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What Is a 403(b) Plan?

A 403(b) plan is a special tax-deferred retirement savings plan that is often referred to as a tax-sheltered annuity, a tax-deferred annuity, or a 403(b) annuity. It is similar to a 401(k), but only the employees of public school systems and 501(c)(3) organizations are eligible to participate in 403(b) plans.

Employees can fund their accounts with pre-tax contributions, and employers can also make contributions to employee accounts. Employer contributions can be fixed or discretionary. Eligible employees may elect to defer up to 100% of their salaries, as long as the amount does not exceed \$22,500 in 2023. A special catch-up contribution provision enables those who are 50 and older to save an additional \$7,500 in 2023. Total combined employer and employee contributions cannot exceed \$66,000 in 2023. Contribution limits are indexed annually for inflation.

Employees have the option of choosing the types of investments utilized in their funds. A 403(b) can be an annuity contract, a custodial account, or a retirement income account. It is a good idea to do a little research before selecting how you would like to invest your funds. Your employer can provide you with a list of the investments that are available.

Distributions from 403(b) plans are taxed as ordinary income. Withdrawals made before age 59½ may be subject to a 10% federal tax penalty unless a qualifying event occurs, such as death or disability.

Generally, once you reach age 73 (for individuals who reach age 72 after December 31, 2022), you must begin taking annual required minimum distributions. If you attained age 72 in 2022 or earlier, you are already required to take annual RMDs. The RMD age will rise to 75 in 2033. You can receive

regular periodic distributions on a schedule that is calculated based on your life expectancy, or you can collect your entire investment as a lump sum.

Participating in a 403(b) plan may be a good way to save for retirement. Contact your employer to find out what type of plan is offered and how you can take advantage of this retirement funding vehicle.

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