

## Important Changes to Your TSA Plan

The Economic Growth and Tax Relief Reconciliation Act of 2001 made major changes in the country's pension regulations. Wisconsin adopted these changes recently, so they also apply to your Wisconsin state income taxes.

Here's a quick rundown of some of the Act's key pension benefits that affect the UW Tax-Sheltered Annuity Program. The provisions are generally effective beginning in 2002. Now you can save more than ever on a pre-tax basis!

Beginning in 2002 the Act:

- ▶ Increases the maximum amount you can contribute to your TSA, 401(k), SEP, and SIMPLE IRA accounts **combined**. In 2002 the elective deferral limit is \$11,000, and it will increase by \$1,000 each year until 2006:
 

2003	\$12,000	2005	\$14,000
2004	\$13,000	2006	\$15,000
- ▶ Eliminates the need to coordinate your TSA and Deferred Compensation contributions. You could contribute the full amount – \$11,000 in 2002, plus catch-up if you are eligible – to each program, if you'd like to and can afford to.
- ▶ Repeals the maximum exclusion allowance (MEA) calculation and the 25% of salary contribution limit. In 2002 you can contribute 100% of salary up to \$11,000, or more if you're over 50.
- ▶ Increases the amount you can contribute to a Traditional or Roth IRA. In 2002 this limit will be \$3,000.
- ▶ Adds a catch-up option for all employees age 50 and older – an additional \$1,000 in 2002 increasing by \$1,000 each year until 2006 – over and above the standard maximum.
- ▶ Makes your retirement accounts more portable. The new law allows assets in 401(a), 401(k), 403(b), and 457 plans to be moved into each other in a tax-free rollover when you terminate employment or are otherwise eligible for a distribution. Deductible IRAs can also be rolled into these plans. (Plans are not required to accept rollovers.)
- ▶ Maintains the \$3,000 per year catch-up option for eligible employees with 15 years of service.
- ▶ Provides a tax-credit for lower-income individuals who save for their retirement through an IRA or employer-sponsored retirement plan like the UW TSA Program or Wisconsin Deferred Compensation.

### Tax Credit for Retirement Plan Contributions (2002 - 2006 Only)

Depending on your adjusted gross income (AGI), you could receive a tax credit equal to 10%, 20%, or 50% of the first \$2,000 in retirement-account contributions you make each year. Here's the breakdown:

AGI Married filing jointly	AGI Head of household	AGI Single	Percent credit
\$0 - \$30,000	\$0 - \$22,500	\$0 - \$15,000	50%
\$30,001 - \$32,500	\$22,501 - \$24,375	\$15,001 - \$16,250	20%
\$32,501 - \$50,000	\$24,376 - \$37,500	\$16,251 - \$25,000	10%
\$50,001 and over	\$37,501 and over	\$25,001 and over	0%

For example, if you're divorced with one dependent (a head of household), your adjusted gross income is \$22,500 or less, and you make a \$2,000 contribution to your TSA or other retirement account, you could receive a 50% or \$1,000 credit on your federal tax bill. It is claimed as a direct reduction in taxes you owe and is non-refundable, that is, if you don't make enough to pay any taxes, you don't get the credit. For more information see p. 14 of *Highlights of 2001 Tax Changes* at [www.irs.gov/pub/irs-pdf/p553.pdf](http://www.irs.gov/pub/irs-pdf/p553.pdf).

To learn more about the Wisconsin Deferred Compensation Program, go to its web site at [www.wdc457.org](http://www.wdc457.org) or call 800-257-4457.

If you would like to increase your TSA contributions for 2002, file a new Salary Reduction Agreement with your staff benefits office to take effect as soon as possible.

If you haven't started a TSA account, now's the time to begin! Saving for your retirement is important. Give your staff benefits office a call or visit our web site at [www.uwsa.edu/hr/benefits](http://www.uwsa.edu/hr/benefits).

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University of Wisconsin System Administration  
PO Box 8010  
Madison, WI 53708-8010  
608-263-4376