

403(b) vs 401(k): Retirement plans for nonprofits

Employers considering a retirement plan for employees are faced with **multiple choices**. Educational organizations and nonprofit organizations under IRC 501(c)(3) have a choice between offering a 401(k), a 403(b), or both.

Learn the differences between a 403(b) and a 401(k), and let Human Interest help you to choose the option that is best for your organization. Reach us at sales@humaninterest.com for guidance.

Which organizations are eligible for 403(b) plans?

According to the IRS, a 403(b) plan can **only be offered by public schools, colleges, universities, churches and charitable entities that are tax exempt under IRC 501(c)(3)**.¹

Who can offer a 401(k)?

Almost any type of company may offer a 401(k) plan, including nonprofit entities. Many nonprofits are eligible to present their employees with a 401(k) and a 403(b) retirement plan option.

Which retirement plan option is the best fit for you and your employees?

The best fit depends on the needs of your organization. Here are some factors to consider, so that you can make the best decision as an employer.

401(k) and 403(b) similarities

- ✓ Both types of plans allow employees to make pre-tax payroll deductions to save for retirement.
- ✓ Both types of plans allow for a Roth (after-tax) option. More information on the Roth vs. Traditional distinction:
 - Roth 401(k) vs. Traditional 401(k)
- ✓ In 2026, the maximum employee contribution is:
 - \$24,500 or
 - \$32,500 for employees age 50 and \$35,750 if ages 60-63.
- ✓ The employee contribution can be split between Traditional and Roth options, but cannot exceed the annual contribution limit.
- ✓ In 2026, the total employee and employer contribution is limited to the lesser of **\$72,000 or 100% of an employee's compensation**. If over 50, the limit is \$80,000 and if ages 60-63, \$11,250.

401(k) and 403(b) differences

401(k) plan

403(b) plan

Investment options	Plan participants can then buy and sell stocks, bonds, ETFs, and mutual funds in the normal manner, albeit with no tax consequences. However, some types of higher-risk trades are prohibited, such as trading on margin and buying put or call options or futures contracts.	Assets may only be invested in an annuity contract provided through an insurance company, or a custodial account invested in mutual funds (Churches may have additional options).
Hardship withdrawals	Depends on the plan.	Depends on the plan.
Applicability of ERISA	In general, subject to ERISA.	Depends upon the circumstances and construction of the plan.
Profit-sharing	Available	Available
Compliance, including non-discrimination testing	Subject to ADP, ACP, and Top Heavy testing.	Subject to ACP testing, not ADP or Top Heavy.
Universally availability rule	Does not apply	Generally must allow all eligible employees to participate for elective deferrals on the date of hire. Exclusions are limited to employees who work less than 20 hours per week, students, nonresident aliens and employees who are eligible to defer to a 401(k) sponsored by the same employer.

Nonprofit retirement plan cost considerations

Human Interest proudly serves nonprofit organizations and offers both 401(k)s and 403(b)s at the same, affordable price.

How to decide: 401(k) vs. 403(b)

- ✓ **401(k) pros:** The main benefit of a 401(k) over a 403(b) is flexibility. Should your organization change or restructure, a 401(k) would be able to stay with you during that transition, whereas a 403(b) would not. In addition, a 401(k) has more flexibility when designing the plan's eligibility rules for making elective deferrals.
- ✓ **403(b) pros:** 403(b)s have slightly easier compliance testing requirements since they are not subject to ADP testing. This will allow HCEs to contribute up to the maximum deferral limit, even if the plan is not a safe harbor design. However, this comes at the cost of flexibility when designing the plan's eligibility for deferrals. 403(b) plans that are not subject to ERISA have even more advantages.

If you need more information to decide between the two or have specific questions about your organization's needs, please contact us at sales@humaninterest.com.

¹ Tax-Sheltered Annuity Plans. IRS. February 2023.

Human Interest Inc. is an affordable, full-service 401(k) and 403(b) provider that seeks to make it easy for small and medium-sized businesses to assist their employees invest for retirement. For more information, please visit humaninterest.com.

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