

How to Help Maximize Your 403(b) Plan

One of the simplest and most effective ways to save for retirement is to contribute to your company's 403(b) plan. A 403(b) plan allows you to defer a portion of your paycheck to your retirement account each pay period automatically, while potentially reducing your tax bill this year. But are you getting the most out of your 403(b)?

Here are three strategies that may help you optimize your plan in the year ahead:

1. Get the Match

Does your employer offer a matching contribution to your 403(b) plan? If so, find out how much you need to save to qualify for that match.

This match is a powerful incentive—essentially “free” money from your employer—that will help you get closer to your retirement savings goal.

2. Increase Your Deferral Rate

Taking advantage of a match helps you capture valuable contributions from your employer, but it may not be enough. Many 403(b) providers recommend saving at least 10% annually over the course of your career,¹ but the average 403(b) contribution is closer to 6%.²

If you aren't able to save 10% to 15% of your pay at the beginning of your career, aim to gradually increase your deferral rate over time. One smart tactic is to boost your 403(b) deferral rate every time you get a raise or bonus. This enables you to save more without reducing your take-home pay.

Another way to consider for enhancing your savings rate is to increase your deferral rate by 1 percentage point every year. Some companies offer an automatic escalation feature that will periodically increase your savings rate with a simple click of a box; other companies require you to manually make this change.

A good time to review your contribution amount is at the beginning of the year when you're looking carefully at other benefits elections, such as medical and dental insurance, since the amount you put towards these benefits will have an impact on your paycheck. Another good time to revisit your contribution amount is when you receive additional compensation, whether through a raise, promotion or bonus.

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3. Max Out Your Retirement Plan Contribution

In 2021, the maximum amount you can contribute to your 403(b) plan is \$19,500. If you're 50 or older, you're eligible to make "catch-up" contributions up to an additional \$6,500—for a maximum possible 403(b) contribution of \$26,000.³

When you max out your 403(b) plan, you not only save more for retirement, you potentially pay less in taxes that year since your taxable income would be lowered. That's because all contributions to your 403(b) plan are taxed when they are withdrawn, not when they are made.

To max out your 403(b) plan in 2021, you'll first need to calculate the percentage of your annual pay that adds up to \$19,500 (if you are age 49 or younger) or \$26,000 (if you are 50 or older). For example, a 42-year old worker earning \$140,000 annually would need to contribute approximately 13.9% of her salary to a 403(b) plan to max out in either year. Make sure to adjust your deferral rate after you receive a raise or bonus to avoid exceeding the 403(b) contribution limit.

Save Smart for Retirement

Whether you're nearing retirement or just starting your career, it's always the right time to save for the years ahead. Putting these simple strategies in place will help you accumulate more money for your retirement years, while helping to reduce the taxes you pay for the current year. As you consider these ideas, it's important to work with your Financial Advisor to help ensure the strategies you put into place align with other investment decisions, so that all your assets are working together to achieve your short- and long-term goals.

¹ <https://www.cnbc.com/2019/06/06/how-much-americans-are-contributing-to-their-401k-plans-every-year.html>

² <https://www.cnbc.com/2019/06/06/how-much-americans-are-contributing-to-their-401k-plans-every-year.html>

³ <https://www.irs.gov/newsroom/income-ranges-for-determining-ira-eligibility-change-for-2021>

Contact the advisors with the Okby Group at Morgan Stanley to schedule a review of your 403(b) account:

- [Click here to book time with Stephen Aguglia](#)
- [Click here to book time with Zach Zaloga](#)

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