

403(b) account



Wealth
Management

Save for your retirement with a 403(b) account

If you're an employee of a public school or a non-profit organization, you should consider establishing a 403(b). A 403(b) makes saving for your retirement easier. Each pay period an amount that you designate will be withheld from your check, and placed into your 403(b). By establishing your 403(b) through an employer-approved provider, you will benefit from the following features:

- Automatic payroll deductions
- Access to mutual funds and annuities
- Easy investment exchanges
- Your savings grow tax-deferred

Below, you will find some frequently asked questions and their answers. Your RBC Wealth Management® financial advisor can assist you with any other questions you may have. Additionally, because there are complex rules governing this type of retirement plan, we strongly suggest you consult with your employee benefits department and your tax advisor prior to establishing a 403(b) account.

What is a 403(b) and who is eligible to participate?

A 403(b) is designed to help employees of public schools and nonprofit organizations such as hospitals, private schools and colleges to regularly set aside money, on a pre-tax basis, for retirement through payroll deductions.

How do I establish a 403(b) account?

It's simple. Ask your employer's benefits department for a list of the approved providers for your plan. After reviewing your provider choices and the investments they offer, select the provider that will best fit your needs. Complete the provider's account application, make your investment selections, and complete a salary reduction agreement with your employer. Your employer will send your contributions directly to the provider(s) you have elected to work with.

How much can I contribute to a 403(b)?

You may choose to reduce your salary by any amount that does not exceed the lesser of 100% of compensation or \$18,500 in 2018 and \$19,000 in 2019.

Can the contribution limit be increased?

Any employee who is age 50 or older can contribute an additional \$6,000 for 2019 to their 403(b) account. In addition, if you have 15 years or more of service with a qualified employer,* you may be eligible to increase your annual limit by as much as \$3,000.

Can the contribution amount be changed?

Yes. Your contribution amount may be changed or discontinued by completing a new deferral form with your employer.

Can my employer make contributions to my account?

Yes, but this is done exclusively at the discretion of your employer.

Can I borrow from my 403(b)?

Yes, if the provider you have selected offers a loan provision.

Can I withdraw money from my 403(b) prior to age 59½?

Generally, you may not withdraw from your 403(b) prior to age 59½ except for the following reasons:

- Death
- Disability
- Termination of the 403(b) plan by your employer
- Separation from service
- Financial hardship

How will I be taxed on the distributions from my 403(b) account?

Distributions will be treated as ordinary income for the tax year in which the funds are distributed. Also, depending on your age at the time of the distribution, you may be subject to an additional 10% pre-mature distribution penalty.

When must I begin taking distributions from my 403(b) account?

The Internal Revenue Code's Required Minimum Distribution (RMD) regulations require that you begin receiving distributions from your 403(b) by the later of April 1 of the calendar year following the calendar year you reach age 70½, or, if you are still employed by the employer sponsoring the 403(b) plan, the calendar year in which you separate from service. An RMD must be taken by December 31 of each subsequent year.

When does income tax withholding apply?

A 20% federal income tax withholding applies when an eligible rollover distribution occurs or is deemed to occur. For example, if your distribution is \$10,000, only \$8,000 will be paid to you. The \$2,000 difference (20%) will be sent to the IRS as an income tax withholding. If a distribution is not eligible to be rolled over, such as an RMD, tax withholding is voluntary. In case of a transfer or direct rollover, withholding does not apply.

What happens if I change employers?

If you start working for another employer who's qualified to offer a 403(b) plan, you may be able to transfer your existing plan assets into the new plan. With your new employer's permission, you may even be able to continue deferring wages into your existing 403(b) account.

When you leave your job, you can also:

- Leave your 403(b) assets untouched in your current account
- Roll your 403(b) assets into a traditional Individual Retirement Account (IRA)
- Roll your 403(b) assets into a governmental 457(b) plan or a qualified plan, like a 401(k), that accepts rollovers
- Take periodic withdrawals or withdraw all of the money from your 403(b) in one lump sum

What happens if I die?

In the event of your death, the amount in your 403(b) account is paid to your designated beneficiary(ies). Required minimum distributions to a beneficiary are based on their life expectancy.

Can I transfer assets from 403(b) program to another?

Plan-to-plan transfers are permitted if the transfer is being made to a new employer's 403(b) plan which accepts transfers. Also, a transfer between providers that are approved by your employer is permitted.

Can I roll over my 403(b) account to an IRA or another 403(b) program?

Yes. If you are eligible to receive a distribution from your 403(b) account, you may elect to roll over your distribution into an IRA or another 403(b) program. Talk to your financial advisor to receive guidance on the correct process.

How RBC Wealth Management can help you

Your RBC Wealth Management financial advisor will work with you to help determine whether participating in a 403(b) plan is right for you. If it is, you may be able to assign your RBC Wealth Management financial advisor to serve as "broker of record" on your 403(b) account, thus allowing them to work with you to determine which of the investments available in your employer's 403(b) plan are appropriate for you.

* A qualified employer is defined as an educational organization, hospital, home health service agency, health and welfare service agency, church or association of churches.

RBC Wealth Management does not provide tax advice. As rules governing 403(b) accounts are complex, please consult with your tax advisor before establishing a 403(b).