

The 403(b) is a very flexible retirement plan design that is available to mostly nonprofit organizations, public education, nonprofit hospitals, and churches. There is no testing on employee salary deferrals. Generally must be offered to employees who work 20 hours a week and satisfy a minimum service age.

Advantages of a 403(b)



Tax deferral: Employees can make salary deferrals on a pre-tax basis of up to \$23,500 in 2025. For 2026 it increases to \$24,500. See the IRS chart for catch-contributions if age 50 and older.



Matching contributions: The employer does not have to contribute to a 403(b), but if they do, those contributions could be matching contributions, discretionary contributions or certain mandatory contributions. As with other plan types, the combined amount of employer contribution and employee deferral cannot exceed the lesser of 100% of compensation or \$70,000 for 2025, or \$72,000 in 2026. See the IRS chart for catch-up contributions if employee is age 50 or older



The 15-year rule: If permitted by the 403(b) plan, an employee who has at least 15 years of service with the same eligible 403(b) employer has a 403(b) elective deferral limit that is increased by the lesser of:

\$3,000

-OR-

\$15,000, reduced by the amount of additional elective deferrals made in prior years

-OR-

\$5,000 times the number of years of service for the organization minus the total elective deferrals made for earlier years

Other 403(b) considerations

- *Loans and hardship withdrawals are permitted.
- Designated Roth contributions offer tax-free qualified distributions (salary deferrals and employer contributions are included in the participant's taxable income the year that they are earned).
- Require more administration than other plans, resulting in administrative costs.
- Top-heavy and nondiscrimination testing is required.
- IRS Form 5500 filing is required.
- The special 403(b) catch-up formula imposes a lifetime limit of \$15,000 of elective deferrals.
- Catch up contributions may need to be made in ROTH for 2026. Check IRS rulings for more information.

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