What Are the Differences Between Employer-sponsored Retirement Plans?

By: Exchange Capital Management

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If you've stumbled on this post, you're probably either starting your career or evaluating a potential next step. Either way, benefits packages can be a pain to sort through. When working with clients, we're often asked how employer-sponsored retirement plans work. While there are various plans you have likely heard of, your retirement plan will depend on the company or institution you work for.

How Are They the Same?

While the different employer-sponsored retirement plans can lead to confusion, each plan has the same end goal. They will help you prepare for life in retirement.

One important similarity are contribution limits. With one exception, each of the retirement plans outlined below has the same annual contribution limit. That limit is $20,500 for 2022. In addition, individuals over the age of 50 are eligible to contribute an additional $6,500. This allows for a total contribution limit of $27,000 for those above 50.

Lastly, most plans leave the door open for employer matching. Employer matching allows your employer to deposit a certain amount into your account alongside your personal contributions. The amount or percentage of matching is determined by your employer.

Be aware, this can come with a stipulation. Many employers that utilize employer matching will pair it with a vesting schedule that requires you to stay at the company for a stated number of years to receive the employer's contributions after leaving.

What Is a 401(k)?

401(k) plans are the most common retirement plan used by the private sector. The reason private corporations choose to use these plans is because they are simple to follow, flexible, and have relatively inexpensive administrative fees.

As for the specifics of how it works, there are a few aspects to note. In many cases, 401(k) contributions can be pre-tax or Roth. Contributions are invested directly from your paycheck, potentially lowering your Adjusted Gross Income (AGI). Having flexibility between pre-tax and Roth contributions grants participants the ability to manipulate their taxable income.

Another great benefit of these plans is the simple investment selection they offer. 401(k)s often have condensed investment menus, making the selection process less stressful for you. Regardless of their limited selection, you still have the choice to pick investments that align with your risk tolerance.

What Is a 401(a)?

As a 401(k) plan is utilized by private corporations, a 401(a) plan serves the same purpose for government or non-profit employees. While the end goal is still to help you save for retirement, 401(a)s have some notable differences from other retirement plans.
This plan gives the employer more control. The investment options are limited, providing employees with safer options compared to other plans. Employers also dictate whether employee contributions are made pre-tax or Roth.

Another notable difference is the contribution limit. The annual contribution limit of this retirement plan is determined by the employer. However, the maximum combined amount between both employee and employer cannot be greater than $61,000 per year as of 2022.

What Is a 403(b)?

A 403(b) plan is usually given to certain employees of public schools and other tax-exempt organizations. Overall, this plan closely resembles the 401(k) plan. It can either be pre-tax or Roth and can offer employer matching.

There is one major difference between this plan compared to the others. While they have the same annual contribution limit, this plan can allow for long-term employees (those who have served the organization for 15 years or more) to contribute up to $3,000 more per year. The benefit is capped at $15,000 a year.

What Is a 457(b)?

Like a 401(a), 457(b) retirement plans are usually utilized by government employers or non-profit organizations. 457(b) plans are employer-sponsored and tax-deferred. This plan allows you to take contributions from your paycheck, lowering your taxable income.

The annual contribution limit will be the same as other plans. As of 2022, that limit is $20,500 with catch-up contributions allowed.

457(b) plans are built with one unique difference when it comes to contribution limits. Starting three years before retirement, you may be eligible to contribute up to double the annual limit, or 100% of your salary, whichever is less. Another notable difference is the withdrawal age. Depending on your specific 457(b) plan, you may be able to withdraw money from this plan earlier than others with no penalties.

What Is a Thrift Savings Plan?

A Thrift Savings Plan (TSP) is only available to government employees. It is built to give Federal employees their own version of a 401(k). It is a tax-deferred retirement saving and investment plan, consisting of low costs and limited investment options.

The main differences come from the investment options allowed, usually government plans only allow a handful of low-cost investment options. In addition, all TSP plans have the same investment menu. With other plans, their investment menu might be altered by the company you work for.

Other than that, it follows suit with other retirement plans. It gives employees the opportunity to save, allows employer matching, and is tax efficient.

The Bottom Line

While these aren't all the employer-sponsored retirement plans available, they are the lion's share of what we deal with when working with our clients. It is important to note that these plans were built to be similar and have a similar outcome, comfortability in retirement.

Regardless, dealing with retirement plans and rollovers can be overwhelming no matter what retirement plan you have. Consider scheduling a discovery meeting or giving us a call if you have any questions regarding the intricacies of these plans. We are here to help you understand what each retirement plan means and how it can contribute to your long-term goals.