

# Are You Neglecting Your 403(b) Plan?

Are you an educator? Or are you employed by a nonprofit organization? In either case, you may have a 403(b) retirement plan available to you. Your 403(b) is similar to 401(k) plans offered by companies, yet some evidence suggests that participation in 403(b) plans is lower than that found in 401(k)s. If you're not taking advantage of your 403(b), you may want to reconsider — because your plan can provide a big boost to your retirement savings.

If you're not familiar with a 403(b), you'll want to understand the key benefits:

- *Tax-deferred earnings* — Your money grows on a tax-deferred basis, which means it can accumulate faster than if it were placed in an investment on which you paid taxes every year.

- *Pre-tax contributions* — Typically, you fund your 403(b) with pre-tax dollars, so the more you put in, the lower your annual taxable income. In addition, some 403(b) plans may allow a Roth option, which allows your earnings to grow tax free, provided you meet certain conditions. However, your contributions are made with after-tax dollars.

- *Variety of investment options* — You most likely have a variety of investment choices with which to fund your 403(b), so you can build a portfolio that is appropriate for your risk tolerance and time horizon.

Given these features, why aren't more people participating in their 403(b) plans? One key reason seems to be that many eligible employees, especially teachers, also are covered by a pension plan — and they think a pension, combined with Social Security, may be enough to meet their retirement income goals.

But that's probably not true. You'll likely need at least 80% of your working income during retirement — and that figure could easily rise,

depending on your retirement lifestyle. Consequently, you will need to exploit every single avenue of retirement savings — including your 403(b) plan.

In 2009, you can defer up to \$16,500 of your salary to a 403(b), plus an additional \$5,500 if you're 50 or older. You can put in another \$3,000 if you have 15 or more years of service with a qualified organization and you contributed, on average, less than \$5,000 a year to your 403(b) account.

Of course, you may not be financially able to put the maximum annual amount into your 403(b) account. But if your employer matches part of your contributions, you should at least consider contributing enough to earn the match — otherwise, you're walking away from “free money.”

While it's often a good idea to contribute to your 403(b), you may find some extra challenges in 2009, because the rules governing 403(b) plans have changed. Previously, your plan may have allowed you to invest with several 403(b) providers, or “vendors,” and you could make tax-free transfers between them. Under new IRS rules, however, you can now move assets from one vendor to another only if both vendors are on your plan's “approved” list. Consequently, many employers will likely reduce the number of 403(b) vendors and investment options, so you'll have to evaluate the new “approved vendor” list to see which vendors would be most fitting for your financial goals.

In any case, if you aren't already contributing to your 403(b), start now. And if you are participating in your plan, make sure you're getting the most out of it — someday you'll be glad you did.

*This article was written by Edward Jones for use by your local Edward Jones Financial Advisor.*