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# Frequently Asked Questions: 403(b) Plans

**Q: What is a 403(b) plan?**
**A:** A 403(b) is a type of retirement plan, similar in many ways to a 401(k) plan. It is available only to employees of public schools, public and private universities and certain charitable organizations.

Like 401(k)s, workers choose to have contributions deducted from their paychecks. Also, just like a traditional 401(k) plan, contributions to a 403(b) plan are tax deductible, and any earnings accumulate tax-free until withdrawals are made.

A 403(b) also can be set up like a Roth retirement savings plan. Under these arrangements, contributions are not deductible, but withdrawals are tax-free.

**Q: Why were 403(b) plans created?**
**A:** Codified in 1958 by Congress, 403(b) tax-sheltered annuities helped public school and university employees, many of whom did not have a pension, to save and secure guaranteed income for life in retirement. From 1958 until 1974, annuities were the only investment vehicle available within these plans. In 1974 the law was changed to permit 403(b) plans to invest in mutual funds, as well.

Teachers often change jobs many times during their careers. As such, many 403(b) arrangements are set up as accounts owned by the participant. When changing jobs, employees in these 403(b) arrangements can maintain their account and, depending upon their employer, continue making contributions to it to increase their long-term savings. Eligible distributions can be rolled over to an IRA or their new employer's plan if the plan accepts rollovers.

**Q: Are 403(b) plans offered through the workplace?**
**A:** Yes, but they are not all offered or administered in the same way. Some employers will sponsor a 403(b) plan for their employees, which means that the employer assumes all responsibility for the plan. This includes choosing a financial firm (also known as a plan provider), communicating with employees about plan features and changes, and selecting the plan's investment options among other responsibilities.

Other employers have a more limited administrative role and let employees choose from arrangements offered by multiple plan providers. It is common under these arrangements for an employee to own the annuity contract or mutual fund account. Several states have "open access" models for their 403(b) plans, which allow employees to choose a plan from "any willing provider."

**Q: What type of investments are available in a 403(b) plan?**
**A:** A 403(b) annuity contract offered by a life insurance company includes unique insurance features such as a guarantee of lifetime income from the assets accumulated in the annuity.

403(b) retirement plans that are invested in variable annuity contracts include growth and protection benefits. For many, the guaranteed fixed rate account, lifetime income and death benefits that an annuity offers are the best choice to help them save for a secure retirement.

Many 403(b) plans provide additional value by offering participants access to education and information that can play a critical role in a participant's long-term investment success.

Both annuities and mutual fund-based 403(b) arrangements allow participants to select from a variety of investment options.

**Q: What regulations protect consumers with 403(b) plans?**

**A:** All 403(b) plans are regulated by the Internal Revenue Service (IRS). The IRS defines who may participate in the plan and the plan's permissible investment options. IRS regulations also require 403(b) plans to include a document that explains all the terms and conditions for eligibility, limitations, and benefits under the plan. Depending upon the level of employer involvement, private-sector 403(b) plans offered at charitable organizations or private schools and universities may be subject to the Employee Retirement Income Security Act (ERISA), the same federal pension law that covers 401(k) plans.

403(b) plans offered by public schools and universities are exempt from ERISA, as are all state government retirement plans. Consumers in arrangements not covered by ERISA would look to protections under state laws as well as state and federal securities laws.

Additionally, life insurance companies that issue 403(b) plan annuities are regulated by state insurance departments that protect consumers and ensure company solvency.

On top of state laws and regulations, variable annuities also are regulated by the Securities and Exchange Commission. Variable annuities can only be sold by a registered representative of a broker-dealer that is a member of the Financial Industry Regulatory Authority. This representative must also be licensed by the state where he or she is selling the annuity.

**Q: Are 403(b)s costly for plan participants?**

**A:** Like all investment products and services, 403(b) arrangements have fees. These fees vary depending upon the benefits offered, the investments offered, and other administrative services that may be provided.

In addition, many 403(b) plans provide additional value by offering participants access to professional financial advice and guidance - which can play a critical role in a participant's long-term investment success.

Fee information is disclosed in the 403(b) annuity contract and mutual fund account agreement. Annuities include charges for the product's unique insurance features, like a guaranteed stream of lifetime income. For variable annuities and mutual funds, fund specific fee information is also found in the prospectus.