

BMUST wants to help you learn about the 403-B, 457-B and the Roth 457-B

(Updated 12/2022)

A. Important disclaimer: this information is intended to give our members some basic information regarding the 403-B, 457-B pre-tax savings plans available to BMUST members. The Roth 457-B is an after-tax savings vehicle that is also offered to our members. These are all available through payroll deduction.

1. Do not use this information as the sole basis of your decision-making process. YOU MUST do your own due diligence, which may include:
 - a) Speaking with a Certified Financial Planner (CFP) who is a Fiduciary. A fiduciary must take YOUR best interests as the basis for investment choices. If the person is not a fiduciary, they can choose products for you which do not benefit you as much as line their pockets
 - b) Online research at such websites as www.403Bwise.com, www.vanguard.com, www.kiplingers.com, www.clark.com (Clark Howard is a consumer advocate and has lots of great information on his website)

B. Getting Started: the main benefit of any of the 403-B and 457-B pre-tax savings plans is the money coming out of your paycheck is not taxed until you retire

1. The philosophy is that your taxable income is lowered now and when you retire, your tax bracket will be lower because you do not have the same salary coming in. However, that is a long way off and who knows what will happen with the tax brackets in the future
2. If you invest \$100 you are not seeing a \$100 difference in your paycheck. The difference may only be \$70 - \$75 because if you had not saved that money, it would have been taxed
3. The main benefit of the Roth 457-B is that once the money has been taxed, it will not be taxed again. Basically, after the payroll taxes are taken out then the money will go into the Roth 457-B. If you elect a \$100 deduction, then your paycheck will be reduced by \$100.
 - a) You may ask what the benefit is then? – a great question for a Certified Financial Planner
 - b) You can access information about the Roth 457-B by clicking on this link [NYS Deferred Compensation Plan Roth 457](#)
4. Let's discuss the pretax 403-B, 457-B plans and if you want to use either, or both
 - a) See the article below:

[403\(b\) vs. 457\(b\): What Is the Difference?](#)

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It's never too early to start saving for retirement. Whether you've just started working for a company or have been employed for a while, you should take advantage of retirement savings options as early in your career as possible. One of the ways to do this is through employer-sponsored and tax-favored retirement savings plans. Employers offer these contribution plans which allow you to defer a percentage of your salary toward retirement. Two plan types are the 403(b) and the 457(b). While there are similarities, there are also some big differences when considering 403(b) vs. 457(b) plans. If you plan on participating in one of these plans, it's crucial that you understand how they differ.

What Is a 403(b) Plan?

A 403(b) plan is a tax-advantaged retirement savings plan that's typically offered to public employees and workers for non-governmental organizations. The plan is required for some workers, but it's optional for others. Additionally, 403(b) plans closely resemble 401(k) plans in that both collect pre-tax contributions and you're taxed once you make withdrawals in retirement. The contributions for a 403(b) plan can be made by both the employer and the employees. Also, like a 401(k) you may face penalties if you make withdrawals from a 403(b) before age 59.5.

What Is a 457(b) Plan?

The 457(b) plan is also a tax-advantaged contribution plan for public employees that allow you to defer a portion of your money into retirement savings. These plans are funded with pre-tax money and once you make withdrawals in retirement, it's taxed as regular income. Both the 457(b) and the 403(b) are similar in this regard, but the 457(b) doesn't charge you an early withdrawal penalty if you decide to withdraw money from it when you leave your job. This lack of an early withdrawal penalty is one of the main differences between 403(b) vs. 457 (b) plans.

403(b) vs. 457(b) Plans: Contributions

You must consult with your employer to make contributions to your 403(b) plan. Because this plan allows you to invest pre-tax money from your wages, it's important that you tell your employer the amount you want deferred and deposited into your 403(b) account. This process is sometimes called an elective deferral. Through an elective deferral you are designating a percentage of your paycheck into your 403(b) account. This automatically decreases your take-home pay, but it lowers your taxable income and, most importantly, it boosts your future retirement fund. Though understanding the contribution process is important, you should also be aware of the contribution limits for both plans. A contribution limit is the maximum amount of money you can defer per year through a retirement plan. In 2023, the contribution limit for a 403(b) plan is \$22,500. The contribution limit for a 457(b) plan is also \$22,500 in 2023. Both plans allow employees aged 50 and older to benefit from an additional "catch-up" contribution. These catch-up contributions allow such employees to save an additional \$7,500 toward their yearly fund. The 403(b) and 457(b) plans differ in that the 457(b) plan lets workers who are within three years of normal retirement age as specified in the plan to make special catch-up contributions. In 2023, workers who qualify can contribute up to \$45,000 to their 457(b) plans. While the 403(b) plan doesn't offer this provision, it does provide employees who've secured a tenure of 15 years with certain provisions. These employees can contribute an extra \$3,000 per year as long as they've contributed an average of \$5,000 or less for those 15 years prior.

403(b) vs. 457(b) Plans: Taxes

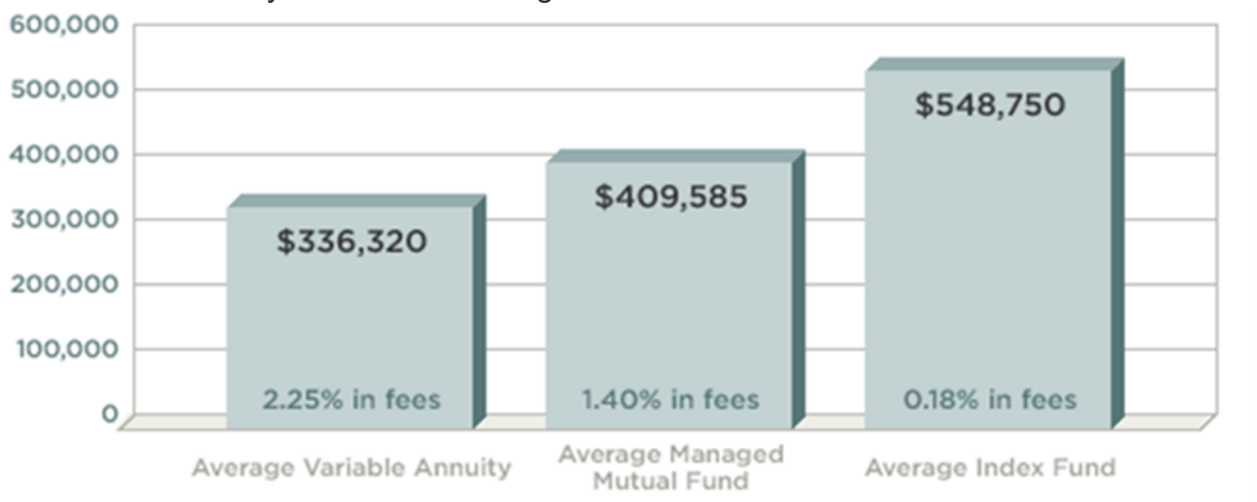
When you withdraw money from a 403(b) or a 457(b) in retirement, you'll pay taxes on those withdrawals, though in some states retirement plan income is exempt from state income taxes. The 457(b) plan rules state that you don't have to pay a 10% tax penalty if you resign or retire before age 59.5 and need to withdraw money from your account. However, the 403(b) plan charges the 10% early withdrawal penalty.

C. Choosing the 403-B:

1. There are numerous 403-B providers available to BMUST members, some of which the district has contracted with, and one provider that BMUST attained through negotiations
2. VOYA, AXA, Legend...
 - a) These companies may/will send representatives to speak with you in person regarding setting up a 403-B with them. Some information you need to know
 - b) Each of the companies has yearly expenses to administer the program on your behalf in addition to the sales charges for each fund that you invest in (for instance if the company charges a 1% yearly maintenance fee and the mutual fund company (e.g., Fidelity, Putnam, etc....) charges 0.85% to purchase the fund, you are already starting 1.85% down). There may also be surrender charges if you decide you want to leave that company.
 - c) You need to ask these important questions – see the data table below to help you ask the representative about the specific fees (see below)

Provider Fees	Percentage (%) or Dollars (\$)
Annual Administrative Fee?	
Surrender Charges?	
Sales Commission?	
Mortality and Expense (M & E) Fee?	
Fees to open, or close account?	
Inactive Account minimum annual Fee?	
Other administrative Fees?	

- d) Over many years these fees can take a large bite out of your portfolio (see below) – The example illustrates a total value of investment after 35 years, assuming \$250 contributed monthly with an 8% average annual return:



- e) If the representative is vague or unwilling to answer the fee questions, that may serve as a red flag to get up and walk away.

f) Some people like having a specific person they can call and speak to but remember these individuals cannot give you financial advice because they are not licensed to do that. They can make suggestions, explain the different investment choices and how aggressive or conservative the different mutual funds are, learn about the type of investor you are and create a mix that will address your needs.

3. Vanguard

a) Main benefits: Significantly lower fees (more money stays in your portfolio) and potentially more investment choices

b) Main drawbacks: You are on your own. If you call Vanguard, you are speaking with someone in Pennsylvania. You need to develop your own mix of investments and level of aggressiveness – there are numerous websites to help you develop an investment mix that will address your needs. You can start with a simple Google search. For example, “Ideal vanguard 403-B portfolio for the aggressive investor” or “ideal vanguard 403-B portfolio for a 25-year-old single person”

D. Choosing the 457-B:

1. Administered through www.nysdcp.gov (NYSDCP – NYS Deferred Compensation Plan). As the name implies it is held and administered by NYS.
2. Your Head Building Representative should have applications (if not call the BMUST Office at x1068 and Meg will help you out). Very simple one page application
3. Similar benefits and drawbacks as Vanguard (e.g. low fees, speaking with a person on the phone and the like)
4. Money comes directly from your paycheck, pretax

E. In Summary:

1. When it comes down to it, you are the only person directly responsible for your decisions regarding which company to invest with.
2. This can be very daunting – that’s why a recent study says that people spend more time planning a vacation then figuring out their retirement planning
3. Use the information provided to help you get the process going
4. You may want to consider using a fee only Financial Planner to help you get going. A fee only Financial Planner is not trying to sell you specific products; they will help you make the best investment choices for you and your specific circumstances. The Garrett Planning Network is a group of fee only financial planners that are fiduciaries
www.GarrettPlanningNetwork.com