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

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) or 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 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 Roth 403(b) or 457(b) post-tax contributions whereby your contributions are taxed currently, and earnings and income distributions are tax-free (must meet minimum IRS requirements).

3. Why contribute to a 403(b)/457(b) when you already have a pension?
403(b)/457(b) plans can supplement your pension. Most pension plans, even when combined with Social Security benefits, may not provide enough 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?
To participate in your employer's 403(b)/457 plans, you must invest with your employer's approved investment providers/vendors.

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Fax: **800.300.7313**
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6. Why would I want to deposit my 403(b)/457(b) funds with my previous employer or previous investment provider into my new plan?
You may wish to rollover/transfer for a variety of reasons: loan provisions, more varied fund selection, lower fund expenses, better fund performance, etc. Another consideration is to rollover/transfer to an IRA.

7. How much can I contribute?
For 2021, you can contribute up to $19,500 annually to a 403(b) and a 457(b) plan. If your employer offers both plans you may participate in and contribute the annual maximum to each plan.

If you are age 50 or older at any time during 2021, you can contribute an additional $6,500 to each 403(b) and 457(b) plan.

Additionally, 457(b) plans permit a special catch-up option. If you are one to three years prior to your normal retirement age, you can utilize a "catch-up feature" where you can contribute more than the annual limit. Check with your administrator 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 monthly, yet some employers restrict it to quarterly or yearly. The plan administrator or your employer's payroll department can confirm.

9. Can I stop contributing altogether?
You may stop contributing at any time.

10. What if I have a financial crisis and need the money?
A "403(b) Hardship Withdrawal" and a 457(b) "Unforeseen Financial Emergency Withdrawal" is permitted in most plans. Other restrictions and/or penalties may apply. Some plans also allow you to take out a loan against your balance in certain circumstances. See 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. there are several options:

- Transfer your funds into your new employer's retirement savings plan
- Rollover into an IRA
- Leave your funds where they are invested
- Make a cash distribution (taxes will apply, fees and penalties may apply).

Your contributions and earnings are always 100% vested, meaning you own the funds and can be rolled over into your new retirement plan when you leave employment. If you withdraw your funds in cash, taxes will be due on the distribution and there may or may not be an IRS premature distribution penalty depending upon your plan. Also, confirm with your investment provider if withdrawal penalties will be imposed on amounts you rollover/transfer or take in cash.

12. When can 403(b)/457(b)funds be accessed without 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 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, otherwise IRS penalties may apply prior to you attaining age 59 ½.

457(b): You can make a withdrawal from your 457(b) account when you attain age 59 ½.

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) or 457(b) retirement savings plan you will designate a beneficiary.