

TDA Program Summary

Tax-Deferred Annuity Program



Teachers' Retirement System of the City of New York

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TRS' Tax-Deferred Annuity (TDA) Program is an excellent way to save additional money for your retirement. By investing part of your paycheck—even 1%—you take an important step toward your financial growth. This Summary provides an overview of the TDA Program, highlights many of its advantages, and includes important guidelines about participation. Since this booklet is updated regularly, existing TDA participants will find information about recent changes to the TDA Program.

Introducing TDA

TRS' TDA Program is an optional investment plan open to all TRS members. Established in 1970, our TDA Program is maintained in accordance with Section 403(b) of the Internal Revenue Code (IRC). Section 403(b) plans are available only to employees of educational institutions, hospitals, and certain other not-for-profit organizations.

TRS' TDA Program enables you to invest money for your future consistently on a tax-deferred basis. By contributing, you may reduce your taxable income and your current tax liability. For example, you will not pay any taxes on your contributions or your earnings until you withdraw your funds. (Distributions generally are federally taxable and may be subject to state and local taxes; please check with your tax advisor.)

Over 122,000 TRS members have TDA accounts, taking advantage of two retirement plans under the same roof. Around 77,000 members (or about two-thirds of our in-service membership) are actively contributing to TRS' TDA Program. These members are enjoying the above benefits of tax-deferred investing, as well as the following advantages that our TDA Program offers:

- **Flexibility:** Six diverse investment options
- **Convenience:** Contributions deducted automatically from your pay
- **Loan availability:** Access to your TDA money before retirement
- **Online access:** Account management on our website

Enrolling in the TDA Program

All TRS members are eligible to participate in the TDA Program. You can enroll quickly and securely on our website (see “Online TDA Account Access,” page 7). Or, if you prefer, you may file a paper “TDA Enrollment Form” (code TD1).

When you enroll in the TDA Program, you designate how your contributions will be invested among TRS’ investment programs, which are listed below and on page 3. In general, your TDA contributions would begin on the first payroll that begins at least 30 days after TRS receives your enrollment request.

As part of the enrollment process, you should also designate a beneficiary for your TDA funds (see “Providing for Your Survivors,” page 6). You can do this by accessing our website or by filing a “Designation of TDA Beneficiary Form” (code EN8). It is important to keep your beneficiary designations current throughout your TDA participation.

Comparing the TDA Program to TRS’ Qualified Pension Plan (QPP)

As a defined-benefit plan, the QPP guarantees that your employer will provide you with a specific benefit at retirement. You are required to contribute a portion of your salary to the QPP; in addition, your employer makes contributions to your QPP account. QPP funds form the basis for your retirement allowance.

In contrast, as a voluntary, defined-contribution plan, TRS’ TDA Program enables you to determine the amount you will invest each year, within the maximum amount allowed by law. Your TDA account is funded exclusively through your own contributions and any interest/investment return. The benefits you receive depend solely on your TDA account balance.

Contributing to the TDA Program

Under federal law, members can contribute a designated amount to TRS’ TDA Program each year. In addition, all members 50 years and older are eligible to make pre-tax “catch-up” contributions. An additional “catch-up” rule applies for certain members with 15 years of qualifying City employment. See the box below for contribution amounts.

If you are a contributor to TRS’ TDA Program, and/or an external 401(k) Plan, you should be aware that your maximum contribution amount applies to the total of your TDA Program and 401(k) Plan contributions. If you also belong to an external 457 Plan, you would also be able to contribute your maximum amount to that plan. (For example, if your maximum contribution amount is \$17,500, you would be able to contribute that amount to your TDA and a 401(k) combined in 2013; if you also belong to a 457 Plan, you would be able to contribute up to \$17,500 to that plan as well.)

Personalizing Your TDA Investment Strategy

Financial experts agree that no single option is suitable for all investors. Accordingly, TRS offers you six different investment options—the Passport Funds—for your TDA account. You may invest in any or all of the following investment options to best suit your financial goals:

The **Fixed Return Fund** offers a guaranteed rate of return set by the New York State Legislature in accordance with applicable laws. The current annual rate is 7% for members who are serving in (or resigned/retired from) titles represented by the United Federation of Teachers (UFT) and 8.25% for other members.

Maximum Contribution Amounts for 2013

- The general maximum contribution amount is \$17,500 per year.
- Members age 50 and older may make additional “catch-up” contributions of \$5,500 per year over this maximum contribution amount.
- Members with 15 years of qualifying City employment (who have contributed an average of \$5,000 or less per year) may contribute up to an additional \$3,000 per year in “catch-up” contributions, up to a total of \$15,000 over their lifetime.

The returns on the other five funds—known as “variable-return” Passport Funds—fluctuate monthly.

The **Diversified Equity Fund** invests primarily in U.S. equities and may also invest in international equities and other types of investments.

The **Bond Fund** invests primarily in a portfolio or portfolios of high-quality bonds that provide for participant transactions at market value.

The **International Equity Fund** invests primarily in the stocks of non-U.S., developed-market companies.

The **Inflation Protection Fund** invests in assets such as commodities, real estate securities, and inflation-linked bonds.

The **Socially Responsive Equity Fund** invests in U.S. equities, avoiding companies that receive significant revenue from alcohol, tobacco, nuclear power, or weapons.

You can change your Passport Fund investment mix on a quarterly basis, and your investment changes can take place over periods of 3, 6, 9, or 12 months. Please read the booklet *Passport Funds: Fund Profiles* for a detailed description of the Passport Funds, and visit our website for current and historical performance data.

Benefiting from Tax Deferral

Pre-tax contributions—Your TDA contributions are taken from your paycheck before taxes are deducted, thereby reducing the amount of your gross taxable income. Since your take-home pay is higher than it would be if you invested in a comparable taxable investment plan (see chart below for illustration), more of your salary is available to you for saving, investing, or meeting other needs.

Tax-deferred earnings—Members do not pay taxes on the money their TDA investments earn until they actually receive the funds from their account, (Distributions generally are federally taxable and may be subject to state and local taxes; please check with your tax advisor.) By comparison, in a taxable plan, you would pay taxes on your earnings as they accrue.

Contributing Through Payroll Deductions

Your TDA contributions are automatically deducted from your pay and deposited in your TDA account. You never have to write a separate check to your account. Investing a set amount on a regular basis (called “dollar-cost averaging”) tends to be a reliable method for saving, and produces positive results over time. Your contributions buy more shares (units)

Comparison of TDA and Taxable Retirement Plans

The following table compares the income of a TDA participant with the income of a non-participant who grosses the same amount (\$45,530) annually but invests in a taxable retirement plan. As this table illustrates, the TDA participant has a lower adjusted gross income than the participant in the taxable plan; as a result, the TDA participant pays less tax and has higher net income.

Gross Annual Income	Annual TDA Contribution	Adjusted Gross Annual Income	Annual Federal Income Tax*	Annual Contribution for Taxable Investment Plan	Net Annual Income	Annual Federal Income Tax Deferral
TDA Participant						
\$45,530	\$2,000	\$43,530	\$5,424	\$0	\$38,106	\$500
Participant in a Taxable Plan						
\$45,530	\$0	\$45,530	\$5,924	\$2,000	\$37,606	\$0

*The above is based on 2012 federal income tax rates and assumes a 10% marginal tax rate. The actual tax liability may vary based on individual circumstances.

when the price is low, and fewer when the price is high, so your money continues to accumulate and generate earnings. In addition, since you contribute to TDA at a set rate, your contributions automatically increase when your salary does.

Enjoying the Flexibility of TDA

The TDA Program offers you flexibility:

- You may make contributions in 5% increments to any or all of TRS' Passport Funds.
- You may change the way your future contributions and past accumulations are invested on a quarterly basis. You may do so at any time by accessing our website (see page 7) or by filing a paper "TDA Investment Election Change Form" (code TD45).
- If you want to change your contribution rate or stop contributing to the TDA Program, you may do so at any time by accessing our website or by filing a paper "TDA Contribution Rate Change Form" (code TD4). If you stop contributing, you may later resume contributions through the same online feature or paper form.

Borrowing from Your TDA Account

The TDA Program allows eligible participants to take loans against their TDA account. To qualify, you must meet the following criteria:

- You have participated in the TDA Program for at least one year;
- You are an in-service member or a member on a leave of absence, **or** you have TDA Deferral status; and
- You are not currently in default on a TDA loan.

You may apply for a TDA loan by accessing our website (see page 7) or by filing a "TDA Loan Application" (code LO15). Your loan would generally be available within 15 days after TRS receives your application.

You may be eligible to receive a TDA loan via Electronic Fund Transfer (EFT), generally if you

are paid on the New York City payroll through direct deposit or if you receive your retirement allowance payments from TRS via EFT. In either case, you may elect that a new TDA loan be forwarded via EFT to the account where the above payments are deposited.

You may take one TDA loan within a 12-month period. Under Internal Revenue Service (IRS) regulations, TRS must treat each loan issued under the TDA Program independently (*i.e.*, separate loan balances, repayment terms, interest charges, and applicable insurance premiums).

Generally, the minimum loan amount is \$1,000. However, you may borrow a minimum of \$250 if you have an existing outstanding TDA loan(s). Your new total outstanding TDA loan amount, plus your existing TDA loan balance(s), must total at least \$1,000.

In general, you would have a maximum of five years (60 months) to repay your TDA loan. For in-service members, loans are normally paid through payroll deductions.

If you are on a leave of absence, you would automatically qualify for a 12-month grace period, when loan payments need not be made; however, interest and insurance charges would continue to accrue on the unpaid balance.

If you elect TDA Deferral status when you retire or when you separate from service with vested status, you may maintain an outstanding loan balance(s) and avoid a taxable distribution. In such a case, you would be required to make monthly loan payments directly to TRS. Any new TDA loan taken in conjunction with annuitization of your TDA funds would not be repaid to TRS; instead, it would be considered a distribution for tax purposes.

For complete information on TDA loans, including the maximum amount you may borrow, interest rates, service charges, insurance premiums, and repayment, please refer to the *TDA Loans* brochure, which is available on our website.

Withdrawing Funds from Your TDA Account

Since the TDA Program is designed as a retirement plan, the IRS places restrictions on withdrawals before retirement.

- If you have reached age 59½, or have separated from service, you have unrestricted access to your TDA funds.
- If you are an in-service member who has not yet reached age 59½, you may withdraw your Pre-1989 funds (*i.e.*, the TDA contributions and earnings you accumulated as of December 31, 1988) at any time.

To withdraw TDA funds, you must file a “TDA Withdrawal Application” (code TD32). To continue to defer taxes on those TDA funds, you may ask TRS to directly roll over the funds by also filing a “TDA Direct Rollover Election Form” (code TD22). Under a Direct Rollover, the TRS check representing withdrawn funds is made payable directly to the IRS-qualified Individual Retirement Arrangement (IRA) or other eligible successor program that you select.

Note: As a result of IRS regulations governing Section 403(b) plans, TDA participants are currently not permitted to move funds from TRS’ TDA Program to a Section 403(b) plan outside of New York City. On the advice of outside tax counsel, TRS has suspended all processing of requests to move TDA funds to a Section 403(b) plan (except the New York City Board of Education Retirement System) pending further clarification from the IRS.

In addition, if you are an in-service member who has not yet reached age 59½, you may withdraw your Post-1988 contributions (but not your earnings) in the case of hardship, which is defined as a sudden and heavy financial need that you are unable to reasonably meet through loans or other financial resources. Examples of hardship conditions include payment of certain medical or funeral expenses, payment of post-secondary school tuition, and payment to prevent eviction or foreclosure. You must maximize all other available TRS and non-TRS resources and provide TRS with appropriate documentation before a hardship withdrawal can be granted. Hardship withdrawals are not eligible for Direct Rollover.

You may request a hardship withdrawal by filing a “TDA Hardship Withdrawal Application” (code TD44). If your “TDA Hardship Withdrawal Application” is approved, any TDA contributions would automatically cease for six months. You would be eligible to resume contributions after this period.

Any withdrawal of funds should be processed on the first payroll that occurs at least 60 days after TRS receives your valid withdrawal application(s).

Understanding the Tax Consequences of Withdrawals

For all Direct Withdrawals other than hardship withdrawals, TRS is required to withhold 20% of withdrawn amounts if the total amount withdrawn exceeds \$200. TRS would send the withheld amount to the IRS as credit towards your federal income taxes for the year of distribution. (The 20% withholding would not apply to any portion of the withdrawal that you elect to have TRS directly roll over.) If you receive a Direct Withdrawal and do not roll over the distribution within 60 days of the date on the withdrawal check, the withdrawal would generally be subject to federal tax (and possibly state and local taxes; please check with your tax advisor).

Note: Additional amounts may be withheld from your TDA withdrawal/disbursement if a TDA loan balance was deemed a distribution earlier in the same year. (The additional withholding would be applied toward the taxes due on the deemed distribution.) TRS’ forms such as the “TDA Withdrawal Application” (code TD32) provide details.

The IRS may impose an additional 10% tax on all Direct Withdrawals, unless they are made a) during or after the year in which you reach age 59½; or b) in conjunction with your separation from service during or after the year in which you reach age 55; or c) to pay federally deductible medical expenses; or d) in conjunction with your disability retirement; or e) by your beneficiary in conjunction with a death benefit payment.

Amounts distributed through a hardship withdrawal are subject to federal income tax; on your “TDA Hardship Withdrawal Application,” you may elect whether to have 10% withholding applied. State and local taxes may also apply; please check with your tax advisor.

In all cases, if withholding is applied, you would be able to claim the amount withheld as tax paid on your tax return for the year of distribution.

Separating from Service Before Retirement

If you leave service after attaining vested rights under the QPP, you may either a) withdraw your TDA funds or b) elect TDA Deferral status by filing a “TDA Deferral Status Election Form for Vested Members” (code TD31). Electing TDA Deferral status would delay the distribution of your TDA funds past the initial payability date of your retirement allowance. Deferring distribution of your TDA funds means that you would avoid paying taxes on those funds (and any resulting interest and/or investment return) until you receive them.

If you leave service before attaining vested rights under the QPP, you may withdraw your TDA funds at any time. If you leave your TDA funds with TRS, they would continue to accrue interest and/or investment return for seven school years. However, if you withdraw your QPP funds, you must also withdraw your TDA funds.

Receiving Your TDA Funds After Retirement

When you retire, you must make a decision regarding the distribution of your TDA funds. Your options are described below. In some cases, you may receive your TDA funds through a combination of these options:

- You may elect TDA Deferral status and thereby delay the distribution of your TDA funds past the payability date of your QPP retirement allowance. To do so, you must file a “TDA Deferral Status Election Form for Retiring Members” (code TD30) with TRS.
- You may receive your TDA funds as a monthly annuity, which is separate from, and in addition to, your QPP retirement allowance. Amounts distributed to you as an annuity will generally be federally taxable and may be subject to state and local taxes; please check with your tax

advisor. You must file a “TDA Annuitization Election Form” (code TD6) with TRS to make this election.

- You may withdraw all or part of your TDA funds and/or direct these funds to an eligible successor program through Direct Rollover.

IRS rules determine how long TDA participants may defer receipt of their TDA funds. In general, TDA distributions are required for members who have left service (having elected TDA Deferral status) and who have reached age 70½ by December 31 of a given year. In most cases, they would have to meet minimum distribution requirements for every year that they maintain a TDA balance. If you are a member with TDA Deferral status, your first distribution must be received by the first business day in April of the year after you reach age 70½. Each year, TRS contacts members who are subject to the IRS’ Required Minimum Distribution (RMD) rules and informs them of their distribution options.

Providing for Your Survivors

The TDA Program allows you to name one or more beneficiaries to receive your TDA funds in the event of your death. If you are an in-service member or you have TDA Deferral status, you may change your beneficiaries at any time by accessing TRS’ website or by filing a “Designation of TDA Beneficiary Form” (code EN8). You should keep a current beneficiary designation on file with TRS at all times. Please be aware that, if you do not have a beneficiary designation on file with TRS, any TDA funds in your account would be payable to your estate after your death.

If you elect to annuitize your TDA funds at retirement, you may choose from several payment options that provide benefits for one or more beneficiaries.

If a TDA participant dies, his/her designated TDA beneficiaries may be eligible to establish a TDA account with TRS, rather than receive a TDA death benefit payment.

For more information on TDA death benefits, please consult the *Beneficiary’s Guide to Death Benefits* brochure.

Online TDA Account Access

Our website at www.trsnyc.org is designed to give you secure access to your TDA Program account. After you have registered on TRS' website (*i.e.*, you have a user name and password), you can view your account information and complete online transactions, such as enrolling in the TDA Program and designating beneficiaries. Once enrolled in TDA, you can use the website to manage your TDA account. At "My TDA," you can change your contribution rate and investment mix, apply for a loan, and more.

General information about our TDA Program, including forms and publications, is also available through our website. If you require any additional assistance, we encourage you to contact our Member Services Center at 1 (888) 8-NYC-TRS.

This publication should not be solely relied upon, as it is based on currently available information that is subject to change. TRS suggests that you consult with an attorney and/or a tax advisor if you have any specific legal or tax questions concerning this information. In all cases, the specific provisions of the governing laws, rules, and regulations prevail.



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