

# RETIREMENT CHECK-UP



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## 403(b) and 457(b) Plans: Similarities and Differences

AACPS provides employees with access to valuable retirement savings options through the Supplemental Retirement Program (SRP). This program provides you the opportunity to save for retirement on a tax-favored basis.

Through the SRP, you have access to two types of plans: a 403(b) and a 457(b) tax-deferred compensation plan. As an employee, you have the option of participating in one or both plans. If you are an AACPS permanent or temporary employee, you are eligible to participate in the 403(b) and/or 457(b) plan immediately from your date of hire, or at any time during your employment. The sooner you begin participating, the better.

### Plan Highlights

	403(b)	457(b)
<b>Annual Contribution Limits</b>		
2015 Contribution Limit	\$18,000	\$18,000
Age-Based "Catch-up" Contribution Limit*	\$6,000	\$6,000
Maximum Contribution (combined through both plans)*	\$48,000	
<b>Features</b>		
Federal/State Tax	Deferred	Deferred
Normal Distribution Age	59.5	55
Loan Provision	Yes	No
Investment Options	Mutual Funds	Mutual Funds

\*If you are over age 50, you may contribute up to \$24,000 per calendar year. Additional service-based catch-up contributions may be available; review with your provider.

### Similarities (Contribution Limits)

With both the 403(b) and 457(b) plans, you are able to save for retirement on a tax-deferred basis up to IRS limits through convenient payroll deductions.

The AACPS SRP providers are Lincoln, VALIC and Voya Financial (formerly ING). They can assist you in determining the maximum amount you can contribute to the plans, and can assist you with your investment selections. They can also provide valuable input about managing your portfolio.

The IRS contribution limits are the same for both the 403(b) and 457(b) plans. Please review the annual contribution limits for 2015 in the chart on this page. Note: If you are over age 50, a higher contribution limit is available.

In addition to the age-based catch-up contributions, both plans also allow for a special catch-up provision based on either your AACPS service or proximity to retirement and your history of contributions over the last 15 years. Eligible employees who use these special catch-up contribution provisions can potentially increase your retirement savings significantly.

## Why would I participate in both the 403(b) and 457(b) plan?

In general, 403(b) plans are offered to employees of educational systems and 457(b) plans are for government employees. As an AACPS employee, you have the opportunity to participate in both up to plan limits. This is an opportunity many people do not have.

You can never save too much. By contributing to both plan options and taking advantage of catch-up contributions (if applicable), you can potentially maximize your retirement savings and build that savings faster.

Another factor to consider if you are retiring, leave payouts in excess of \$1,000 will be made to the Special Pay Plan, a 403(b) plan specifically set up to avoid FICA, federal, and state taxes when paid to the participant. If you are maximizing your 403(b) deferral in the year of retirement, you may want to consider actually contributing to a 457(b) that year so you may take advantage of the tax savings afforded by this plan. Be sure to consult with your Supplemental Provider Plan representatives on this important opportunity.

## Differences

The differences between the 403(b) and 457(b) plans relate primarily to when and how you want to access your retirement funds. They include:

- **Loans.** Loans are permitted from 403(b) accounts\*, but are not permitted from 457(b) accounts. Remember, borrowing from your 403(b) delays your retirement savings – and the purpose of this account is to help you build retirement savings.
- **Distributions.** With the 403(b), you can take a distribution from your account – without penalty – once you reach age 59 ½. You can access these funds even if you are still working for AACPS at that time. Generally, there is a 10% federal tax penalty on withdrawals you take before age 59½, though there are a number of exceptions. There are no early withdrawal penalties in the 457(b) plan. Distributions are taxed when paid out.
- **Withdrawals.** You can take a hardship withdrawal from your 403(b) plan contributions. There are no hardship withdrawal provisions with the 457(b) except due to unforeseeable emergency. Once you take a hardship withdrawal, you may not contribute to the plan(s) for six months.

\*Only one plan loan is permitted at a time.

## ROTH IRA VS. 403(b)/457(b)

Your SRP provider (Lincoln, VALIC or Voya Financial) – as well as other retirement plan providers – may offer you the option of participating in a Roth Individual Retirement Account (IRA). Keep the following in mind before you enroll:

- **Annual Contribution Limits.** Maximum contribution limits apply to a Roth IRA, just as they do to the 403(b) and 457(b).
- **Modified Adjusted Gross Income (MAGI).** Your annual income affects the maximum you can contribute via Roth. Be sure to understand any income and tax implications before enrolling.
- **Provider Oversight.** With the 403(b) and 457(b), AACPS is constantly reviewing and overseeing fees, management, investment options and other administrative factors to ensure that you have quality options at reasonable fees. Note: AACPS is not responsible for any transactions related to individual accounts that are not part of the AACPS Supplemental Retirement Program.
- **Payments.** Payments for Roth IRAs may not be made through payroll deduction.

Consider your options carefully and make the choices that are best for you.

## Fees & Expenses

Provider fees vary. Be sure to ask your plan provider about any fees and expenses that apply to you.