403(B) OR 457(B): WHICH SHOULD YOU CHOOSE?

One of the most important decisions you can make is to get started saving for your future.

If you've never enrolled in an employer-sponsored retirement savings plan before, you owe it to yourself to explore Troy City School's 403(b) and 457(b) Plans. Employer-sponsored plans like these are among the easiest ways to develop good savings habits.

WHERE TO START

As a TCS employee, you can contribute to a 403(b) and a 457(b) as long as you are not a student working fewer than 20 hours per week. You can contribute to either plan or both plans, depending on your budget.

In 2017, you can contribute up to $18,000 to each plan if you are under age 50.
You can contribute up to $24,000 to each plan if you are age 50 or older.

If you can afford it, you can contribute the annual maximum to both plans.

So, should you contribute to one plan, or to both? While the 403(b) and 457(b) are alike in many ways, there are some key differences that can affect your decision.

HOW ARE THE PLANS THE SAME?

Both plans are designed to let you save for your future with tax advantages. Your savings come out of your paycheck before taxes, so it costs you less to save for your future. For example, when you save $100 in the 403(b) Plan or 457(b) Plan, it really only costs you $75 out of your paycheck (assuming a 25% tax bracket). Why? Because you pay $25 less in income taxes today. And that means more of your money goes to work for you. An often overlooked item are fees associated with these plans. There are fees charged by the firm as well as fees charged by the funds you invest in. These fees can range from next to nothing to as much as 2.4%. Fees can add up and mean tens or even hundreds of thousands of dollars difference over a working career, so be sure and ask perspective vendors about this impactful issue.

HOW ARE THEY DIFFERENT?

The key difference between the two plans is how and when you can get access to your money. Planning on using retirement funds for anything but retirement is not the best idea but if you have an extreme financial need while you are working for TCS and have to tap your retirement savings, the TCS 403(b) offers you more options. The chart below is general IRS rules and can vary from vendor to vendor, check with prospective vendors for their plan design.

THE 403(B)	THE 457(B)

The TCS 403(b) Plan will allow you to take a loan from your account if you need one. Of course, the 403(b) is designed to let you save for retirement, so make sure you examine all your other options before you take a 403(b) Plan loan.	Some TCS 457(b) Plans (depending on the vendor you choose) will allow you to take a loan from your plan account, but not all.
Once you reach age 59½, you can take withdrawals from the 403(b) Plan without an IRS penalty, even if you are still working for TCS. Generally, there is a 10% federal tax penalty on withdrawals you take before age 59½, but there are a number of exceptions. For example, if you leave TCS employment after age 55, you can take a withdrawal without penalty.	While you are working, you are not able to take withdrawals from the 457(b) Plan until you are at least age 70½. However, once you leave the employment of TCS you can take distributions at any age, without IRS penalty. Some vendors however may charge a surrender fee if your account is less than 5 or 10 years old (again with the fee thing).
You can take a hardship withdrawal from your 403(b) Plan account.	If you have an unforeseeable emergency, you can take a withdrawal from your 457(b) Plan account but these are restrictive.

THE BOTTOM LINE?

It all comes down to when you expect to leave Troy City Schools and the flexibility you need in accessing your money. If you expect to work for TCS for a long time but think you might need access to your money while you continue to work and take withdraws earlier than age 70½, you may want to start by saving in the 403(b) Plan. If you plan to retire or leave the district before age 70½, the 457(b) Plan may be for you.

When you're confident in your budget and your investing skills, consider contributing to both plans to make full use of the tax advantages they provide.

FINAL THOUGHT

Don't completely rely on STRS or SERS pension to provide for your retirement. Take your financial future into your own hands with a 403(b) or 457(b). Remember, fees will have a big impact on your account over a lifetime of saving, shop your options. If you have more questions about the plans available to you, contact the human resources department for a list of plan providers. They'll be able to shed more light on your particular situation.