

## What is a 403(b) Plan?

A 403(b) plan is a retirement plan that allows public school employees to make tax deferred contributions to annuity contracts or custodial accounts (mutual funds). The employee elects to make contributions by use of a salary reduction agreement. Earnings on these contributions are also tax deferred; however, the contributions are subject to FICA at the time they are contributed.

Contributions to a 403(b) plan are invested only in certain funding vehicles. These are limited to annuity contracts and custodial accounts. Insurance companies offer annuities that commonly offer loan provisions. Custodial accounts are only allowed to invest in mutual funds and in many cases do not offer loan provisions.

<u>Example:</u>	<u>Without 403(b)</u>	<u>With 403(b)</u>
Income	\$40,000	\$40,000
403(b) Deduction	\$0	\$ 5,000
Taxable Income	\$40,000	\$35,000
Federal Tax (15%)	\$ 6,000	\$ 5,250
State Tax (7%)	\$ 2,800	\$ 2,450
Total Taxes	\$ 8,800	\$ 7,700
Tax Savings		\$ 1,100

### Who is eligible to participate?

Participants include employees who perform services for the schools. Self-employed subcontractors are not eligible. The determination of the employer-worker relationship primarily rests on who is in control of the activities required to do the job.

### Contribution limits

Salary reduction contributions that are excludable from income are limited to \$16,500 (\$22,000 if age 50 or over) for calendar year 2010. There are other catch-up elections but for most people the above rule will govern their contributions.

### Summary

The employee, after choosing a vendor from the school's approved list, is responsible for opening the 403(b) account. Once this is done, the employee needs to fill out a salary reduction agreement (OMNI Flex Form) to start their salary reductions. The OMNI Flex Form may be found on the OMNI's web site at [www.omni403b.com](http://www.omni403b.com) or may be obtained from the NCCSD Office of Human Resources. A copy of the 403(b) Plan document may be found at [http://ncolonie.com/forms/OMNI%20403\\_b\\_%20document%5B1%5D.pdf](http://ncolonie.com/forms/OMNI%20403_b_%20document%5B1%5D.pdf). A paper copy may be obtained from the NCCSD Office of Human Resources.