

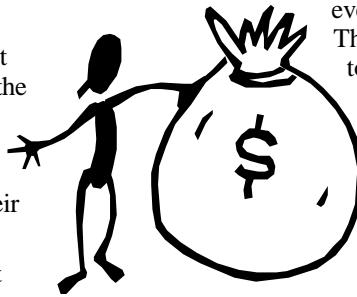
# UW TSA 403(b) Question and Answer Guide

## About Tax-Sheltered Annuities (TSAs)

### What is a TSA plan?

A tax-sheltered annuity (TSA) plan is a retirement savings program authorized by section 403(b) of the Internal Revenue Code for employees of educational institutions, churches, and certain non-profit agencies. It allows eligible employees to set aside up to virtually 100% of their income for retirement.

The UW TSA Plan is for supplemental retirement savings, and participation is voluntary. You make the entire contribution. There is no employer match. For most employees, the University contributes to the Wisconsin Retirement System, the state's primary pension plan.



even be retired longer than we will have worked! That is a fine goal, but we must figure out a way to pay for it.

Remember, you need to plan your retirement for your life expectancy. Consider modern medicine and the possibility that you could be retired for 35 years or more!

### Can the TSA meet all my investment objectives?

No. We all have diverse investment objectives that must be met with different investment techniques. The investment objective for a TSA 403(b) account is retirement security.

### What's the difference between pre-tax and Roth post-tax contributions?

- With a pre-tax 403(b) account, your contributions reduce your current taxable income. Both your principal and your earnings grow on a tax-deferred basis.
- In a Roth after-tax 403(b) account, contributions are included in taxable income in the year they are made, but the account balance and earnings are not taxed when distributed (subject to certain restrictions).

### Which companies offer the Roth option?

Four UW TSA companies, TIAA-CREF, Fidelity, T. Rowe Price and Lincoln, offer the Roth 403(b) option; Ameriprise/RiverSource cannot offer the option because of recordkeeping issues.

### Who might benefit from a Roth 403(b)?

Roth after-tax 403(b) contributions might benefit you if:

- You have a longer time until retirement. This gives you longer to accumulate tax-free earnings.
- You expect to be in a higher tax bracket in retirement.
- You are a highly compensated employee who is not eligible for a Roth IRA.
- You want some tax diversification in retirement.
- You want to leave tax-free money to your beneficiaries.

### Who might be better off with pre-tax contributions?

Pre-tax 403(b) contributions might benefit you if:

- You expect your tax rate to drop in retirement.
- You are in a higher-tax bracket and you want to save money on taxes now.
- You're able to contribute more, because you're saving pre-tax.
- You can qualify for certain valuable tax credits, such as the earned income tax credit or the saver's credit, by saving pre-tax and reducing your taxable income.

### How does a pre-tax contribution to the TSA 403(b) plan reduce my taxable income?

Your TSA pre-tax contribution is not counted in your gross income for tax purposes. Assume an annual gross income of \$36,000 and single filing status with one exemption. The following chart shows how an annual TSA pre-tax contri-

### Who can participate in the plan?

All permanent, project, and Limited Term Employees (LTEs) of the University of Wisconsin as well as rehired annuitants, student hourly employees, and graduate assistants – with the exception of some employees-in-training, fellows, and interns – are eligible to participate. **Eligible employees can enroll at any time.**

### Who oversees the UW TSA 403(b) Plan?

The Board of Regents of the University of Wisconsin System established the TSA 403(b) Plan as of October 1977. A ten-member faculty/academic staff committee, the Tax-Sheltered Annuity Review Committee (TSARC), advises the UW president on the Plan. Among its duties, the TSARC is responsible for reviewing criteria used to select TSA investment companies (sometimes referred to as vendors), monitoring performance of the TSA companies and recommending appropriate actions.

### Why should I invest with the TSA Plan?

There are many important reasons to participate in the UW TSA Program. Here are four:

1. It's an easy way to accumulate additional savings you will need to supplement your retirement income.
2. You can make either pre-tax or Roth after-tax contributions or a combination of both options.
3. It is a flexible, low-cost program with a wide array of investment options, including low-cost institutional class funds.
4. It's portable. You can take your savings with you if you move to a different employer.

### Will my TSA contribution affect my Social Security or WRS benefit?

No. You get full Social Security and the Wisconsin Retirement System credit for the salary you contribute to your TSA account.

### Why do I need supplemental retirement income?

Retirement is expensive. Your WRS pension and Social Security will provide only part of what you will need. The rest must come from personal savings.

On top of that, people are living longer. And instead of working longer most of us would like to retire earlier. Some of us may

bution of \$2,400 saves you \$360 in federal taxes and \$175 in state taxes while you save \$2,400 for retirement. Contributing to a TSA pre-tax account may put you in a lower marginal tax bracket, saving you even more money in taxes.

	With TSA	Without TSA
<b>Annual Gross Income</b>	\$36,000	\$36,000
TSA Contribution	(2,400)	0
Adjusted Gross Income	33,600	36,000
Social Security Withheld	(2,754)	(2,754)
Federal Income Tax Withheld	(3,707)	(4,067)
State Income Tax Withheld	(1,903)	(2,078)
After-Tax Income	25,236	27,101
TSA Retirement Account	\$2,400*	\$0

\*Plus earnings or minus losses

The \$2,400 savings only cost \$1,865 in take-home pay.

Your TSA pre-tax account is taxed as ordinary income when you receive it after retiring – possibly at a lower rate.

### How does growth in a 403(b) account benefit me?

If you buy shares of a mutual fund with *non-403(b)* dollars, you owe taxes each year on the dividends and capital gains your fund realizes. If you sell one fund and buy another, you owe taxes on the profit.

In a *403(b)* investment, you get to keep and invest the tax money you would otherwise owe each year. The extra dollars produce more earnings. You can shift your money among funds without incurring fees or capital gains taxes. Though you must pay income tax on the money you withdraw from your TSA *pre-tax* account, your net return will be higher than with a *taxable* account earning the same return. A qualified distribution from a Roth *after-tax* account is tax-free.

### What makes the program inexpensive?

The University has negotiated low-cost investment options:

- All funds are no-load: there are no sales commissions or broker fees. In addition, none of the mutual funds has 12b-1 (marketing or advertising) fees.
- There is no university participant fee.
- UW TSA investment companies have no annual fees.
- Most investment choices have lower than average expense ratios.
- You have access to special low-cost share classes like Fidelity K shares and T. Rowe Price and TIAA-CREF Institutional shares.
- You can move your investments within the TSA Program without incurring tax liabilities.

### I don't have any extra money for investing right now. When I'm older, it will be easier to save, won't it?

It is sadly ironic that those who most need to save for retirement often have the hardest time doing it. Take a close look at your budget and you may find money to save. Of course, if you have credit-card debt, it is important to pay that off first.

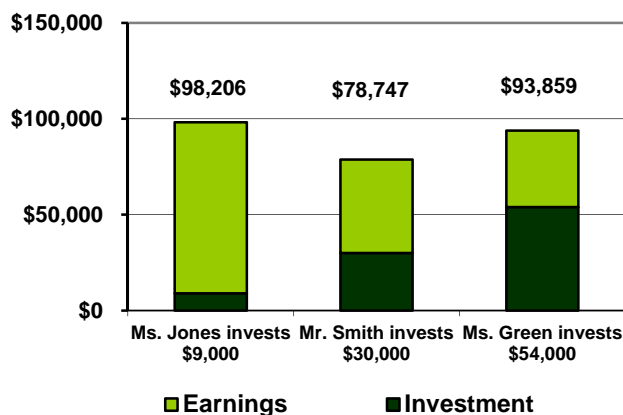
Saving early is the easiest way to accumulate money because time is on your side.

Consider three hypothetical employees:

- Ms. Jones contributes \$75 per month for ten years – from age 25 to 35 – and nothing after that.
- Mr. Smith starts later but contributes more – \$100 per month for 25 years, from age 40 to 65.
- Ms. Green begins saving \$300 per month at age 50.

Assuming that all the investments earn 7% per year, this chart shows their total accumulations at age 65.

Which result would you prefer?  
Accumulations at Age 65



In this example, investing a small amount early resulted in more retirement earnings than investing a much larger amount later.

Because of compound interest, the money you contribute now is very valuable. And once you set aside some money, you may find – as many others have reported – that you don't even miss it.

Keep your long-term goals in mind and decide what's truly important to you. Perhaps you can cut down on movies and dining out, tighten your clothing budget, or find less expensive ways to entertain at home.

There are lots of resources available to give you direction on how to budget your money and how to find the money to save. You can start by looking at the investment companies' websites in the TSA Program. For links to their websites go to [www.wisconsin.edu/ohrwd/benefits/ret/tsa/#investment](http://www.wisconsin.edu/ohrwd/benefits/ret/tsa/#investment).

## Contributing to Your UW TSA

### How much can I contribute to the TSA Plan?

You may contribute as little as \$8.00 biweekly or \$20.00 per month.

You may change, stop, or re-start your contribution at any time.

The basic maximum annual contribution limit for 2020 is \$19,500. Certain special provisions may allow you to contribute more than this amount.

If you are age 50 or older you can contribute a "catch-up" amount – an additional \$6,500 over and above the standard maximum, no matter how much you've contributed in the past.

	Basic	Age 50 and Over Catch-up	Total
2020	\$19,500	\$6,500	\$26,000

The basic limit and the Age 50 catch-up may be indexed each year by the IRS in \$500 increments based on the Consumer Price Index (inflation). The IRS usually publishes this information in the last quarter of the year for the following year.

Both pre-tax and after-tax 403(b) contributions count towards your limit. For example, if you are under 50, you could contribute \$10,000 pre-tax and \$9,500 Roth after-tax to the TSA Program for a total of \$19,500 in 2020.

If you have 15 years or more of service with the UW, you may have an additional “catch-up” opportunity allowing extra contributions of up to \$3,000 per year to a cumulative maximum of \$15,000 over five or more years.

The additional amount is permitted only if your TSA contributions averaged less than \$5,000 per year over the course of your UW employment.

If you want more tax-deferral opportunities, you may also participate in the Wisconsin Deferred Compensation 457 Program managed by the Department of Employee Trust Funds. See [www.wisconsin.edu/ohrwd/benefits/ret/wdc](http://www.wisconsin.edu/ohrwd/benefits/ret/wdc).

### **I contribute to an IRA. Does that affect my TSA contribution?**

No, you can contribute the full amount to both programs as long as your income falls under the maximums for an IRA. The contribution limit for a traditional or Roth IRA in 2020 is \$6,000 plus an additional \$1,000 if you are age 50 or over.

### **How do I contribute to the TSA Plan?**

You complete a form called the Salary Reduction Agreement (SRA) and send it to your UW benefits office. The SRA authorizes the University to deduct a specified amount or percent from your salary and send it to the UW TSA company(ies) you choose. Contributions can only be taken from salaries that will be paid to you after you file the SRA.

You can get a Salary Reduction Agreement at your benefits office or online at [www.wisconsin.edu/ohrwd/benefits/ret/tsa/sra](http://www.wisconsin.edu/ohrwd/benefits/ret/tsa/sra).

When you contribute to the TSA 403(b) plan, you invest set amounts of money every pay period and participate in dollar cost averaging.

### **Is dollar cost averaging like market timing?**

No, when you try to time the market, you try to buy low and sell high. This is very difficult – if not impossible – even for the experts. Using dollar cost averaging, you invest on a regular schedule. When the price per share is low, you buy more shares; when the price per share is high, you buy fewer shares. You end up buying more shares at a low price and fewer at a high price. Your average cost is lower than the average market price.

Here’s a chart to show you how it works:

	<b>Regular Investment</b>	<b>Price Per Share</b>	<b>Shares Purchased</b>
January	\$100	\$10.00	10.000
February	\$100	\$12.50	8.000
March	\$100	\$15.00	6.670
April	<u>\$100</u>	<u>\$10.00</u>	<u>10.000</u>
<b>Total</b>	\$400	\$47.50	34.670
Average Market Price		\$11.88	(47.50/4 months)
Average Cost		\$11.54	(\$400/34.670)

Of course, your average cost may be higher than the **current** market price if asset values decline. This is especially true if you get out of the market and stop purchasing mutual fund shares when the price declines – or if you must take a distribution from your funds when the market for those funds is down.

By investing a set amount of money automatically each monthly or biweekly pay period, “instead of wincing when your fund sinks even further, you can console yourself that

you’re getting an even better bargain than you did the month before,” in the words of Morningstar’s Peter di Teresa.

### **What if I change my mind and want the money back?**

The Salary Reduction Agreement is a legally binding document, and moneys you contribute while the SRA is in effect generally cannot be taken out until you reach a “distributable event” – for example, separation from service or attainment of age 59 ½. See *Distributions from your TSA* (page 6) for your options on taking the money out.

### **Can I choose to re-classify my contributions as either after-tax or pre-tax after I’ve made them?**

No – what starts as a Roth, stays a Roth; the same for pre-tax. But you can change your future contributions at any time by submitting a new Salary Reduction Agreement.

### **I got a nice inheritance from my aunt. Can I invest that in the TSA Plan?**

Not directly. Contributions must come out of your wages. You could, however, live off your inheritance and defer your salary – up to the IRS yearly maximum – into the TSA plan.

### **How do I change the amount I contribute to my TSA?**

Simply fill out a new Salary Reduction Agreement (SRA) and submit it to your benefits office. You can start, stop, or change your TSA contributions at any time – as often as you wish: [www.wisconsin.edu/ohrwd/benefits/ret/tsa/sra](http://www.wisconsin.edu/ohrwd/benefits/ret/tsa/sra)

Remember to confirm that the change has been accurately made by looking at your earnings statement.

### **How do I change the funds I invest in?**

Contact your investment company (or companies). Once you’ve signed up, you can make changes to your fund selection over the phone, online, or in writing.

### **How do I change my address or my beneficiary designation?**

Contact your investment company (or companies). You can change your address over the phone or in writing. You can change your beneficiary online with Fidelity, T. Rowe Price and TIAA-CREF. With the other companies, you must submit a new beneficiary designation to change your beneficiary.

### **What if I want to move my investments?**

**Within the same company:** You can move your current balance and/or your future contributions to a different fund within the same company simply by contacting the company or logging into your account online. Be aware that some specialty funds have redemption fees. These are usually applied to discourage short-term trading.

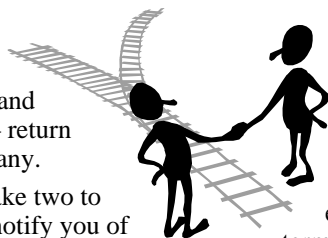
**With a new company:** To transfer existing investments or to send future contributions to a new investment company:

- Call the new company and ask for a 403(b) transfer request. Your new company is responsible for contacting the old company and requesting the money.

**Exception:** If you are transferring money from Ameriprise/RiverSource or Lincoln you must use their form and the new company’s form. Complete both and send them to your new company. Alert your new company that it must submit the Ameriprise/RiverSource or Lincoln form.



- Make sure to sign up with the new company; enroll online at [www.wisconsin.edu/ohrwd/benefits/ret/tsa/#enrollment](http://www.wisconsin.edu/ohrwd/benefits/ret/tsa/#enrollment). Online enrollment is effective immediately. Or you can enroll using a paper form – download it from the website or call the company and request a UW 403 (b) enrollment kit – return the completed forms to the new company.
- Expect the entire transfer process to take two to four weeks. Your new company will notify you of the amount received, the date it was invested, and the number of shares or units in your new account. If you have heard nothing after three weeks, contact the new company to be sure it has all the necessary paperwork.
- To send future TSA contributions to the new company, complete a new Salary Reduction Agreement (SRA) and submit it to your Staff Benefits office. Check your quarterly statements to be sure that both your new and your transferred assets are invested as you intended.



## I have money in another retirement plan. Can I combine it with my UW TSA account?

### Pre-tax accounts

If you are permitted to withdraw your money from your old plan, you can roll the tax-deferred portion to an account with a UW TSA investment provider.

Money that you roll in to your UW 403(b) account will be treated like other 403(b) money for all tax purposes, except that you may be allowed to withdraw it before terminating employment or reaching age 59 ½ – usually with a 10% tax penalty. Check with the new company if you are interested in this feature – not all companies offer this option.

The UW TSA Program will accept tax-deferred money from 401(a) "qualified" plans, 401(k), 403(a), 403(b), and 457 governmental deferred compensation plans, as well as from traditional IRAs. Be aware that if you roll your 457 account into a non-457 plan, it becomes subject to the 10% early withdrawal penalty – which would otherwise not apply.

If you decide to roll over a retirement account, be sure to elect a direct rollover, in which the money is paid directly to the new plan. Otherwise, 20% of the account will be withheld for income tax. Unless you can make up the 20% from your own pocket, your new investment will represent only 80% of the old account.

### Roth after-tax accounts

If you are permitted to withdraw your money from your old plan, you can roll Roth 403(b) or Roth 457 accounts from previous employers into your UW Roth 403(b) account. Check with the new company if you are interested in this feature – not all companies offer this option.

Roth IRAs can only be rolled into other Roth IRAs.

If you are transferring your investment from Lincoln National or Ameriprise/RiverSource, you may have to pay a surrender charge. Some mutual funds have short-term trading fees on certain funds. Check with your investment company, so you are aware of any fees before you transfer.

You may not transfer your money to a company that is not authorized in our Program. However, if you are eligible for a distribution (see page 6), you may roll your distribution over to any company you choose.

For more information, refer to *Tips for Transferring Moneys* [www.wisconsin.edu/ohrwd/benefits/ret/tsa/transfertips.pdf](http://www.wisconsin.edu/ohrwd/benefits/ret/tsa/transfertips.pdf) on the TSA website.

## Making Your Investment Choices

### What can I invest in?

There are five investment companies in the TSA 403(b) Program – offering over 300 investment options for your TSA dollars. You select a company (or more than one) from among those authorized under the Program and then choose from among the funds the company offers. Options range from conservative to aggressive and include **mutual funds** that offer stock, bond, and money market investments and insurance companies that offer **annuities** with variable and fixed rates of return.



Contact information for the UW TSA investment companies is on our website: [www.wisconsin.edu/ohrwd/benefits/ret/tsa](http://www.wisconsin.edu/ohrwd/benefits/ret/tsa) or Google *uwsa tsa*. A complete list of investment options with recent returns is available on the TSA website at [www.wisconsin.edu/ohrwd/benefits/ret/tsa/#investment](http://www.wisconsin.edu/ohrwd/benefits/ret/tsa/#investment).

### So even though this is called the Tax-Sheltered Annuity Plan, I don't have to invest in an annuity?

That's right. The name stems from the program's early days. In addition to two insurance companies and TIAA-CREF (which has both insurance products and mutual funds), there are two mutual fund companies in the program.

### What kind of investments can I make with an insurance company?

When you invest with an insurance company, you contribute to an annuity. While you are investing, this is a "deferred" annuity. You are accumulating your assets to take out at some time in the future.

There are two types of annuities:

- **Fixed Annuity.** The insurance company guarantees your principal – the amount of your contribution – and pays you interest at the current interest rate set by the company, which cannot be less than the rate guaranteed in your annuity contract. Although fixed annuities generally do not earn a high return, they are secure, provided the insurance company is financially strong.
- **Variable Annuity.** You select one or more "sub-accounts." The sub-accounts – very similar to mutual funds – invest in common stocks, bonds and/or money market instruments. Your contributions purchase a number of units of the fund. The value of the contract at any time depends on the total number of units you own and the investment performance of the sub-account. Except as specifically provided in your contract, the insurance company does not guarantee your principal in a variable annuity.

But even if you invest with an insurance company and have an "annuity" product – be it fixed or variable – you do **not** have to take that money out as monthly payment (what we traditionally think of as an annuity). See *Distributions ...* on page 6.

### What is a mutual fund?

A mutual fund is a portfolio of stocks, bonds, or other securities managed by professionals who combine all of the fund's moneys to seek a common investment objective. The pooled money can have significant buying power so that a fund can own hundreds of individual securities or stocks.

Mutual funds vary significantly in size and the types of assets they hold. Each fund has specific investment criteria and objectives, which are detailed in the prospectus, the booklet that describes the mutual fund. Some mutual funds specialize in stocks of large, medium, or small U.S. companies, while others are international in focus or specialize in U.S. government or corporate bonds, or international bonds.

While you are saving, each contribution purchases a number of shares of the fund. The value of your account depends on the number of shares you own and the investment performance of the fund's assets.

Investing in mutual funds gives you:

- **Diversification.** A diversified fund reduces the risk of investing in the market by pooling the money of many investors and purchasing securities issued by a number of different companies.
- **Professional Management.** The fund manager has information resources that are not available to most individual investors. The manager chooses the investments and times the buys and sells with knowledge of the overall market.
- **A Range of Objectives.** There are mutual funds to meet the objectives of aggressive growth, growth, income, and preservation of capital.
- **Ease of Movement within a Fund Family.** Each investment company in the TSA Program offers a family of funds. You can move from one fund to another or invest in a number of different funds at the same time. If your financial objectives are diversified or change over time, they can be met within the fund families offered through the UW TSA Program.

Remember, your mutual fund investment is NOT guaranteed. You can lose money.

**My broker has suggested a certain fund that is not on the list of offered funds. Can I invest my TSA dollars in a company that is not approved by the TSA Review Committee?**

No. You may contribute only to companies approved by the TSA Review Committee, and you may not transfer TSA account balances to non-approved companies while you continue to be employed at the UW.

For administrative efficiency and to ensure compliance with federal law, the UW must limit the number of TSA investment companies (vendors) with which it does business. The Program seeks to offer a high-quality selection of investment options in the basic asset classes, combined with low-cost and good customer service. It does not offer access to all companies or funds.

**Are all the investment options approved by the TSA Review Committee?**

No. The TSA Review Committee (TSARC) approves investment companies, NOT particular funds. An approved company may offer any of its investment options that meet federal requirements for 403(b) plans and the cost guidelines established by the Committee. The TSARC cannot guarantee the performance of any particular fund offered under the Program but attempts to ensure that the Program offers low-cost options with a wide variety of investment objectives.

## There are so many choices! How do I pick an investment?

Like most activities, it takes practice to feel knowledgeable about investing. You aren't expected to pick the top-performing investment on your first try, but you should be able to find a few that are likely to meet your goals. Here are some ways to get started:

**Decide on a company first.** It's easy to change funds quickly within a company, but it takes time to move your money to a different company. All investment company providers have websites with extensive information on their funds as well as toll-free numbers you can call for information. See the TSA website for contact information: Google *uwsa tsa* or *Wisconsin 403(b)*.

Choose a company that offers a broad variety of funds at a reasonable cost and provides customer service and education that you like. Then **ask the company** for investment suggestions based on your age, risk tolerance, and financial goals.

**Develop an asset allocation plan.** In other words, decide what percent of your money should be invested in each of the different asset classes (stocks, bonds, short-term investments, and possibly real estate), then stick to it. Investments range from the very conservative (fixed annuities, money market funds, and U.S. government bond funds) to the very aggressive (small-cap funds, sector funds, and aggressive growth funds). Depending on your age, the time remaining until you need your money, and your willingness to accept risk, some combination of asset classes makes most sense for you.

Many tools exist to help you create an asset allocation plan. For starters, check the UW TSA companies' websites. Once you have a plan, it will be easier to narrow down your investment choices and you will be less fearful about making mistakes.

**Consider an asset allocation fund, a balanced fund, an index fund, or a target retirement date (lifecycle) fund.**

**Asset allocation funds** hold varying percentages of the major asset classes (stocks, bonds, and short-term investments like money-market funds) in their portfolios according to stated conservative, moderate, or aggressive investment objectives.

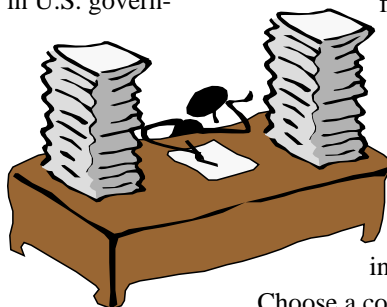
**Balanced funds** invest in both stocks and bonds, usually in about a 60/40 ratio. The bond component may reduce overall returns but should help to stabilize the fund when stocks are volatile.

**Index funds** attempt to mirror the make-up of the market itself (or a sector of the market). They will not perform much better than their benchmark, but should not do much worse either and their expenses tend to be lower than actively managed funds.

**Target Date or Lifecycle funds** structure their assets based on a target distribution date. As the target gets nearer, the fund moves from aggressive to conservative investments.

The **Selected Investment Returns** may be helpful in your search: [www.wisconsin.edu/ohrwd/benefits/ret/tsa/returns/selected.pdf](http://www.wisconsin.edu/ohrwd/benefits/ret/tsa/returns/selected.pdf). The first page lists all the **index funds** available in the TSA plan; page two lists the best performing **balanced funds** in order of five-year returns and **asset allocation** and **target retirement date funds**. The remaining pages list the best performing funds in the most important fund categories in order of five-year returns.

**Attend an Individual Counseling Session.** UW TSA investment companies are required to offer free investment education sessions to UW employees and their families. Individual counseling sessions are available at almost every institution every semester. If you prefer, telephone appointments can be arranged. This is a way to get your questions answered and get help with your investment portfolio; it's free, and there's no obligation!



See [www.wisconsin.edu/ohrwd/benefits/ret/tsa/#education](http://www.wisconsin.edu/ohrwd/benefits/ret/tsa/#education) for counseling dates. Find contact information for your institution at [www.wisconsin.edu/ohrwd/benefits/contact](http://www.wisconsin.edu/ohrwd/benefits/contact).

**Ask a professional.** Ameriprise/RiverSource and Lincoln Insurance companies will provide you with an agent to help select your investments. Part of your fees pay for his or her time.

A financial planner can help you think through your goals and investment choices, but expect to pay for the service. If you need help on how to choose a financial planner, see [www.wisconsin.edu/ohrwd/benefits/ret/tsa/financialplanner.pdf](http://www.wisconsin.edu/ohrwd/benefits/ret/tsa/financialplanner.pdf).

### Are my TSA investments guaranteed?

Only fixed annuities are guaranteed; the insurance company guarantees your principal and a minimum rate of return.

If you choose a variable annuity or a mutual fund, the value of your investment will fluctuate with the market. You could lose money.

### What fees and expenses are charged for participation in the TSA Program?

None of the investments in the TSA Program has loads (sales commissions or broker fees).

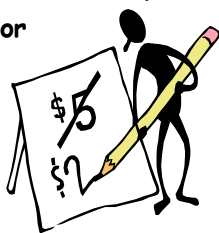
**No university fee.** There is no UW participant fee. The university has negotiated with our investment companies for the companies to cover the UW program administration costs.

However, you should be aware of the following charges:

**Investment Company fees.** These fees depend on the company and the type of investment you select. Most TSA investment companies have no direct fees. The UW TSA Review Committee has set maximums for most investment company charges.

- **Annual fees.** Each company is permitted to charge an annual fee of up to \$30. **All companies have waived this fee.**
- **Insurance company charges.**

**Surrender charges:** Lincoln National or RiverSource contracts issued after January 1, 2008 have no surrender charges; however, contracts issued before 1/1/08 may have surrender charges of up to 8% if you withdraw your funds during the first years of the contract or transfer them to a



different company. Since these fees could last only up to 8 years, there will be no surrender charges after 2015.

**Mortality and Expense risk (M&E) charge:** You may also pay an M&E charge on variable annuity accounts. Most of this charge is agent compensation, although it also provides a guaranty that if you die, your beneficiaries will receive a specified amount, typically the amount you contributed or a specified “stepped-up” amount. In the UW TSA Program, this cost cannot exceed 1.25% of your average fund balance in the previous year.

- **Redemption (short-term trading) fees.** Certain specialized funds charge a redemption fee for withdrawal or transfer before a specified period (30 to 365 days or more) has elapsed. Often these are referred to as “short-term trading fees” and are imposed to discourage market timing.

Certain investors buy and sell mutual fund securities quickly to take advantage of short-term discrepancies between the current price of a security that is trading in overseas markets and the stale value of that security held by the fund. The technical term for this is stale-price arbitrage. This practice generates higher trading costs that all investors must bear.

Short-term trading fees can be a disincentive to trade rapidly in and out of a fund and can go a long way to protect the interests of long-term shareholders. Typically, international funds, small and mid-cap funds, and specialty funds are most vulnerable to arbitrage and are most likely to impose fees. Since these fees go to the fund itself rather than to the fund’s advisor or the company, they benefit long-term shareholders.

**Expense ratios.** All funds have operating expenses that are deducted from assets before returns are published. The expense ratio is the annual percentage of a fund’s net assets that is used to pay the operating costs of the fund. The expense ratio reduces your earnings, so a low expense ratio is desirable, all other things being equal.

Each fund’s prospectus will disclose the current expense ratio for that fund. The expense ratios are also listed in the TSA fund returns at [www.wisconsin.edu/ohrwd/benefits/ret/tsa/#investment](http://www.wisconsin.edu/ohrwd/benefits/ret/tsa/#investment).

The **Selected Returns** list the expense ratios for the best performers by fund category as High, Average, or Low as compared to the Morningstar average for that fund type.

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## Loans and Distributions from Your TSA Account

### When can I take money out of my TSA account?

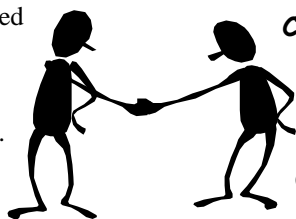
The TSA plan is a long-term savings vehicle to be used for retirement. IRS regulations limit the access you have to your savings. You may withdraw your contributions only when you leave employment with the UW System, reach age 59 ½, or become disabled.

Withdrawals before age 59 ½ may result in tax penalties.

As long as you terminate UW employment at age 55 or older – even though you are not 59 ½ – you may take distributions from your UW TSA accounts without being subject to the 10% tax penalty for early withdrawal.

### Is a hardship withdrawal available from my TSA account?

No. Because of a change in federal regulations, as of January 1, 2009 hardship withdrawals are not available from funds with the University of Wisconsin TSA 403(b) Program.



### Can I borrow against my TSA funds?

Loan services are available from all UW TSA 403(b) investment companies.

### How do I get a loan?

Contact your TSA company to initiate a loan. Each company has its own loan procedure. Only two outstanding loans are permitted at any time, even if you have accounts with more than two investment companies. The administrative fee is very low, and generally you pay yourself the interest to your own account.

Under IRS regulations, the maximum amount you may borrow is the lesser of \$50,000 or one-half of your account balance. You must start to repay your loan right away, and it must be fully repaid within five years unless the loan is used to acquire your principal residence.

## **PRE-TAX ACCOUNTS – How is my TSA money taxed when I take it out?**

It is taxed as regular income to you in the year you receive it. For that reason, plan carefully how you take your distributions, so that taking a large distribution in one year does not put you into a higher tax bracket.

## **ROTH AFTER-TAX ACCOUNTS – Is my TSA money taxed when I take it out?**

You do not pay any federal or state income tax on the earnings realized from Roth investments, and since you have already paid taxes on the contributions themselves, when you withdraw the money, the entire account is tax-free – subject to **IRS restrictions**.

## **ROTH AFTER-TAX ACCOUNTS – What IRS restrictions?**

In order to be excludable from gross income, or tax-free, your distribution must be a *qualified distribution*.

A qualified distribution is one that occurs at least five years after the year of your first Roth contribution (counting the first year as part of the five) and is made:

- On or after the attainment of age 59 ½,
- On account of the employee's disability, or
- On or after the employee's death (paid to beneficiaries).

## **ROTH AFTER-TAX ACCOUNTS – What if I want to take money from my Roth 403(b) account BEFORE I have met the Qualified Distribution criteria?**

If you take a distribution from your Roth account before your Roth account has been open five years or before you are age 59 ½, the amount of the distribution that represents your earnings is includable in gross income and is taxable. The amount that represents your Roth contribution is not taxable.

As a hypothetical example, say your Roth contributions are \$9,000 and your account value has grown to \$12,000. Divide  $9,000/12,000 = .75$ . If you want to take out \$4,000, 75% of that or \$3,000 (representing your contributions) is non-taxable, while \$1,000 represents the earnings on those contributions and is taxable.

## **Can I use my TSA account to buy service credits?**

Yes, federal law permits you to transfer moneys from a 403(b) account to a governmental retirement plan to purchase service credits. If you have forfeited service in the Wisconsin Retirement System (WRS) and wish to buy it back, you can pay for it from your UW TSA account. Contact the Department of Employee Trust Funds – [etf.wi.gov](http://etf.wi.gov), 877-533-5020 – which administers the WRS, for more information.

## **What if I leave employment with the UW?**

If you leave employment at the University of Wisconsin System, you can:

- Leave your TSA account as it is. It will continue to grow. Be sure to keep the company updated on home address changes so that you continue to get your quarterly statements of account.
- Roll your TSA into your new employer's retirement plan, provided the new plan will accept the rollover.
- Roll your TSA into an IRA.
- Withdraw the pre-tax money for your use – but there may be substantial tax penalties if you are under age 59 ½! – If you have terminated employment at age 55 or later, there is no penalty. See above for IRS restrictions on Roth accounts.



When you leave employment with the University of Wisconsin System or reach 59 ½, your TSA investment is no longer restricted to the companies approved by the Program. At that time, you may take a distribution and roll your funds into any investment vehicle permitted by law.

## **What happens to my TSA if I die?**

When you die, your TSA account is payable to your beneficiary on file. The investment company account application includes a Beneficiary Designation section that should be filed with your company. You can change the designation online with TIAA-CREF, Fidelity, and T. Rowe Price or by submitting a new paper designation with the other companies. Make sure your beneficiary designation is up-to-date.

If you do not file a beneficiary designation, the investment company will determine your beneficiary in accord with your individual contract or custodial agreement.

## **What are my options for receiving payments from my TSA?**

The forms of payment are very flexible. You can take your money in one or more lump sums, in a regular series of payments, or as an annuity for a specific period of years, for your life or the lives of you and a joint survivor.

Even if you invested in an annuity product through the TSA Program, you do not need to take your money out in the form of an annuity. You can select any payout option you wish.

## **What is an annuity?**

An immediate annuity is a regular payment to you (or to you and a joint survivor) for your lifetime(s) or for a guaranteed number of years (as opposed to a deferred annuity, which is an insurance product you contribute to). If you decide to take your TSA account in the form of an annuity, you use your accumulated balance to purchase the annuity from an insurance company.

If you select a fixed annuity, you receive uniform monthly payments of a fixed dollar amount. The monthly payment will depend on your age, the amount you invest, and the payout design you elect. Your payments are guaranteed by the insurance company. If you select a variable annuity, the payout amounts are tied to changes in the market value of the underlying funds and may fluctuate. The value of a variable annuity and the amount of payments are not guaranteed.

Even if you have been investing in a deferred annuity with a life insurance company, you do **not** have to take your money out in the form of an annuity (or monthly payment). If you do want an annuity, please be aware that you do not have to get that annuity from the same company you have invested with.

Shop around and compare the results and expenses. It may save you thousands of dollars!

## **Do I have to take distributions from my TSA at any certain time?**

In most cases, you must begin receiving income from your TSA by April 1 of the year after you turn 70 ½. If you neglect to take the distribution, you will incur a 50% penalty on the minimum amount you should have received. Your investment company will calculate your minimum required distribution upon request.

**NOTE:** If you are still working at the UW at age 70 ½, you can delay taking a distribution from your UW TSA until April 1 of the year following your termination of employment. (If you have accumulations from previous employers, you should begin taking distributions on those accounts by April 1 of the year after you turn 70 ½.)



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# Getting Started...

## How much should I contribute each month to my TSA account?

Many resources exist to help you determine how much you should set aside each month for retirement.

Most use some variation of the same basic recipe:



1. Estimate the income you will need in retirement (somewhere between 70% and 100% of your pre-retirement income – depending on your lifestyle in retirement). Usually the lower your pre-retirement income, the higher the percentage you will need in order to live comfortably in retirement.
2. Subtract the income you expect to receive from part-time employment, Social Security, pensions, and savings already put aside.
3. Multiply the remainder by your expected years of retirement and adjust for inflation and return on savings. This is your goal.
4. Based on the time remaining until you retire, calculate the extra amount you must save each month to reach your goal.

Most UW TSA investment companies have worksheets to help you calculate your savings goal. Here is an easy-to-use worksheet available on the Internet:

- The American Savings Education Council's **Ballpark Estimate**. [www.choosetosave.org/ballpark](http://www.choosetosave.org/ballpark).

## Where can I find more information about investments?

The Internet abounds with websites on investment advice. Here are a few of the more helpful sites:

- Our web site [www.wisconsin.edu/ohrwd/benefits/ret/tsa](http://www.wisconsin.edu/ohrwd/benefits/ret/tsa) has investment returns, links to all our investment company websites, past newsletters with helpful articles, annual reports, and more.
- The American Savings Council site [www.choosetosave.org](http://www.choosetosave.org) has a wealth of information, in addition to the Ballpark Estimate. The Council's mission is to make saving and retirement planning a priority for all Americans. That's our mission too!
- [www.morningstar.com](http://www.morningstar.com) is a good source of unbiased fund analysis and general investing advice. It's free, although you do have to sign up with your email address and a password.
- <http://finance.yahoo.com> is an easy way to get info on funds you are interested in. Just type in the ticker symbol (the letter identifier for the fund – annuity products do not have ticker symbols) and read away!

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## Things to keep in mind

If the investment company does **not** have your account application and they receive a contribution for you, **they must send the money back!**

The account application specifies the investment funds you have selected. **It must be on file with the investment company before the company receives your first contribution.**

If you have submitted your application by mail – please allow at least fourteen days before your deferral takes effect.

Remember online enrollment is **immediate!**

## How do I get started?

It's as easy as 1 – 2 – 3

1. **Select one or more companies** that can help you meet your retirement needs with the flexibility you need to manage your account.
  - The **TSA Quick Guide** [www.wisconsin.edu/ohrwd/benefits/ret/tsa/quick-guide.pdf](http://www.wisconsin.edu/ohrwd/benefits/ret/tsa/quick-guide.pdf) gives current information on investment company options.
  - The **TSA Returns** [www.wisconsin.edu/ohrwd/benefits/ret/tsa/#investment](http://www.wisconsin.edu/ohrwd/benefits/ret/tsa/#investment) show the funds each company offers.
  - The **TSA company websites** [www.wisconsin.edu/ohrwd/benefits/ret/tsa/#investment](http://www.wisconsin.edu/ohrwd/benefits/ret/tsa/#investment) provide good information on funds and investment basics.
2. **Sign up with the company (or companies) you choose.** When you enroll, you provide the company with your contact information, your beneficiary information, and your investment choice or choices.

**If you need help choosing your investments, call the company.** Someone will help you!!

★ Enroll online – it's quick, easy, and effective immediately: [www.wisconsin.edu/ohrwd/benefits/ret/tsa/#enrollment](http://www.wisconsin.edu/ohrwd/benefits/ret/tsa/#enrollment)

If you prefer to use a paper enrollment form, you can download the forms from the above website or contact the company for a UW 403(b) enrollment packet. It will give information about the company, funds, and asset allocation. Fill out the paperwork and submit it.

3. **File a Salary Reduction Agreement (SRA)** with your institution's Staff Benefits Office. The SRA is at your Staff Benefits Office or on the web at [www.wisconsin.edu/ohrwd/benefits/ret/tsa/sra](http://www.wisconsin.edu/ohrwd/benefits/ret/tsa/sra).

The SRA authorizes the University to withhold a designated dollar amount or percent and specifies whether pre-tax or Roth post-tax dollars or a combination of both are to be deducted to go to the TSA company or companies you designate.

If you choose Lincoln or RiverSource, your agent can prepare this agreement for you.

It is your responsibility to verify that your SRA has been accurately processed by comparing it to your earnings statement. Contact your benefits office immediately if you find any discrepancy.

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**Be sure you are not contributing more than federal regulations allow.** Limits are listed on our website: [www.wisconsin.edu/ohrwd/benefits/ret/tsa/#limits](http://www.wisconsin.edu/ohrwd/benefits/ret/tsa/#limits).

Review your assets about once a year.

For new and updated information, check our website [www.wisconsin.edu/ohrwd/benefits/ret/tsa](http://www.wisconsin.edu/ohrwd/benefits/ret/tsa).

Congratulations on saving NOW – so you can retire when you want, the way you want!