

## What is a 403(b)?

A 403(b) is simply a retirement savings vehicle that is typically available to teachers and other public service workers; it's cleverly named after its tax-protected status in the IRS uniform code. A really useful way to think about a 403(b) is as a 401(k) for those who work in public schools or other non-profit environments.

The following groups are usually eligible to open a 403(b):

- Public school teachers
- College and university employees
- Hospital workers
- Employees of NFP (Not-For-Profit) organizations
- Some church and charity employees

In short, the 403(b) operates in a similar way to a 401(k) since it helps people save and invest for retirement. It also has certain tax advantages, depending on whether you choose the tax-deferred (pre-tax) or a Roth (after-tax) option.

## What do I do with my 403(b) when I my employment ends?

This is where it can get tricky — but fear not. You'll have a number of choices when it comes to handling your 403(b) once you've moved on to a new job, or simply left your previous one.

### 1. Do nothing with your 403(b) and leave it alone.

There really isn't anything preventing you from just leaving your 403(b) as is and letting it grow into and through retirement.

#### Pros

- No time commitment, other than to make the initial decision
- Simplest option
- Works well if your 403(b)'s investment menu and fee structure are adequate

#### Cons

- Account may be easily forgotten
- Investment options tend to be limited
- Potentially higher cost

Leaving your 403(b) alone is of course a very viable option, but you'll want to be sure that the account is part of your comprehensive financial plan and that you understand the investment and tax ramifications of leaving your account with your previous employer.

## 2. Roll your 403(b) over to an IRA.

This involves making a few phone calls and arranging for your 403(b) to be moved from your previous employer to a provider of your choice. Since IRAs are opened outside of your employer, this option won't involve your new employer, even if they also offer a 403(b) plan (more on this later).

### Pros

- Wider choice of investments to choose from
- Almost always lower cost
- More likely to allocate money within context of greater financial plan
- Consolidation tends to make things easier to visualize

### Cons

- You'll need to initiate a transfer
- Will take a bit of time for your former employer to transfer the funds
- You'll need to decide which type of IRA makes sense for you
- It's likely you'll want your IRA to have the same tax status of your 403(b), so you don't incur any unwanted tax consequences
- May be unnecessary if your 403(b) is sufficient and to your liking

The biggest pitfall of moving your 403(b) to an IRA is not carefully weighing the tax consequences of the particular action you're considering. For instance, if you're thinking of moving your 403(b) to a Roth IRA, you'll need to explicitly calculate the tax cost and be sure you have the money available to cover the upcoming tax bill. Alternatively, you won't owe any taxes if you proceed with moving your pre-tax 403(b) to a Traditional (pre-tax) IRA.

**Bottom line:** If you do choose to move your 403(b), know why you're moving it, how it benefits you, and also be sure that you understand any potential tax consequences.

## 3. Combine with your new employer's 403(b) plan if you have one

This is only an option for you if you decide to move on to an employer that also offers a 403(b) plan, and your new employer would also need to allow "roll-ins" to the plan.

Note that you won't be able to combine your old 403(b) with a 401(k) plan or 457 plan at a new employer; you'll only have the choice of merging your old 403(b) into a new 403(b) plan, if that's even on the table in your specific circumstances.

### Pros

- Consolidation of 403(b) plans into a single account
- Preserve benefits of 403(b) plans, like ERISA protections

- May offer distributions without penalty if you decide to retire after age 55
- Beneficial if the new employer has superior 403(b) plan

#### **Cons**

- Still may be less effective than opening an IRA
- This will depend on costs and investments offered within the new 403(b)
- Will take time to set up, transfer, and reinvest the money
- New 403(b) plan may be inferior to old plan

As long as you're fully accounting for — and thoroughly understanding — your 403(b) investments as part of your broader financial plan, you've won the battle. The next step is to ensure that your money sits in the best vehicle possible, which may be an IRA. This will completely depend on your personal situation.

#### **4. Take a Distribution**

Once you leave your job, you're free to take a full distribution of your 403(b) money if you choose. However, in many cases, this decision can prove costly. Since your contributions and earnings in your 403(b) were never taxed, any money you take out of the plan is fully taxable. You'll also owe an additional **10 percent penalty** to the IRS for an early withdrawal if you're younger than 59 1/2 when you take a distribution.

If you are between the ages of 55 and 59.5 and get laid off, are fired, or quit your job, then you can pull money out of your 403(b) account without penalty. The Rule of 55 applies to those who leave their jobs at any point during or after the year in which they turn 55.

However, this rule applies only to money inside your current 403(b) plan. This is the plan that you invested in while you were employed in the job that you leave at age 55 or older. The rule doesn't work for old retirement plans at former jobs. Instead, the Rule of 59.5 would apply for those savings.

#### **Final Thoughts on 403(b) Plans**

You need to decide what you want to do with the money in your 403(b) plan. Enlist the help of a knowledgeable financial professional. Depending on your situation, risk tolerance, and goals, they can help you create a plan with what you have to achieve your objectives with a minimum of risk. Do what works for you to meet your financial needs after leaving your job. It's your money, after all.

**Have questions or need assistance with your retirement account**, please call the TIAA National Contact Center (NCC) at 1-800-842-2252 Monday-Friday 8:00 AM-10:00 PM EST if they need any assistance with their retirement plan.