

How much can I contribute?

403(b) Contribution Limits for 2014

The Internal Revenue Code limits contributions into a 403(b) tax-deferred retirement plan. These limits must be monitored to ensure that you do not over contribute to a 403(b) plan.

There are two (2) limits that collectively determine the maximum amount you may contribute to a 403(b) account, which is referred to as the Maximum Allowable Contribution (MAC).

An employee's contributions are limited to the lesser of:

1. Annual Additions Limit

This limit is the lesser of 100% of your compensation or \$52,000 (in 2014, adjusted annually for cost of living). This limit applies to both employee pre- and after-tax contributions [including Roth 403(b)], employer contributions, and forfeiture allocations made to your account under a 403(b) plan. However, Age 50+ catch-up contributions are not included in this limit.

Compensation, for purposes of this limit, refers to the amount of compensation that is received from your employer sponsoring a 403(b) plan, and which is includible in gross income for the most recent one-year period of service. However, that compensation amount is also adjusted to include any elective deferrals that the employee made in that one-year period of service to a 401(k) plan, 403(b) plan, Section 125 cafeteria plan, SARSEP, SIMPLE plan, or 457(b) deferred compensation plan.

Compensation does NOT include any mandatory contributions made to a retirement plan sponsored by a state or local government pursuant to Section 414(h).

2. Limit on Elective Deferrals

The limit on elective deferrals (including Roth 403(b) to a 403(b) plan is \$17,500 (\$20,500) for certain eligible employees) (in 2014, adjusted annually for cost of living). These limits apply on an individual taxpayer level. That means the \$17,500 limit (\$20,500 for

certain eligible employees) applies to all cumulative elective deferral contributions you make to a 403(b) plan, 401(k) plan, SARSEP, or SIMPLE plan in the same tax year. This applies either through your current employer or other employers. For more about the special \$20,500 limit, and other catch-up provisions, please see the discussion that follows.

The 15 Year Catch-up Provision may be available to certain employees of educational institutions, hospitals, home health service agencies, health and welfare organizations, and certain church organizations, who have 15 years of service with that eligible employer. The amount, if any (not to exceed \$3,000 per year, and cumulatively not more than \$15,000 over the lifetime of the 403(b) participant), of catch-up available to an employee depends on the amount of prior elective deferral contributions.

If prior elective deferral contributions are less, on a yearly average, than \$5,000, you may be eligible to make catch-up contributions. This catch-up may only be used in certain situations, check with your employer.

Age 50+ Catch-up Contributions may be made by a participant who is at least 50 years old by the end of the tax year and has made the maximum contribution under the elective deferral limit, including any amounts available under the 15 Year Catch-Up Provision. This catch-up allows eligible participants to make an additional elective deferrals to a 403(b) plan of \$5,500 in 2014.

The IRS requires a certain ordering of contributions if an employee is entitled to use both the 15 Year Catch-up and the Age 50+ Catch-up in the same year. The 15 Year Catch-up is used first, then the Age 50+ Catch-up.

There are many factors that can impact the Maximum Allowable Contributions including:

- Age
- Change in employment status from full-time to part-time, or part-time to full-time;
- Change in salary;
- You begin contributing to another Section 403(b) plan [including a Roth 403(b)], Section 401(k), SARSEP, or SIMPLE plan, through your current employer or any other employer;
- You have been utilizing or want to utilize the 15 Year Catch-up Provision which may be available to eligible employees.

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For example, let's assume the following facts:

- A 25 year-old employee contributes elective deferral amounts to a 403(b) plan. He makes no other deferrals to a plan sponsored by this employer or any other employer he may have had in this year;
- Includible Compensation = \$40,000
- Years of Service = 7

The Maximum Allowable Contribution for year 2014 is calculated as follows:

1. Annual Additions = Lesser of: 100% x \$40,000 or \$52,000 (which in this example is \$40,000)
2. Elective Deferral Limit = \$17,500

Results

The lesser of the two limits is \$17,500; therefore, elective deferral contributions into the 403(b) plan are limited to \$17,500.

If the employee is 50 years old (or older) in 2014, he is also eligible for an additional "catch-up" contribution of \$5,500 beyond the maximum allowable contribution, meaning that he is eligible to contribute up to \$23,000 to the 403(b) plan.

Note that the employee would not be able to utilize the 15 Year Catch-up Provision as he does not have 15 years of service with this employer.

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Taxes are generally due upon withdrawal. For tax-deferred plans, distributions will be taxed as ordinary income when distributed. In addition, the IRS 10% premature distribution penalty tax applies to distributions from the 403(b) plan taken prior to age 59½, unless an IRS exception applies. Please consult a tax adviser or attorney before making a tax-related investment/insurance decision.

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