NIS
National Insurance Services

403(b)/457(b) FAQ

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

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

The 403(b) or 457(b) plan is a tax-deferred retirement savings plan much like a private company 401(k) plan. Both plans are available to employees of public schools. The names refer to the section in the Internal Revenue Code.

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 may be subject to FICA (Social Security) tax.

Employer contributions, such as an employer match to a 403(b), are exempt from FICA taxes, while any employee contributions through a salary reduction agreement (SRA) are subject to FICA. Employer and employee contributions to a 457(b) are both subject to FICA.

Your balance and investment earnings may grow tax-deferred until you take the money out at retirement. At that time both your contributions and earnings are taxed as income.

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

A 403(b)/457(b) plan 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.

Will contributions to my 403(b)/457(b) plan reduce my Social Security benefits?

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

Can I invest with a vendor of my choice?

In order to participate in the 403(b)/457(b) plan, you must invest with your employer's approved vendor/s. Your employer has gone through a selection process to find a quality provider.

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 exchange for a variety of reasons: loan provisions, more varied fund selection, lower fund expenses, better fund performance, etc.

How much can I contribute?

For 2025, you can contribute up to $23,500. If you have both a 403(b) and a 457(b), you may contribute the annual maximum to both.

403(b): If you are 50 or older at any time during 2025, you can contribute an additional $7,500. If you are

(over)

60-63 at any time during 2025, you can contribute an additional $11,250. If you have completed 15 years of service with the same employer and you did not contribute more than an average of $5,000 to a 403(b) in the previous years, you can increase your contributions an additional $3,000 per year (up to a $15,000 lifetime maximum).

457(b): If you are 50 or older at any time during 2025, you can contribute an additional $7,500. If you are 60-63 at any time during 2025, you can contribute an additional $11,250. One or more years before 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.

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

Each employer has a unique plan. Some employers allow you to change your contribution at any time, yet some employers restrict it to quarterly or yearly. Please contact your plan administrator.

Can I stop contributing altogether?

Yes, you may stop contributing at any time.

What if I have a financial crisis and need the money?

A “Hardship Withdrawal” is allowed in some plans if you are under severe financial distress and have no other resources available. 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.

When can 403(b)/457(b) money be accessed without penalty?

403(b): In most cases you can make a withdrawal from your 403(b) without incurring a penalty when you reach age 59½, 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.

457(b): You can make a withdrawal from your 457(b) when you reach normal retirement age under the plan, if you become disabled, die, have a qualified financial hardship, or separate from service. If you have not withdrawn any funds by age 70½, there is a Required Minimum Distribution.

Can I rollover or withdraw my 403(b)/457(b) account if I leave employment with the district?

Yes, if you change jobs, there are several options:

- Transfer the money into your new employer’s retirement savings plan
- Roll it into an IRA
- Leave it where it is
- Take a lump sum payment (taxes will apply, fees, and penalties may apply)

Your money is always 100% yours and can be rolled over into your new retirement plan when you leave employment. If you withdraw your money, taxes will be due on the distribution and there may or may not be an IRS pre-mature distribution penalty depending upon your plan. If your employer has a matching program, you may not be able to withdraw your employer’s contributions because some employers phase in your ownership of their contributions (“vesting schedule”) over a period of time. See your plan administrator for details.

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.

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

Just like life insurance, when you open your retirement savings plan, you will designate a beneficiary. There are different rules of disbursement depending upon whether the death occurs before or after age 70½.

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