

403(b) Rescue

Our 403(b) Fix-It Series

403(b) Rescue, the Ekon Benefits 403(b) Fix-It Series, describes the most common mistakes in 403(b) plans as determined by the IRS. We provide explanation of common mistakes, suggested prevention methods, and options for correction.

Does your 403(b) Plan need to be rescued?

Common Mistake #1—

The organization is not eligible to sponsor a 403(b) Plan.

A 403(b) plan, also referred to as a tax-sheltered annuity plan or TSA, is a type of retirement savings plan available to public schools and certain 501(c)(3) tax-exempt organizations. However, not all employees at these organizations may be eligible to participate in the 403(b) Plan. Eligible employees include the following:

- Employees of a 501(c)(3) organization. Please note, the organization must have applied for and obtained a determination letter from the IRS to be considered a tax exempt 501(c)(3) organization.
- Employees of a public school system (i.e. public schools, state colleges, universities) that are involved in the school's daily operations. This includes both faculty and non-academic staff such as custodial workers. Board members and other elected or appointed officials are not eligible to participate in the 403(b) Plan.

A full list of eligible employees can be found on the [IRS website](#).

If an employer has been sponsoring a 403(b) plan but does not meet the eligibility requirements, the error is considered an employer eligibility failure. The Voluntary Correction Program, VCP, should be used to correct. To preserve tax-deferred status of previous contributions, stop all future contributions immediately and retain the assets in the Plan. A VCP submission must be filed with the IRS.

Often, this mistake is made by organizations which have had a recent change in structure such as being purchased by a for-profit organization. To prevent this error, be mindful of any structural changes in the organization that may lead to ineligibility.

For a complete listing of the most common 403(b) mistakes, please visit the IRS 403(b) Plan Fix-It Guide at <http://www.irs.gov/Retirement-Plans/403b-Plan-Fix-It-Guide>

For assistance in correcting a plan error, please contact Ekon Benefits at (314)367.6555 or info@ekonbenefits.com