

Comparison of 403(b) vs. 401(k) Plans

A Not for Profit Organization, and certain Educational Employers, may sponsor either a 403(b) or a 401(k) Plan. A For Profit Organization cannot sponsor a 403(b). These plans used to have many differences, but

over the years they have become much more similar. The grid below covers various plan issues, with the focus on why an employer who could sponsor a 403(b) might or might not choose to sponsor a 401(k).

	403(b) Plans	401(k) Plans
Employers that can sponsor	Not-For Profit and certain educational employers	For Profit, Not-For Profit, certain educational employers
Eligibility	In general all full time employees must be covered, however certain exclusions allowed: <ul style="list-style-type: none"> • <20 hrs per week • Students • Clergy 	May have eligibility requirements up to one year of service, even for full time employees. <i>A reason some Employers choose a 401(k) Plan</i>
Deferral Limit	\$19,500 under 50 [annual limit for 2021] \$26,000 for 50+ [annual limit for 2021]	
ADP Test	None required for salary deferrals <i>A significant reason to choose a 403(b) Plan</i>	Required for salary deferrals unless the plan adopts a Safe Harbor Contribution
Employer Match	Allowed	
ACP Test	Required if there is a match	
Other Employer Contributions	Discretionary contributions allowed Must follow discrimination rules	
Investment Options	Limited to annuities or mutual funds	More Options, such as stocks and ETFs in Brokerage accounts
Service Providers	Limited, some vendors do not offer 403(b) plans	More Providers <i>A reason some Employers choose a 401(k) Plan</i>
Form 5500	May not be required if there are no ER contributions and the Employer has no discretion	Always required
More comparative data:	http://benefitsattorney.com/charts/plancomparison/	

A 403(b) and 401(k) Plan may not merge even if the sponsoring employers merge.

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