

# Benefits of 403(b) & 457(b) Supplemental Retirement Plans

## **Contributions to traditional 403(b)/457(b) plans are tax deductible.**

Contributions to traditional 403(b)/457(b) plans are deductible for federal income tax purposes. In effect, money is placed into the plans without having to pay any taxes on it. The tax deduction can be highly valuable since it reduces the amount of income tax paid at the individual's marginal tax bracket. For example, if the last \$10,000 of a worker's adjusted gross income were be taxed in the 25 percent tax bracket, putting that \$10,000 into a traditional 403(b) would net a tax savings of \$2,500.

## **Taxes are paid on distributions in retirement - a time when many people are in a lower tax bracket.**

If you make traditional pretax contributions, you will have to pay taxes on distributions in retirement. The good news is that most people are in a lower tax bracket when they retire, and most retirees require less income than at their peak earning years. Many retirees have already paid off their houses and cars, and their kids are out of the house and through college.

## **Ritenour's 403(b)/457(b) plans have a Roth option.**

Since 2006, employers have had the option to allow Roth contributions to 403(b)/457(b) plans. Unlike a traditional IRA, Roth contributions are not eligible for a tax deduction. However, when you make withdrawals from the Roth portion of your plan during retirement, those withdrawals are not taxable. (Roth accounts tend to beat Traditional plans over the long term by providing tax savings. For more information to see if a Roth option is the right option for you, contact the District's VALIC financial representative.)

## **Savings grow tax-free.**

A huge advantage of 403(b)/457(b) plans is that you do not have to pay taxes on dividends, interest and capital gains on your investments held in the 403(b)/457(b) account. If you hold your retirement investments in a normal taxable brokerage account, you will lose a lot of potential earnings due to the significant drag that taxes can impose. Since you don't have to worry about tax effects in your 403(b)/457(b), you can rebalance your portfolio more often without losing anything. You also don't have to worry about the tax efficiency of any mutual funds you hold, allowing you a free hand to focus purely on high returns and low expenses.

### **Loans can be taken against 403(b)/457(b) plans.**

This can be a big help in certain situations. If you choose to use this benefit, you must make sure you understand all of the consequences. You must first make sure you have enough saved that you can afford to withdraw the loan. The requirements for the loan are very exacting. Missing even one payment on the loan can mean that you have defaulted on the entire loan amount, triggering IRS penalties for an early withdrawal.

### **Ritenour's 403(b)/457(b) plans allow employees to invest in low-cost "institutional" funds, which otherwise have prohibitively high investment minimums.**

Ritenour's 403(b)/457(b) plans can get you a better deal on your investments than you can get on your own. Why? The CSD Retirement Trust has access to hundreds of millions of dollars of assets. Most financial institutions offer fee discounts for meeting investment requirements that are out of the reach of almost all individual school districts. Therefore, you save on these investment fees. The administrative fees are also much lower than traditional "tax-sheltered annuity" plans.

### **403(b) and 457(b) employer sponsored program offer payroll deductions.**

It is sometimes difficult to get started, especially if retirement is still far off. However, even relatively small contributions made consistently over time have a way of adding up. By systematically having a percentage or fixed dollar amount invested from each of your paychecks, it is possible to conveniently start preparing for your retirement.

### **Payroll deductions facilitate regular contributions twice per month.**

This helps to avoid the highs and lows of the investment market, referred to as "dollar cost averaging". By following a simple practice known as dollar cost averaging, you can protect yourself against market fluctuations and downside risk in the market. By buying a fixed dollar amount on a regular schedule, your focus is on accumulating assets on a regular basis over the long term, instead of trying to time the market.

With dollar cost averaging, you take a lot of the emotion and fear out of investing because where the market goes in the short-term is far less important to you, as long as you stick to a regular investment plan. If a recession hits the economy and your investment falls in value, you just end up buying more shares at a lower price. Then when the market turns positive, you have more shares at the new higher price.

### **Funds from 403(b)/457(b) accounts can be used to purchase additional service credits from PSRS or PEERS.**

If you have previous teaching experience in public schools in other states or St. Louis Public or Kansas City Public school districts or private/parochial schools, you may be able to purchase additional service credit in PSRS. If you have other social security covered work in the past, you can purchase additional credit in PEERS. This can be used

to retire earlier than you planned, or increase your retirement benefits for life. And, you would never be taxed on these contributions!

**403(b)/457(b) accounts offer employees more flexibility and security in retirement.**

We have all seen numerous articles that people don't save enough for retirement in general. We may have relatives we see struggle with finances in retirement. Contributing into a voluntary 403(b) or 457(b) retirement plan can help you accumulate more funds for your retirement years.

**Contribution limits are higher than for IRAs.**

Not only are the contribution limits higher for 403(b)/457(b) plans, but you can participate in both plans whereby doubling your maximum contributions.

**Annual limits - 2018**

Normal contribution- \$18,500

Over 50 years old catch-up provision - \$6,000

These limits are for each separate account, therefore you can contribute to a 403(b) and a 457(b) plan at the same time. You can also contribute to Roth 403(b) and 457(b) plans, using the same limits.

**The Bottom Line**

As you can see, there are many things to like about 403(b)/457(b) plans. To best capitalize on these benefits, the key is to start contributing as early in your career as possible, and contribute regularly. You can start contributions with as little as \$5 per paycheck.

For more information, contact the district's VALIC representative David Arns at 314-223-4720 or [DAVID.ARNS@valic.com](mailto:DAVID.ARNS@valic.com)