

## TDAs: An Investment In Your Future

Have you thought lately about your retirement? About what you want to do? About whether you'll have enough money to live comfortably and pursue your interests?

Chances are, if you're young, you haven't given retirement much thought. And, if you're older, you may have given it some thought, but you may not have done what you need to do to ensure financial security. No matter what your age, now is the best time to start preparing for retirement, because Congress has made saving for retirement more attractive than ever. This brochure describes one of the best ways to begin your retirement planning. Here's why:

Your retirement income will basically come from three sources:

- Retirement plans: Your benefit from Teacher Retirement System (TRS) or the Optional Retirement Program (ORP) and possibly other employers' retirement plans
- Social Security
- Your personal savings

Most retirees find that income from their employer retirement plans and Social Security is not enough to maintain the standard of living they would like to enjoy during retirement. To be truly comfortable, most people need personal savings as well.

One of the best ways to build personal savings for retirement is by using a Tax-Deferred Account (TDA). Through the A&M System, you can contribute to a traditional or Roth TDA through convenient payroll deduction. With the Traditional TDA, your contributions are from before-tax income. With a Roth TDA, your contributions are from after-tax income. And the earlier you start, the more you can save for your future.

This brochure describes how a TDA works, its advantages and how you can enroll. Take a few minutes now to invest in your future.

## What is a Tax-Deferred Account?

A Tax-Deferred Account (TDA) is a way for you to save for retirement. All A&M System employees, including wage employees and graduate students, can use the traditional and/or Roth TDA to lower current federal income tax liability or future federal tax liability upon retirement.

When you enroll in a traditional or Roth TDA, you agree to have a specific amount or percentage deducted from each of your paychecks and sent to the investment vendor you choose from the A&M System list of active vendors.

With a traditional TDA, your contribution is deducted from your pay before federal income tax is calculated, so you do not pay current income tax on your contributions and the money does not show up on your W-2 form as income. Likewise, you do not pay current income tax on the investment earnings on your TDA savings.

With a Roth TDA, your contribution is deducted from your pay after federal income tax is calculated, so you pay current income tax on your contributions and the money is included on your W-2 form as income. You do not pay income tax on your investment earnings now or in the future.

The money you save through your TDA, as well as the investment earnings it generates, will be paid to you during retirement. When you begin receiving your traditional TDA money, you will then have to pay income tax on it. When you begin receiving your Roth TDA money, the contributions and earnings are not part of your taxable income.

## TDA Advantages

TDA's have many advantages over traditional savings:

- You choose how much to save through convenient payroll deduction.
- You choose how to invest your money and have flexibility in changing investments.
- You choose how to receive your money when you retire, from the choices offered by your investment vendor.

### Traditional TDA Advantages

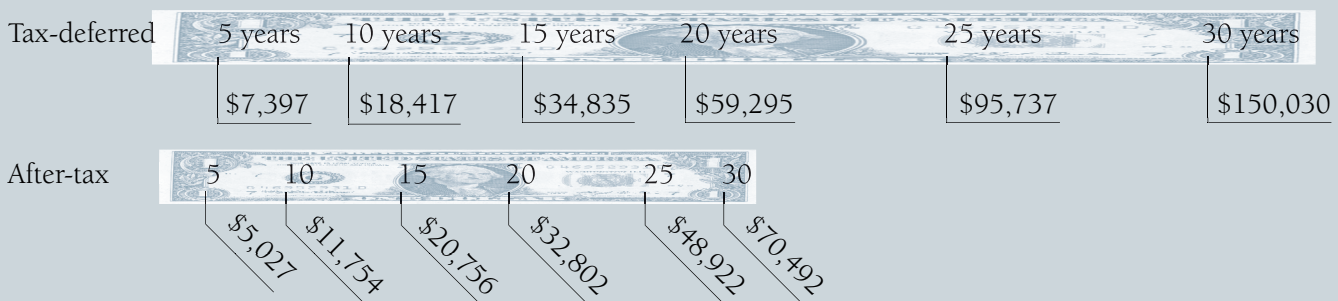
- You can save before-tax money for retirement, lowering your current income taxes.
- While your taxable income is lower, your Social Security and A&M System benefits, such as life insurance, will be based on your total salary.
- If you believe your tax bracket will be lower when you retire, the tax you eventually pay on your TDA money will probably be less than if you were taxed now.
- Your savings will grow faster because taxes on earnings are deferred.

### Roth TDA Advantages

- You withdraw contributions and earnings tax-free when you retire.
- If you believe your tax bracket will be higher when you retire, the tax you pay today will be less than in the future.
- Contributing to a Roth TDA may reduce your taxable income later if your Social Security benefits are near or exceed the limit.
- The Roth TDA has become a permanent provision with the Pension Protection Act of 2006. It will no longer expire in 2010.

## The Tax Advantage of a Traditional TDA: Investment Earnings

Deferring taxes on your investment earnings until retirement is a major advantage. Because you do not pay income taxes each year on earnings, money that would otherwise go to pay taxes remains in your account and is invested to help your account grow even faster. Here's an example of how the same amount of savings grows over the years, one with tax-deferred earnings and one with earnings taxed each year. For purposes of the example, we'll assume you contribute \$100 to the account each month, earn 8% and are in a 27% tax bracket.



Even if you pay 27% in taxes on your account balance at withdrawal, a total of \$40,508, you'll still end up with \$109,522 from your traditional TDA, \$39,030 more than in the after-tax account. And, your tax bracket may be lower at retirement than during your working years, giving you an even larger advantage.







