Comparing 403(b) and 457(b) Plans

Educators have an important decision to make when saving for retirement. In the past, many educational institutions offered a 403(b) plan. But now some of these same institutions offer a 457(b) plan in addition to a 403(b).

A 457(b) has similar features and benefits to a 403(b), including the following:

- Contributions can be on a pretax basis.
- Earnings can grow tax deferred until withdrawn at retirement.

However, some subtle differences distinguish the two plans, as described in the following chart. This comparison can help you evaluate whether a 403(b), a 457(b) or both may be appropriate for you.

Provisions	403(b)	Governmental 457(b)	Guidelines If Eligible for Both Plans
Eligible Employers	Education, 501(c)(3), nonprofits, churches and qualified church-controlled organizations	Public education, state and local governments	Public education and government 501(c)(3) employers
Eligible Employees	Generally all employees	Generally all employees	Determined by the employer
Employee Contribution Limits	Lesser of 100% of compensation or $18,000 (2015), unless plan limits contribution percent. Employer may provide for pretax or after-tax (Roth) salary deferral contributions.	Lesser of 100% of compensation or $18,000 (2015), unless plan limits contribution percent. Employer may provide for pretax or after-tax (Roth) salary deferral contributions.	Lesser of 100% of compensation or $36,000 (2015), unless plan limits contribution percent. Employer may provide for pretax or after-tax (Roth) salary deferral contributions.
Total Contribution Limits	Lesser of 100% of includable compensation or $53,000 (2015). This amount includes $18,000 maximum deferral (including Roth contributions), employer match and employer discretionary contributions.	Lesser of 100% of includable compensation or $18,000 maximum employer and employee contributions (2015)	Lesser of 100% of includable compensation or $71,000 maximum employer and employee contributions (2015)
Catch-up Contributions	Participants who reach age 50 by calendar year-end can make an additional $6,000 (2015) contribution if allowed by the plan.	Participants who reach age 50 by calendar year-end can make an additional $6,000 (2015) contribution if allowed by the plan.	Participants who reach age 50 by calendar year-end can make an additional $12,000 (2015) contribution if allowed by the plan.
Service-based Catch-up Contributions[1]	Yes	No	Only available with a 403(b)
Final Three-year Catch-up Contributions (Defined by the Plan)[2]	No	Yes	Only available with a 457(b)
Loans	Allowed	Allowed	Allowed

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Provisions	403(b)	Governmental 457(b)	Guidelines If Eligible for Both Plans
Required Minimum Distributions (Age 70½)	Yes	Yes	Yes
Rollovers	Allowed (once triggering event reached)	Allowed (once triggering event reached)	Allowed (once triggering event reached)
Triggering Events	Separation from service, reaching age 59½, financial hardship, qualified domestic relations order,[3] death, disability or plan termination	Separation from service, reaching age 70½, certain emergencies, small and inactive accounts, qualified domestic relations order[3] or plan termination	Varies according to where plan distributions are taken from. [See 403(b) and 457(b) triggering events for more information.]
Vesting	May apply to employer contributions	May apply to employer contributions	May apply to employer contributions
10% Penalty Tax on Premature Distributions after Separation of Service	Yes, unless separation of service is in the year participant is age 55 or older	No	Only applies to a 403(b)

All dollar limits apply to 2015 and are subject to annual cost-of-living adjustments.

1 If you have 15 or more years of service with the same employer, you may be eligible for a special "years of service" catch-up contribution. This contribution is up to an additional $3,000 per year, not to exceed $15,000. If you make this contribution and a 403(b) age-based catch-up contribution, these contributions will be subject to ordering.

2 In the last three years prior to the plan's normal retirement age, you can use the catch-up contribution to double the normal deferral limit (up to $35,000 in 2015). In addition, if you have a 403(b) and are eligible for the 457(b) final three-year catch-up contribution and the 457(b) age-based catch-up contribution, you can elect one but not both.

3 A qualified domestic relations order (QDRO) is issued under state domestic relations law for payment of all or part of an individual pension, a profit-sharing plan or other retirement benefits, usually to a divorcing spouse as child support or alimony.

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