What is a 403(b) Plan

A 403(b) plan is a retirement plan that allows non-profit organization employees to make tax deferred contributions to annuity contracts or custodial accounts (mutual funds). The employee elects to make contributions by use of a salary reduction agreement (SRA). Earnings on these contributions are also tax deferred; however, the contributions are subject to FICA at the time they are contributed. This is an additional retirement plan to the 457(b), and the maximum contributions are in addition to the 457(b) plan.

Contributions to a 403(b) plan are invested only in certain funding vehicles. These are limited to annuity contracts and custodial accounts. Insurance companies offer annuities that commonly offer loan provisions. Custodial accounts are only allowed to invest in mutual funds and in many cases do not offer loan provisions.

Example:	Without 403(b)	With 403(b)
Income	$40,000	$40,000
403(b) Deduction	$0	$5,000
Taxable Income	$40,000	$35,000
Federal Tax (15%)	$6,000	$5,250
State Tax (7%)	$2,800	$2,450
Total Taxes	$8,800	$7,700
Tax Savings =		$1,100

Who is Eligible to Participate

Participants include employees who perform services for non-profit organizations. Self-employed subcontractors are not eligible. The determination of the employer-worker relationship primarily rests on who is in control of the activities required to do the job.

Contribution Limits

Salary reduction contributions that are excludable from income are limited to $23,500 for calendar year 2025. There is an age-based additional amount of $7,500 for individuals age 50+ for a total of $31,000 for calendar yr. 2025. Individuals with at least 15-years of service with their current employer may be entitled to contribute up to an additional $3,000 above their age-based limit, potentially increasing the limit to $34,000 for a participant utilizing both the age based and the full amount of service based catch-up provisions. Starting January 2025, SECURE 2.0 Act of 2022 includes a modification of the rules for participants utilizing the age-based catch-up in 403(b) and 457(b) plans, which allows employees age 60-63 to make higher catch-up contributions of up to $11,250.00

Summary

The employee, after choosing a vendor from their school’s approved list is responsible for opening the 403(b) account. Once this is done the employee needs to fill out a salary reduction agreement (SRA) to start their salary reductions.