Texas State University | San Marcos
Tax Deferred Account Program Information Sheet

(Rev. 3/2006)

As an employee of Texas State University, you may be eligible to participate in the Tax Deferred Account (TDA) Program. The TDA Program is a tax-favored retirement plan that allows you to contribute pre-tax dollars to the plan and defer the tax liability on contributions and the earnings until retirement. This program is voluntary and participation is *in addition to the required retirement program.* The TDA Program is subject to all applicable provisions of Sections 403(b)(1), 403(b)(7), and 415 of the *U.S. Internal Revenue Code,* as amended.

What are the income tax advantages of a TDA?

As an employee of Texas State University, you can use the tax law to your financial advantage. Section 403(b) of the Internal Revenue Code provides for two specific tax advantages.

Pre-tax contributions

First, unlike many conventional savings plans, pre-tax contributions to a TDA allow you to lower your current tax liability. Many of the dollars you will contribute to your account will be dollars you would otherwise have paid to the federal government in taxes. Therefore, you can build your account with far fewer out-of-pocket dollars.

And, by deferring the payment of taxes on TDA contributions until the money is withdrawn--usually at retirement when you may be in a lower tax bracket--you are likely to pay less tax on your earnings.

Note: You are encouraged to evaluate short and long-term tax consequences of contributing to a TDA vs. other investment alternatives. For example, using a Roth IRA or paying capital gains tax instead of ordinary income tax may be more advantageous for certain individuals. Please consult your tax advisor.

Tax-deferred accumulation

Through the use of a TDA, you not only save at a faster rate, you defer paying current taxes on the interest or earnings of your account. This means that dollars you would normally have paid in income taxes remain in your account, where they can continue to earn additional income over time.

The growth of your TDA quickly outdistances that of a conventional taxable savings account--thanks to the power of tax-deferred accumulation.

How do I enroll?

You may participate in the TDA Program at any time during the year by entering into a salary reduction agreement with the University. A Texas State University Tax Deferred Account Salary Reduction Agreement must be received in the Human Resources office by the 5th of the month to be effective the 1st of that month. In addition, you will need to complete an application to open an account with the carrier you selected.

Because there are a number of authorized carriers and investment products available, we suggest that you contact more than one carrier in order to have a better comparison. Texas State University does not endorse any specific carrier, representative or investment product. You must evaluate those yourself, keeping in mind your anticipated investment goals.

How much may I contribute to a TDA?

In general, the maximum for 2006 is $15,000. Employees age 50 and up may make additional "catch-up" deferrals of $5,000. Both of these may be indexed for cost of living in $500 increments for each year thereafter.

Am I limited to just one TDA account?

No. You may have as many accounts as you wish, as long as your *total* contributions do not exceed the maximum amount allowed by law.

May I suspend my contributions for a time and then continue them later?

Certainly. Any time you feel it is necessary, you may discontinue your contributions. Your account will continue to accrue on a tax-deferred basis.

May I change carriers or transfer funds from one carrier to another?

Yes. You may change carriers for future contributions by submitting a Texas State University Change of Carrier form to the Human Resources office. You may leave your funds with a carrier or rollover all or a portion of your funds to a new carrier at any time during the year by completing a Texas State University Capital Transfer form.

May I have an individual retirement account (IRA) if I have a TDA?

Yes. As a wage earner, you are eligible to contribute to an IRA. And, you may even be eligible to deduct your IRA contributions by participating in a TDA account. Should you currently earn more than the maximum income allowed for IRA deduction eligibility, you may reduce your taxable income enough through TDA contributions to qualify for IRA deductions.

Are Social Security benefits affected by my TDA contributions?

No. The TDA benefits you receive at retirement do not affect the level of Social Security benefits to which you are entitled.

May I take out a loan against my account balance?

Possibly. The IRS allows a maximum loan amount not to exceed $50,000 or 50% of the account value. Loan repayments must be made at least quarterly not to exceed 5 years unless the loan is to purchase a principal residence in which case the term may be longer. Individual loan provisions vary widely by carrier and product selected.

When <u>must</u> I withdraw money from my account?

Generally, distributions from 403(b) retirement plans must begin no later than April 1st following the calendar year in which a participant turns 70-1/2. A participant age 70-1/2 prior to January 1, 1988 may delay beginning required distributions until April 1st of the year following the calendar year of actual retirement.

How will the benefits from my TDA be taxed?

The distributions are taxed as ordinary income in the year in which you receive them. You have the option of receiving the funds in a lump sum or in periodic payments as an annuity. With an annuity, you are taxed on payments as received. This frequently results in a lower overall tax bill.

Will I have options to withdraw funds?

Yes. There are several ways you can withdraw your funds. You are always allowed to withdraw contributions and accrued earnings made before January 1, 1989 for any reason. After that date, federal tax law has imposed restrictions; withdrawals may only be made under the following circumstances:

- Separation from service
- Death
- Age 59-1/2 or older
- Disability
- Hardship*, such as:
  - -- Nonreimbursed medical expenses for an employee and his/her spouse or dependents
  - -- Purchase of a principal residence
  - -- College tuition
  - -- Eviction or foreclosure on mortgage of principal residence
  - -- Other immediate and heavy financial need

*Only employee contributions without accrued interest may be withdrawn in case of hardship; may not exceed the amount necessary for the hardship; and may be made only if other resources are not reasonably available.

Are there any tax penalties?

Even if a condition for an early withdrawal is satisfied, a 10% penalty tax may still be assessed on the amount withdrawn. The 10% penalty tax is *waived* under the following circumstances:

- You separate from service during or after the year you reach age 55;
- You are disabled or die
- You take a life contingency annuity (at any age) which commences upon separation from service
- You use the money to pay for uninsured medical expenses
- In the case of a divorce settlement dividing assets, if the withdrawal is made per a qualified domestic relations order (QDRO).

<u>Additional Information</u>

Please read all information carefully before entering into a salary reduction agreement or investing in a specific investment product. Texas State University does not take any fiduciary responsibility for the market value of investments or financial stability of the company or product(s) selected.

You may contact Texas State University Human Resources for additional information. A current list of carriers and representatives authorized to conduct business on campus is available at:

www.humanresources.txstate.edu/benefits.htm