

Summary Comparison: 401(k) And 403(b) Plans

Question/Topic	401(k)	403(b)
Who can offer?	<ul style="list-style-type: none"> • Corporations • Sub-Chapter S • Self Employed • Sole Proprietorships • LLC's, or • Non-Profit (yes, nonprofits too) 	<ul style="list-style-type: none"> • Public school, college, or university • A church, or • 501(c)(3) organizations
Maximum eligibility requirements	<ul style="list-style-type: none"> • 2 years of service with immediate vesting, or • 1,000 hours a year and age 21 	Minimum participation, minimum coverage and nondiscrimination requirements apply. No waiting period for employee salary deferrals.
Contribution limits: Employer	The employer's current year deduction is limited to 25% of compensation paid to all eligible participants. Allocation limited to lesser of 100% of compensation or \$57,000 (for 2020).	The employer's contributions (including elective deferrals) to an employee's account should not be more than the less of \$57,000 or 100% of employee's compensation for the year.
Contribution limits: Employee	\$19,500 salary deferral limit under IRC Section 402(g)	Same as 401(k)
Catch-up contributions for workers age and older	\$6,500 (for year 2020)	Same as 401(k)
ADP/ ACP nondiscrimination test apply?	Both ADP and ACP nondiscrimination testings apply	ADP nondiscrimination testing does not apply (big advantage!). ACP testing does apply
When must contributions be made?	By tax-filing date plus extensions	Same as 401(k)
When must the plan be established?	By fiscal year-end (12/31 for calendar-year plan).	Same as 401(k)
Who directs investments?	Employer/Trustee or plan may allow individual direction	Employee only
What types of investment vehicles available?	Stocks, bonds, mutual funds, ETFs, etc.	Annuities and mutual funds only

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Are loans available?	Loans optionally available	Same as 401(k)
Vesting	Three vesting schedules: immediate, cliff, graded; 100% for employee deferrals.	Same as 401(k)
Distributions before age 59 1/2	10% penalty unless over 55 and separated from service, death or disability. Distributions are only allowed upon the occurrence of a triggering event	Same as 401(k)
Distributions for ages 59 1/2 - 70 1/2	No tax penalty (but may apply to Roth 401k)	Same as 401(k)
Distributions after age 72	Required minimum distributions at the later of age 72 or separation from service. May not aggregate total; Each plan separate.	Same as 401(k)
How are distributions taxed?	Taxed as ordinary income. For Roth, principal and earnings withdrawn tax-free.	Same as 401(k)
Eligible rollovers	Must have a triggering event (e.g. plan termination, death or separation from service, disability, normal minimum retirement age)	Same as 401(k)
Portability: rollovers among plans	<ul style="list-style-type: none"> • Qualified plan • 403(b) plan • 457 governmental plan • SEP/IRA • IRA 	Same as 401(k)
Advantages	Flexibility in plan designs; loans may be allowed. Contributions, plan expenses may be deductible by employer. Funding responsibility with employees. Deferred amount reduces employee's taxable income. Vesting schedules. More investment vehicles.	Deferred amount reduces employee's taxable income. Earnings are tax deferred. Contribution limits are greater than IRAs. Loans may be allowed. No ADP and no top-heavy testing.

Have a question? Send us an email or give us a call. We will get back to you with lightning speed.



About the Author

Mizan J. Rahman is a 15-year veteran who helps small businesses and nonprofits navigate workplace retirement plan complexities. He specializes in the design, compliance, administration and audit of 401(k) and 403(b) plans. Mizan is the Managing Director of NESAPlan Consultants. NESAPlan's mission is to empower retirement plan sponsors with knowledge, timely information, and minimize their administrative burden, allowing executives and their employees to achieve their long-term retirement plan goals.



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