403(b) Newsletter

FIRST FINANCIAL ADMINISTRATORS,INC | 2020 - 2021

Reasons to Consider a 403(b) Plan

A 403(b) plan is a type of tax-sheltered retirement plan for the employees of nonprofit entities, such as schools, charities, and religious organizations. It has much in common with the more widely recognized 401(k) plan, but with some key differences. If you are eligible to participate in a 403(b) plan at work, you'll find it has numerous benefits.

1. **Tax-Deductible Contributions**. Contributions to a traditional 403(b) plan are deductible for federal income tax purposes. In effect, the money comes out of your salary and goes into the 403(b) plan without your having to pay any taxes on it. The tax deduction is valuable because it reduces the amount of income tax an individual owes.

2. **Taxes Waived Until Retirement.** If you make pretax contributions to a traditional 403(b) plan, you won't have to pay taxes on that money, or its investment earnings over the years, until you take distributions in retirement. The good news is that most people are in a lower tax bracket after they retire.

3. **Possible 403(b) Roth Option.** Since 2006, employers have had the option to allow Roth contributions to 403(b) plans. Unlike a traditional 403(b), contributions to a Roth 403(b) are not eligible for a tax deduction. However, when you make withdrawals from the Roth portion of your plan, those withdrawals are not taxable. Not all 403(b) plans have a Roth option, but if yours does, it's worth considering. Visit www.ffga.com to verify if your plan offers the Roth option.

4. **Tax-Free Growth.** A huge advantage of a 403(b) plan, as with a 401(k), is that you don't have to pay taxes on the dividends, interest, or capital gains your investments earn until you eventually take out that money. (With a Roth 403(b) account, you won't even be taxed then.) By contrast, if you hold your retirement investments in taxable accounts, you'll be taxed on their earnings every year.

Since you don't have to worry about tax effects in your 403(b), you can rebalance your portfolio more often without losing anything except possible trading fees. You also don't have to worry about the tax efficiency of any mutual funds you hold, so you can focus on funds with high returns and low expenses.

5. **Loan Provisions.** Depending on the rules of your 403(b) plan, you may be entitled to take a loan from your account. This can be helpful in certain situations, such as buying a home. However, many financial advisors caution against borrowing because it leaves less money in the 403(b) plan invested for your retirement.

6. **Access to Low-Cost Funds.** Because a 403(b) plan may control many millions of dollars in assets, it can often get you a better deal on your investments than you could get on your own. To entice big clients like retirement plans, financial institutions sometimes waive their high minimum investment requirements so that employees can invest in "institutional" funds with extremely low expenses.

7. **Higher Contribution Limits.** A 403(b) plan also allows you to set aside more money each year than some other types of retirement accounts. As an employee, you can put up to $19,500 into a 403(b) in 2020. If you're 50 or older, you may be eligible to make an additional catch-up contribution of up to $6,500, for a total of $26,000. By contrast, the limit on IRAs in 2020 is $6,000, plus a $1,000 catch-up contribution, for a maximum of $7,000.

The Bottom Line As you can see, there are many things to like about 403(b) plans. Still another plus comes from making regular, automatic contributions. One of the features of a workplace retirement plan like a 403(b) is the way it invests a set dollar amount determined by the employee, regardless of whether the market is up or down.
The right financial advisor can help you reach your long-term financial goals. Visit www.ffga.com to view the authorized investment companies as well as financial advisors in your area.

Please call First Financial Administrators, Inc. for additional information regarding your employer’s plan.

First Financial Administrators, Inc.
P.O. Box 670329 Houston, Texas 77267-0329
(800) 523-8422
Retirement Services Department