MALVERN BANK

It's Academic: Creating the Best Retirement Plan for Independent School Employees

By: Mark Cohen, Senior Vice President – Independent School Division

As an administrator of an independent school, your primary focus is educating your students so they can grow and learn for the future. However, it is also important to focus on your own future and that of your employees and understand the retirement plan benefits your school offers. Schools can provide a variety of retirement plans including the most common one, the 403(b). It is important to be aware of your plan and know how to maximize it for your future savings.

I recently spoke about independent school employee retirement plans with Jacqueline Reeves, Managing Director of Bell Rock Capital, LLC. Jackie specializes in managing 403(b) and other retirement plans.

Mark: What exactly is a 403(b) plan?

Jackie: The 403(b) is the most common type of retirement plan for private school employees. One of the benefits of a 403(b) plan is that it allows employees to save for their retirement in an easy manner. It is a pretax plan, meaning money that goes in is not taxed. It only becomes taxable once employees start taking distributions – thus allowing their money to grow tax free. Overall, utilizing the 403(b) is an easy way for employees to save for their future.

A quick note: There are different kinds of 403(b) plans, and many plans don't have ERISA protection (Employee Retirement Income Security Act). ERISA promotes minimum standards for retirement plans – helpful safeguards that can benefit savers.

Mark: Who is eligible for a 403(b) plan?

Jackie: The 403(b) is available to most educational organizations and nonprofits. Employers eligible for the plan may exclude those employees who work less than 20 hours per week, professors who are on sabbaticals, union employees covered under the collective bargaining agreements, and non-resident aliens with no U.S. income. Each plan defines the eligibility, so check with your plan administrator.

Mark: Is there an employer match for these 403(b) plans?

Jackie: Often there is a match, but it is not mandatory to do so. If there is a match it can vary from as low as 1%-3% to very high, like 7%-10%.

Employers are required to match participants' inputs with ERISA plans. Non-ERISA plans do not involve employer contributions and do not need to follow ERISA stipulations.

Mark: Is there a yearly contribution limit for employees?

Jackie: Yes. The 2021 limit for employee deferrals is up to $19,500 per year. The combined employee and employer contributions per employee cannot exceed $58,000. If the employee is 50 years old or older, they can defer up to an additional $6,500. Employees of a "qualified organization" with 15 years of service might be eligible to contribute $3,000 more.

Mark: How does a 401(k) plan differ from a 403(b) plan?

Jackie: A 401(k) plan is offered by any employer while a 403(b) plan is only available to educational organizations and nonprofits. A 401(k) has more "guardrails" as it necessarily operates under ERISA. A 401(k) can be offered to educational organizations and nonprofits, but a 403(b) cannot be offered to other companies. Just like the 403(b), the 401(k) has flexibility to determine eligibility such as excluding part-time employees, certain union employees covered under collective bargaining agreements, and non-resident aliens with no U.S. income.

Mark: Are their different contribution limits between the plans?

Jackie: Contribution limits for both 401(k) and 403(b) plans are up to the employer's discretion as part of the plan design, and there may be limits per payroll period – for example, 25% of the eligible payroll. Plan design can restrict employee contributions and it is essential to plan for all your employees.

Mark: Are their different investment options between the plans?

Jackie: Plan design has evolved such that many investment options available to 403(b) and 401(k) are similar. However, for many 403(b) plans, the best options are mutual funds and annuities. In a 401(k) plan, again based upon plan design, there are many options including stock, mutual funds, and ETFs (Exchange Traded Funds).

Mark: How important is it for private schools to maintain a competitive retirement plan to attract, reward, and retain talented employees?

Jackie: It is important to offer great benefits to keep employees happy and retain them. Most private schools understand the competitive landscape for talent and are constantly trying to improve their benefits.

Mark: How can Malvern Bank and Bell Rock Capital add value to managing a school's plan?

Jackie: Malvern Bank and its affiliate Bell Rock Capital can work together to provide value to private schools.

- We act as an advisor to help facilitate the education of employees about these retirement plans. In doing so, employees will better understand how they can use the plan to maximize their potential future savings and understand the benefits that are available to them.
- We are a fiduciary. Bell Rock is hired by an employer to make sure the investments they make are the best possible for their employees. We make sure that more money goes to the employer and employee, rather than unnecessary fees. Bell Rock ensures that all investments have passed rigorous scrutiny in order to be in the plan, increasing the opportunity for overall return.
- Bell Rock can offer either advisory or fiduciary service or a combination of both.

For additional further information or if you are interested in opening an employee retirement plan, please contact Sally Lawson, Malvern Bank's Senior Investment Advisor, at 610.695.3651. Sally can reduce the pressure you may be feeling about your finances and help set you on the path of financial wellness. You may be surprised how much Sally can assist you in achieving your long-term goals.

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