403(b) vs. Roth IRA: Which Retirement Plan Is Right for You?

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There are many different ways to save for retirement. Roth IRAs and 403(b)s are among the more popular account types. The former has strong after-tax perks and is available to most savers below certain income limits, while the latter is reserved for public and nonprofit workers. Deciding where to place your retirement savings assets can be a difficult decision, but a financial advisor may be able to help.

What Is a 403(b)?

A 403(b) plan is also known as a tax-sheltered annuity, or TSA, plan. These plans tend to be offered by public schools and some nonprofits. For reference, the private company equivalent of a 403(b) is a 401(k) plan.

For the most part, 403(b)s still allow you to contribute to a retirement plan and, depending on your employer, they may allow for employer contributions to the account as well. You might be eligible for one if you work for:

- A public school
- A state college or university
- A church
- A school within an Indian tribal government
- Some self-employed ministers may also qualify

Your contributions and earnings from a 403(b) are pre-tax, which means any income you defer into the account won’t be subject to income tax right now. You also won’t have to worry about paying taxes on dividends or capital gains as the invested money grows. In fact, you won’t pay taxes until you start making eligible distributions from your 403(b) plan, which comes when you turn 59.5 years old.

Contribution limits for a 403(b) plan are similar to a traditional 401(k) account. For the 2025 tax year (for which returns are filed in 2026), you can contribute up to $23,500. If you're 50 years of age or older, you can make an additional $7,500 in catch-up contributions in 2025. That means those 50 or older can contribute up to $31,000 in 2025. Starting in 2025, though, there's also a "super catch-up contribution" rule that applies to those 60 to 63 years old during the year. For these account holders, the catch-up contribution limit is increased to $11,250, bringing the total contribution limit for those 60 to 63 to $34,750 in 2025.

Depending on the plan your employer chooses, a 403(b) plan can be invested in one of a few different ways:

- An annuity contract through an insurance company
- A custodial account that invests in mutual funds
- A specific retirement income account set up for church employees

Don't fret if you end up leaving your job that provides your 403(b) plan. Should this happen, you can roll it over to another retirement account. If you want, you can open an IRA, a Roth IRA or a 401(k), if your new job offers it.

403(b) Cons

A 403(b) plan is only available to government workers, like public school teachers, and employees of nonprofits and religious groups like churches and synagogues. Unlike some other tax-advantaged plans, you cannot use a 403(b) to invest in exchange-traded funds, individual stocks or real estate investment trusts. Standard withdrawals from a traditional 403(b) are taxed as regular income.

ERISA rules do not apply to employers that offer 403(b) plans. That exemption could raise the likelihood that plan administrators ignore nondiscrimination requirements. Further, these ERISA exemptions normally prevent 403(b) plans from making employer contributions.

What Is a Roth IRA?

A Roth IRA is a kind of individual retirement account (IRA). While contributions to a traditional IRA are tax-deductible, Roth IRA contributions do not allow you to lower your taxable income. But when you retire, your Roth IRA withdrawals will be tax-free (by contrast, traditional IRA withdrawals are taxed as ordinary income when you take them out in retirement). So the major perk of a Roth IRA is that you're helping your future self by avoiding a bigger tax burden down the road.

Roth IRAs are similar to other IRAs in that you can have an account without needing your employer to set it up. Since they're individual accounts, they stay with you as you move jobs without the need for rollovers. IRAs can be set up at banks or other financial institutions.

Another benefit of a Roth IRA is that you don't have to take required minimum distributions (RMDs) like you do with a traditional IRA. That means if you're not ready to make withdrawals, you don't have to.

Contribution limits for IRAs are much lower compared to a 403(b). More specifically, in 2025, you can only contribute $7,000, plus an extra $1,000 in catch-up contributions (50 or older) to either a traditional or Roth IRA.

Roth IRA Cons

The major downside of a Roth IRA compared to a regular IRA is that savers can't deduct contributions from current income for tax purposes. Compared to regular brokerage accounts and other non-tax advantaged accounts, a Roth IRA disadvantage is that savers have to wait until age 59.5 to withdraw earnings without penalty.

Due to income limits, people who earn too much can't use Roth IRAs at all. In 2025, married couples filing jointly with an adjusted gross income over $246,000 can't contribute to Roth IRAs (up from $240,000 in 2024). Single filers are barred if they earn more than $165,000 (up from $161,000 in 2024). At somewhat lower levels of income, savers may be able to save smaller amounts in Roth IRAs.

403(b) vs. Roth IRA: Major Differences

There are many differentiating factors between Roth IRAs and 403(b)s. Perhaps the most significant of these are their respective contribution limits. If you have a choice between these accounts, here are some comparisons to pay attention to:

Below is a table that lays out who is eligible for both types of tax-advantaged accounts and relevant contribution limits for 2025. The row on "Who Can Open One" for the Roth IRA refers to modified adjusted gross income.

403(b) vs. Roth IRA

Details	403(b) Account	Roth IRA
Contribution limit for 2025	$23,500	$7,000
Catch-up contribution limit for 2025	Those 50 or older: $7,500 Those 60-63: $11,250	$1,000
Who can open one?	A public sector or nonprofit employee, like a teacher or minister	Single filers making less than $165,000 and married couples filing jointly making less than $246,000
Can your employer contribute?	Yes	No
Is there an RMD?	Yes, at 73 years of age	No (while the owner is alive)
Can you keep it forever?	As long as your employer offers it and you stay with that job	Yes, regardless of employer or job status

Which Retirement Account Should You Open?

If you qualify for both a Roth IRA and a 403(b), knowing which you should choose can be difficult. For many, the answer is “both” – you can absolutely contribute to both a 403(b) and a Roth IRA at the same time. But if you have limited funds and can only contribute money to one account, then your choice depends on a few factors.

The first thing to consider is employer matching. As with a 401(k), an employer may choose to match some of their employees’ contributions to a 403(b). This is what we might call “free” money, so if your employer offers matching, make sure you try your best to contribute whatever it takes to your 403(b) to max out this benefit.

Beyond that, consider taxes: Do you expect your tax rate to be higher now or in retirement? If your tax rate is relatively low right now, you may be better off with a Roth. That’s because it taxes contributions at your current income tax rate but lets you withdraw tax-free. Contributing early in life is also advantageous because your contributions have more time to grow tax-free. If, on the other hand, you expect to have a lower tax rate in retirement than you do now, then you may be better off with a tax-deferred vehicle like a 403(b).

Another factor to keep in mind is your investment options. A 403(b) will have a limited “menu” of investments to choose from – usually a collection of target-date funds and other mutual funds. On the other hand, opening an individual retirement account at a brokerage gives you access to a wide variety of options, from sector ETFs to low-cost index funds to individual stocks and bonds. If the investment options at your employer’s 403(b) seem limited, then an IRA might be better for you.

Just as Roth IRAs also come in a traditional (tax-deferred) variety, so too can a 403(b) come in a Roth variety. So if you like the simplicity and high contribution limit of a 403(b), but want to pay taxes now and enjoy tax-free distributions in retirement, look into a Roth 403(b). And if you want more retirement options but still want to take a tax deduction now, go with a traditional IRA instead of a Roth IRA.

Whatever you choose, the important thing is that you're saving money, investing it in the market, and getting some kind of tax advantage. Having a retirement plan is better than not having one at all. Whether you have the chance to open a 403(b) plan, a Roth IRA or another retirement plan, try to find one that's right for you. In the end, you'll be happy you have your retirement plans sufficiently in order.

Bottom Line

The perceived choice of which retirement account you should use is really a fallacy. No IRS rules are holding you back from taking advantage of multiple account types. That means you can have both an after-tax Roth IRA and a pre-tax 401(k) at the same time. Diversifying your assets between these various tax advantages can have major benefits when you retire.

Tips to Help You Get Ready for Retirement

- If you're unsure which plan is right for you, or you need help picking investments, you may want to work with a financial advisor. Finding a financial advisor doesn't have to be hard. SmartAsset's free tool matches you with up to three vetted financial advisors who serve your area, and you can have a free introductory call with your advisor matches to decide which one you feel is right for you. If you're ready to find an advisor who can help you achieve your financial goals, get started now.
- No matter which plan you choose, do your best to max out your contributions. The more money you save now, the more your future self will have when retirement comes around. When you're young and earning a lower salary, it may be tough to max out your contributions. However, this head-start can make a huge difference.
- Don't forget to add in Social Security payments when you calculate

what your retirement income will look like. To get an idea of what you can expect to receive, stop by SmartAsset’s Social Security calculator.

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Dori Zinn has been covering personal finance for nearly a decade. Her writing has appeared in Wirecutter, Quartz, Bankrate, Credit Karma, Huffington Post and other publications. She previously worked as a staff writer at Student Loan Hero. Zinn is a past president of the Florida chapter of the Society of Professional Journalists and won the national organization's "Chapter of the Year" award two years in a row while she was head of the chapter. She graduated with a bachelor's degree from Florida Atlantic University and currently lives in South Florida.