Your Tax-Deferred Annuity Program

trsnyc Teachers' Retirement System of the City of New York

Tax-Deferred Annuity Program

TRS' Tax-Deferred Annuity (TDA) Program is a simple and powerful way to save additional money for your retirement. By investing part of your paycheck—even a small percentage—you take an important step toward funding your retirement years. Visit www.trsnyc.org for more in-depth resources, including the publications referenced by the 📖 symbol on the following pages.

What You Should Know

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

TRS' TDA Program enables you to invest money for your future on a tax-deferred basis. Your contributions may reduce your taxable income and current tax liability. You will not pay taxes on your contributions or earnings until you withdraw your funds.

In addition to tax-deferred investing, our TDA Program offers participants these advantages:

- ✓ **Flexibility**: Diverse investment options to match your risk tolerance
- ✓ **Convenience**: Contributions deducted automatically from your pay
- ✓ **Loan availability**: Access to your TDA money before retirement
- ✓ **Self-service**: Secure account management through our website

TRS' TDA By the Numbers

2nd

We are the second-largest 403(b) plan in the country according to a 2022 *Pensions & Investments* survey.

3 out of 4

TRS members who have a TDA account—over 157,000 strong!

94,000

Working members who actively contribute to TDA from each paycheck.

62,000

Retirees who kept their TDA accounts during retirement—with an average balance of $458,000!

2,800

Retirees who instead chose to receive monthly annuity payments from TDA, averaging $21,000 per year.

Data as of 6/30/2022 except *Pension & Investments* survey published in February 2023.

Enrolling in the TDA Program

All TRS members are eligible to participate in the TDA Program. You can enroll quickly and securely by logging in to the secure section of our website.

When you enroll in the TDA Program, you choose a percentage of your pay to contribute, and designate how your contributions will be applied among TRS' investment options. In general, your TDA contributions begin on the first payroll that occurs at least 30 days after TRS receives your enrollment request.

As part of the enrollment process, you should designate a beneficiary for your TDA funds; see "Providing for Your Survivors," page 6. It is important to keep your beneficiary designations current throughout your membership.

Comparing the TDA Program to TRS' Qualified Pension Plan

All TRS members automatically participate in the Qualified Pension Plan (QPP), a defined-benefit plan that guarantees a specific benefit at retirement. You are required to contribute a portion of your salary to the QPP; in addition, your employer makes contributions on your behalf. QPP funds form the basis for your retirement allowance.

In contrast, TRS' TDA Program is a voluntary defined-contribution plan that supplements your retirement allowance. You determine the amount you contribute each year, within Internal Revenue Service (IRS) limits. Your TDA account is funded exclusively through your contributions and any interest/investment return. The benefits you receive depend solely on your TDA account balance.

Contributing to the TDA Program

Federal law allows members to contribute up to a designated amount to TRS' TDA Program each year. In addition, members age 50 and older are eligible to make additional pre-tax "catch-up" contributions. A separate "catch-up" rule applies for certain members with 15 years of qualifying City employment. See the box for the latest contribution limits.

If you are a contributor to TRS' TDA Program and an external 401(k) plan, you should be aware that IRS contribution limits are applied cumulatively to the total of your TDA Program and 401(k) plan contributions. However, contributions to a 457 plan are considered separately. (For example, since the IRS contribution limit for 2023 is $22,500, you would be able to contribute a total combined amount of $22,500 to your TDA and a 401(k) plan in 2023. If you also participate in a 457 plan, you would be able to contribute up to $22,500 to that plan as well.)

TDA Contribution Limits for 2023

The general contribution limit is $22,500 per year.

Members age 50 and older may make additional "catch-up" contributions of $7,500 per year over this contribution limit.

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 during their working years.

Offering You Diverse Investment Options

Financial experts agree that no single investment strategy is suitable for all investors. Accordingly, TRS offers you several investment options—the Passport Funds—for your TDA account. You may invest in any or all of the following investment options to reach 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.

The returns on the other investment options—known as "variable-return" Passport Funds—fluctuate monthly.

The **Diversified Equity Fund** invests primarily in the stocks of U.S. companies, using both passively and actively managed strategies. The objective is to achieve a rate of return comparable to the return of the broad equity market.

The **Balanced Fund** invests in stocks and bonds and targets a conservative mix of approximately 70% bonds and 30% stocks. The objective is to seek current income and some capital appreciation.

The **International Equity Fund** invests primarily in the stocks of non-U.S. companies located in developed markets, traded on a variety of stock exchanges, and denominated in a variety of currencies around the world. The objectives are to provide long-term capital growth and to achieve a rate of return comparable to the return of the non-U.S. equity markets over a full market cycle.

The **Sustainable Equity Fund** invests in the common stock of large- and mid-cap U.S. companies that, in the manager's view, effectively implement sustainable business strategies to drive their prospects for future earnings growth. The objective is to achieve positive long-term capital appreciation over a full market cycle, with a focus on sustainability characteristics including environmental, social, and governance (ESG) factors.

The **U.S. Equity Index Fund** invests in the 3,000+ securities in the Dow Jones U.S. Total Stock Market Index. The objective is to track the total return of the broad U.S. equity market, including large-, mid-, and small-capitalization stocks.

The **International Equity Index Fund** invests in the 6,000+ securities in the MSCI All Country World ex USA Investable Market Index. The objective is to track the total return of non-U.S. equity markets, including developed and emerging markets.

Fund Profiles

Benefiting from Tax Deferral

When you invest for retirement on a tax-deferred basis, there is no tax liability until the funds are paid out. This means that you won't pay taxes on the money you invest, or on the earnings that your investments accrue over time, until the funds are paid to you.

Normally, payments won't occur until after retirement. At that point, it's likely you'll be in a lower tax bracket than you were during your working years, so the distributions will be taxed at a lower rate.

How Does Tax-Deferred Investing Help Me Today?

Investing in TDA helps build a nest egg for retirement, but it can have more immediate benefits too. When compared to investing in a taxable investment option, investing pre-tax contributions in TDA results in lower federal taxes and higher net income.

	Gross Annual Income	Annual TDA Contribution	Adjusted Gross Annual Income	Annual Federal Income Tax*	Annual Contribution to Taxable Plan	Net Annual Income	Annual Federal Income Tax Deferral
TDA Participant	$58,000	$3,600	$54,400	$4,772	$0	$49,628	$762
Participant in a Taxable Plan	$58,000	$0	$58,000	$5,534	$3,600	$48,866	$0

*This example is based on 2022 federal income tax rates and assumes that a participant files as a single taxpayer and takes the standard deduction. Individual situations will vary. You may wish to contact your tax advisor.

Contributing Through Payroll Deductions

Your TDA contributions are automatically deducted from your pay and deposited in your TDA account. Investing a set amount on a regular basis (called "dollar-cost averaging") tends to produce positive results over time.

Your contributions buy more shares (units) when the price is low, and fewer when the price is high. In addition, since you contribute a set percentage of salary to the TDA, your contributions automatically increase when you receive a raise.

Use our online TDA Calculator to find a contribution level that's right for you. Pick various contribution rates to see how they impact your take-home pay. Or, enter specific dollar amounts you want to contribute; the calculator will convert them into a percentage of your pay. Find the TDA Calculator at www.trsnyc.org ▶ **Resources**.

TDA Flexibility Features

- Invest contributions in any or all of TRS' Passport Funds.
- Change the way your future contributions and current accumulations are invested on a quarterly basis.
- Change your contribution rate (or stop contributing) at any time.

Borrowing from Your TDA Account

The TDA Program allows eligible participants to take loans against their TDA account. In general, members may take loans against their TDA account after one year of participation in the TDA Program.

You may have up to a maximum of five TDA loans open at a time.

Generally, the minimum loan amount is $1,000 (or $250 if you have an outstanding TDA loan). The maximum loan amount depends on many factors but generally cannot exceed $50,000 or 75% of the value of your TDA account.

In most cases, you would have a maximum of five years (60 months) to repay your TDA loan. For in-service members, loans are normally repaid through payroll deductions. For retirees who maintain their TDA account after retiring, TDA loans can be repaid automatically through deductions from retirement allowance payments.

TDA Loans

Withdrawing Funds from Your TDA Account

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

- ✓ Members who have reached age 59½, or have separated from service, have unrestricted access to their TDA funds.
- ✓ Members who have not reached age 59½ may withdraw any Pre-1989 funds (*i.e.*, TDA contributions and earnings accumulated as of December 31, 1988).
- ✓ Other members may withdraw TDA funds only under hardship conditions defined on the next page.

To continue to defer taxes on withdrawn TDA funds, you may ask TRS to directly roll over the funds to a qualified Individual Retirement Arrangement (IRA) or other eligible successor program.

TDA withdrawals are generally distributed within 45 days of receiving your withdrawal request, or within 15 days if the withdrawal is drawn only from your balance in the Fixed Return Fund.

Requesting a Hardship Withdrawal

If you are an in-service member under age 59½, you may withdraw your TDA funds only under hardship conditions, defined as a sudden and heavy financial need that you are unable to reasonably meet through other financial resources.

Examples of qualifying hardship conditions include certain medical or funeral expenses, post-secondary school tuition, payment to prevent eviction or foreclosure, and expenses resulting from certain federally declared disasters (subject to IRS guidelines). You must maximize other available TRS and non-TRS resources and provide TRS with appropriate documentation before a hardship withdrawal can be granted. TDA hardship withdrawals are not eligible for rollover.

Your TDA hardship withdrawal is issued on the first available TRS payroll that occurs at least 60 days after TRS receives your application.

Understanding the Tax Consequences of Withdrawals

For all Direct Withdrawals other than hardship withdrawals, TRS is required to withhold 20% of withdrawn amounts over $200. TRS sends the withheld amount to the IRS as credit toward your federal income taxes. (Withholding is not applied to any amount that TRS rolls over to an eligible successor program.) 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 will generally be subject to federal tax (and possibly state and local taxes).

The IRS may impose an additional 10% tax on all Direct Withdrawals, unless they are made a) in conjunction with your separation from service during or after the year in which you reach age 55; or b) during or after the year in which you reach age 59½; or c) as a qualified hardship withdrawal; 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; you may choose to have 10% withholding applied (or not). State and local taxes may also apply.

Any amount withheld from a TDA withdrawal may be claimed as tax paid for the year of distribution. For any questions about the taxability of TDA withdrawals, please check with your tax advisor.

Separating from Service *Before* Retirement

If you leave service as a vested member (*i.e.*, with at least five years of service credit), you are eligible to receive a retirement allowance once you meet age requirements. You also have a choice regarding your TDA account: You may either a) withdraw your TDA funds or b) maintain your TDA account by filing a "TDA Deferral Status Election Form for Vested Members" (code TD31). Electing TDA Deferral status allows you to postpone the distribution of your TDA funds past your retirement date. Deferring distribution of your TDA funds means that you would avoid paying taxes on those funds (and any resulting interest/investment return) until you receive them.

If you leave service before attaining vested rights under the QPP, you may withdraw your TDA funds. If you leave your TDA funds with TRS, they continue to accrue interest/investment return for seven school years. In all cases, 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. You have the following options:

- ✓ Elect TDA Deferral status to maintain your TDA balance during retirement.
- ✓ Receive your TDA funds as a monthly annuity, which is separate from your QPP retirement allowance. Generally, annuities are federally taxable and may be subject to state and local taxes.
- ✓ Withdraw your TDA funds, or roll them over to an eligible successor program.

You may choose to withdraw/roll over a portion of your TDA funds at retirement and annuitize or defer receipt of the balance. As part of your online retirement application, you may elect TDA Deferral status, but you may have to file additional forms to annuitize, withdraw, or roll over TDA funds.

If you choose TDA Deferral status to maintain a TDA balance during retirement, please note that IRS rules determine how long TDA participants may defer receipt of their TDA funds. In general, annual TDA distributions are required for members who have left service and who have reached their "required beginning age" by December 31 of a given year. Currently, the required beginning age is 73. Each year, TRS contacts members who are subject to the IRS' Required Minimum Distribution (RMD) rules and informs them of their distribution options.

Required Minimum Distributions (For Members with TDA Deferral Status)

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. You should keep a current beneficiary designation on file with TRS at all times. If you do not have a beneficiary designation on file with TRS, the TDA funds in your account will 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.

You can manage all of your TRS beneficiary designations in the secure section of our website.

Guide to Death Benefits (For Beneficiaries of Retired Members)

Guide to Death Benefits (For Beneficiaries of Non-Retired Members)

Online TDA Account Access

Our website, www.trsnyc.org gives you secure access to your TDA Program account. After you have registered (*i.e.*, you have a username and password), you can view your account information and perform many transactions.

This publication should not be solely relied upon, as it is based on currently available information that is subject to change. In all cases, the specific provisions of the governing laws, rules, and regulations prevail.

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