

# 403(b)/403(b)(7) Tax Deferred Annuities (TDA)

## TDA - A SMART APPROACH FOR MEETING YOUR FINANCIAL GOALS!

A Tax Deferred Annuity gives you the opportunity to supplement other retirement savings plans and enjoy favorable tax advantages along the way.

**Q. WHAT IS AN ANNUITY?**

A. An annuity is a contractual agreement between you and a life insurance company. In return for the deposits you make during your working years, the company promises to pay you monthly payments for a designated period of time. Only a life insurance company can offer an annuity that guarantees payments for life.

**Q. WHAT IS A 403(b)(7)?**

A. In 1974, along with other code changes, paragraph (7) was added to Code Section 403(b). While previously 403(b) participants were limited to choosing between fixed and variable annuities, Section 403(b)(7) added a third investment option - mutual funds having custodial arrangements with a recognized financial institution. For the first time, participants were able to take advantage of the financial opportunities of mutual fund accounts, including the popular “no load” funds.

**Q. ARE THERE ANY LIMITS TO HOW MUCH I CAN DEFER EACH YEAR?**

A. YES

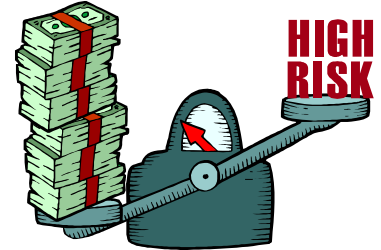
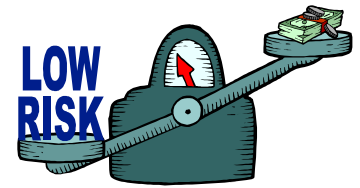
Provision	2006	2007	2008
402(g) limit on elective deferrals to 403(b) plans	\$15,000	\$15,500	Expected to be \$16,000 with incremental increase of \$500
403(b) deferrals for participants 50 or older	\$5,000	\$5,000	Expected \$5,000

**\*\*Employees of qualified employers may contribute up to an additional \$3,000/year after 15 years of service. (An averaging calculation must be done to ensure that the option is available)**

**Q. WHO SHOULD CONSIDER A TDA?**

A. You should investigate a TDA if:

- \* You pay substantial amounts of federal income taxes.
- \* You are in a dual income family.
- \* You are single, with no dependents.
- \* You are investing money on an after-tax basis for long-term goals.
- \* You have sufficient emergency funds.



**Q. WHY IS A TDA AN IMPORTANT SAVINGS PLAN?**

A. Contributions to a TDA are deposited into the plan on a pre-tax basis. In addition, interest earnings accumulate on a tax-deferred basis.

**Q. HOW ARE CONTRIBUTIONS MADE?**

A. To establish a TDA plan, you must complete an application and a salary reduction agreement form; which, in effect, reduces your taxable salary. Your employer will automatically reduce your paycheck by the amount you designate and will contribute that portion to the plan.

**Q. IF I BEGIN THE CONTRACT DURING THE MIDDLE OF THE YEAR, IS IT TOO LATE FOR ME TO PUT IN THE MAXIMUM ALLOWED AMOUNT FOR THE YEAR?**

A. No. With your employer's permission, you can establish your salary reduction agreement to make up for the months you missed so far. For example, if you wish to deposit \$100 a month but did not sign up until June; you could make your agreement for \$200 a month until the end of the year and \$100 a month thereafter.

**Q. MAY I STOP CONTRIBUTING AT ANY TIME?**

A. YES. You may terminate your salary reduction agreement at any time.

**Q. WHAT HAPPENS IF I CHANGE JOBS?**

A. If you remain eligible for a TDA, you have several options:

1. Continue your present contract with your existing carrier with your new employer.
2. Leave your present contract on paid-up status, if the account value is at least \$600; and begin a new contract with an insurance company offered by your new employer.
3. Transfer the value of your present account to a new contract with an insurance company offered by your new employer. No taxes will be due if the transfer is executed properly.
4. Take a lump sum distribution. The distribution amount is includeable as income for the year and taxed accordingly.

5. Choose an annuity option. Annuity payments are taxable as received.

If you do not remain eligible for a TDA, you may choose either option 4 or 5, or:

1. You may transfer your account value to an IRA (IRA Rollover). No taxes will be due if the transfer is executed properly. However, your account will then be subject to IRA tax rules.

2. You may leave your account on paid up status if the account value is at least \$600. No taxes will be due.

**Q. CAN I HAVE A TDA PLAN IN ADDITION TO OTHER SAVINGS OR RETIREMENT PLANS?**

A. YES. You may have a TDA in addition to your IRA. Because federal and state rules and regulations differ between IRA's and TDA's, it is generally agreed that it is best to maximize your TDA contributions before starting an IRA. You may also be a participant in other savings or retirement plans your employer provides.

**Q. IF I PLAN TO RETIRE IN JUST A FEW YEARS, SHOULD I PARTICIPATE IN A TDA PLAN?**

A. If you are nearing retirement age, you may be able to make larger salary reductions due to your years of accumulated past service and thus take maximum advantage of the program until retirement.

**Q. CAN I WITHDRAW MONEY FROM MY TDA PLAN?**

A. The IRS prohibits withdrawal of elective contributions and earnings on those contributions except for:

- \* attainment of age 59 ½
- \* death
- \* disability
- \* separation from services
- \* financial hardship (contributions only).

If money is withdrawn for one of the above reasons, ordinary income tax must be paid. In addition, the contract itself may impose withdrawal or surrender charges. Also, a 10% tax penalty may be imposed by the IRS in certain circumstances. A financial hardship withdrawal will affect you in two additional ways:

1. Your contributions must be suspended for 6 months following the withdrawal; and
2. Your contributions for the year following this 6 month period will be subject to certain limitations.



**Q. MAY I TAKE OUT A LOAN WITHOUT HAVING TO PAY TAXES ON IT?**

A. Policy loans are permitted by law. The maximum loan amount is generally 50% of account value, not to exceed \$50,000, and must be repaid in five years or it will be considered a taxable distribution. Insurance companies are not obligated to offer a loan provision.

**Q. WHEN MUST I BEGIN RECEIVING A DISTRIBUTION FROM MY TDA PLAN?**

A. Generally, the IRS requires that a participant must begin receiving retirement benefits no later than April 1 following the year in which the participant reaches age 70 1/2. However, if still employed by an eligible employer, the participant may defer making withdrawals until retirement/separation from service.

**Q. WHAT CHOICES DO I HAVE REGARDING PAYOUT OPTIONS WHEN I BECOME ELIGIBLE?**

A. You can select from the following retirement distribution options:

1. Lump sum
2. Annuity option:
  - a. Life income
  - b. Life income for two payees
  - c. Cash refund life annuity
  - d. Payments of a stated dollar amount
  - e. Payments of a stated period of time

**Q. WHAT HAPPENS TO MY ACCOUNT IF I DIE?**

A. If you die before taking an annuity and your named beneficiary is your spouse, your contract may stay in force on a paid-up status with your spouse as the contract holder. Your spouse may choose any form of distribution that was available to you, such as lump sum distribution or annuitization. Your spouse would also have the option of a rollover to an IRA.

