



## Investor Education 401 (K) and 403 (B) Plans

401(k) and 403(b) plans are employer-sponsored retirement plans that allow employees to save and invest for their future. The main difference between these two plans is that for-profit companies offer the 401(k) plan, while the 403(b) plan is provided by non-profit and specific tax-exempt organizations- schools, hospitals, etc.

These plans allow employees to contribute a portion of their salary to the plan on either a tax-deferred basis or an after-tax basis, depending on the employee's preferences. The tax-deferred basis will require the individual to pay taxes on withdrawals in retirement, whereas the after-tax option will not be taxed when money is used from the account in retirement. Employers may also choose to match a portion of their employees' contributions, which may incentivize employees to participate in these plans.

Many 401(k) and 403(b) plans have pre-selected options of investments from which the employee can choose. Most of the selections available will be mutual funds, including target-date funds, to make it easy for the employee to understand their options. There is also a limit to be aware of when contributing to these plans, which is \$22,500 for the year 2023. 401(k)/403(b) catch-up contributions are additional contributions that employees over the age of 50 can make to their 401(k)/403(b) retirement savings plans. These contributions are in addition to the regular contributions that employees make to their 401(k)/403(b) plans and are designed to help older workers "catch up" on their retirement savings if they have fallen behind. In 2023 the catch-up amount is \$7,500.

There is also a 401(k)-profit sharing plan that allows employers to control the amount of money they contribute to the employee's account each year. The plan works similarly to a traditional 401(k), but at the end of the year employers can contribute part of their profits to employee's plan tax-deferred. The maximum contributions to an account must be the lesser of 100% the salary of the employee or \$66,000 in 2023.

Participating in a 401(k) or 403(b) plan can be a good way for employees to save for retirement and potentially receive a tax benefit. It's essential to carefully consider your investment options, the fees, and other terms of the plan before making a decision.