2019 under the Secure Act) and is only available where a Plan Document has been updated for this feature. This IS a feature in the PPS 457(b) Plan. For the statewide plans (Not applicable to PPS): • <u>Not available from Oregon Saving Growth Plan</u> • <u>Available through WA DCP.</u>

**Catch-ups, Distribution Types, and Roth Contributions are subject to availability from the prevailing Plan Document and the Investment Contracts.*

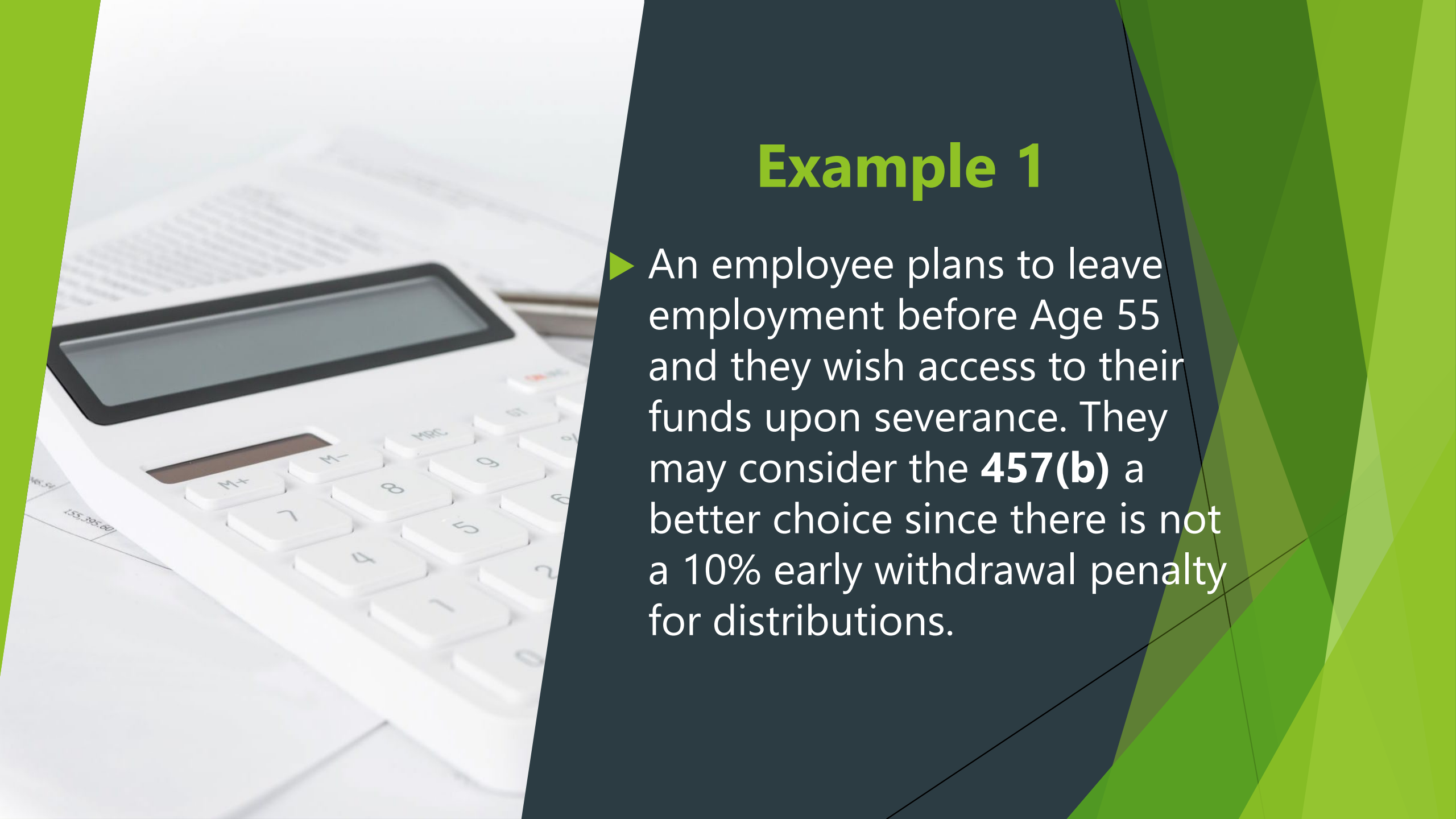
Differences between the 403(b) and 457(b) Plans (cont.)

	403(b)	457(b)
Number of Vendors and Plan Design	Robust. In the K14 Sector these plans generally have a robust list of Investment Providers (vendors), and each of those providers are generally eligible to market all investment products they make available for 403(b) plans. Lots of choices.	Streamlined. Often providers have a sorter list of investment options compared to the 403(b) Plan.
Treatment of Limits as it pertains to Employer Contributions <i>(Where available in the Plan Document and underlying employment agreements)</i>	Annual Additions Limit. Applies to the combinations of all elective deferrals and employer contributions to the plan. For 2025, this limit is the lesser of \$70,000 or 100% of compensation. For 2026, this is the lesser of \$72,000 or 100% of compensation.	There is not a higher limit that applies to Employer Contributions. All deferrals and employer contributions under the 457(b) plan must be aggregated for compliance with the basic elective deferral limit for the year (plus any eligible catch-ups), for 2025 this limit is \$23,500 and for 2026 this limit is \$24,500.
Employer Contributions and FICA (Social Security and Medicare Taxes)	Not subject to FICA	Subject to FICA
W2 Reporting	• Pretax deferral: Box 12 Code E • Roth deferrals: Box 12 Code BB • Employer contributions: No assigned box, best practice is to use the "Other" Box 14 with a description and amount	• Pretax deferral and Employer contributions are combined: Box 12 Code G • Roth deferrals: Box 12 Code EE



Which is better?

It depends.....

A white calculator is positioned on the left side of the image, resting on a document. The calculator has a large LCD screen and a numeric keypad. The background features a dark blue triangular overlay on the right side, which contains the text. The overall design includes green geometric shapes on the left and right edges.

Example 1

- ▶ An employee plans to leave employment before Age 55 and they wish access to their funds upon severance. They may consider the **457(b)** a better choice since there is not a 10% early withdrawal penalty for distributions.

Example 2

- ▶ With the new rules for 2026 concerning higher income employees having to make catch-up contributions as Roth, participation in both plans will maximize the pre-tax dollars they may invest as they are limited to the basic limit in pre-tax deferrals in each plan.



Examples 3 & 4

- ▶ An employee who follows the markets closely and has very specific opinions concerning investment products or investment sectors may find the robust choices in **the 403(b) more to their liking** than the streamlined choices offered in the 457(b) Plan.
- ▶ Some employees find comfort in the streamlined choices offered in the 457(b) Plan while finding the multitude of choices in the 403(b) Plan overwhelming.

Remember:
You can participate
and max out in
BOTH plans!!



Questions?
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