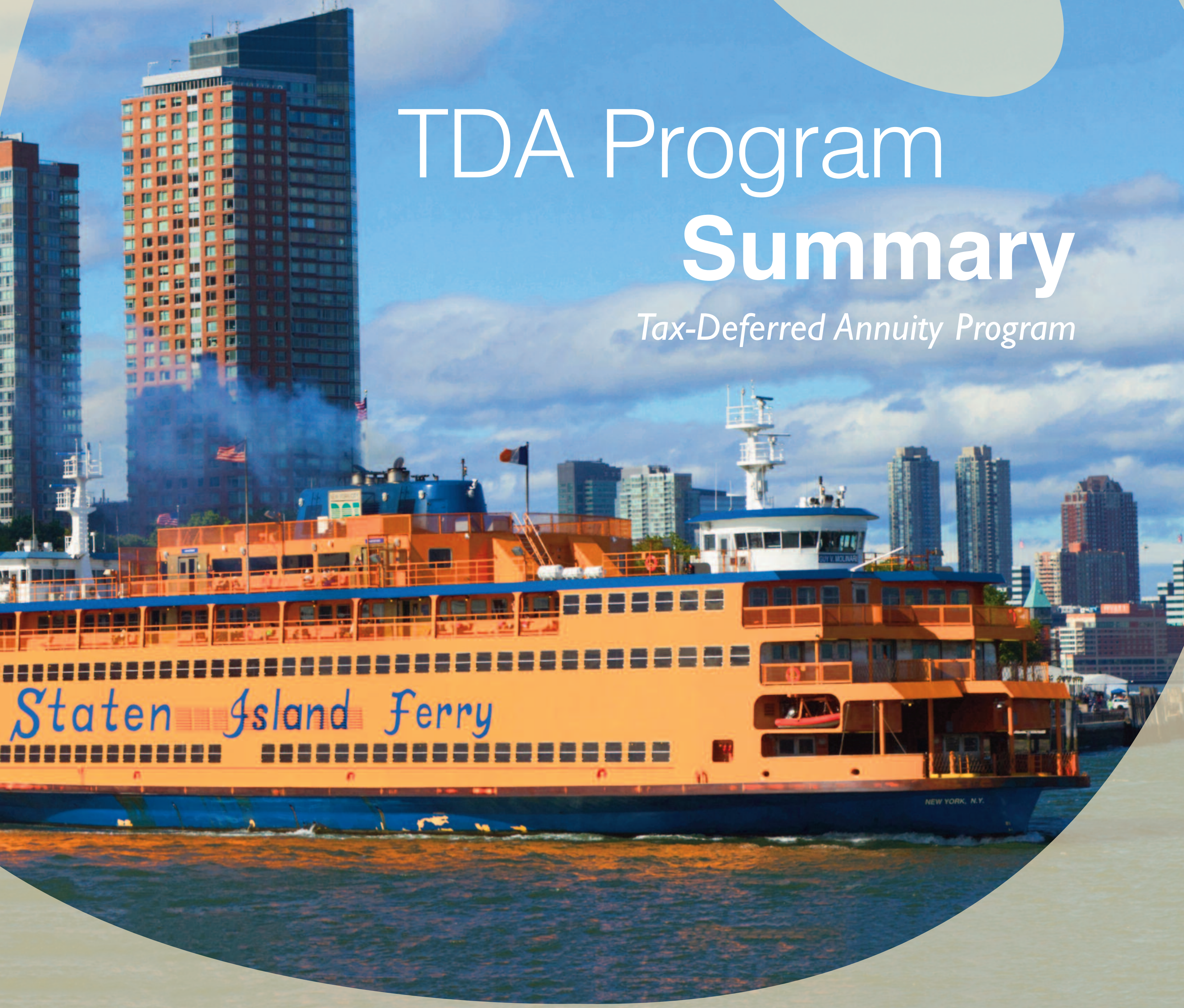
TDA Program **Summary**

Tax-Deferred Annuity Program



Teachers' Retirement System of the City of New York

Tax-Deferred Annuity Program

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TRS' Tax-Deferred Annuity (TDA) Program is an excellent way to save additional money for your retirement. By investing part of your paycheck—even a small percentage—you take an important step toward your financial growth. This Summary provides an overview of the TDA Program, highlights many of its advantages, and includes important guidelines about participation. Since this booklet is updated regularly, existing TDA participants will find information about recent changes to the TDA Program.

Introducing TDA

The TDA Program is an optional investment plan open to all TRS members. Established in 1970, our TDA Program is maintained in accordance with Section 403(b) of the Internal Revenue Code (IRC). Section 403(b) plans are available only 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. By contributing, you may reduce your taxable income and your current tax liability. You will not pay any taxes on your contributions or your earnings until you withdraw your funds. (Distributions generally are federally taxable and may be subject to state and local taxes; please check with your tax advisor.)

At the start of 2019, more than 150,000 TRS members had TDA accounts, taking advantage of two retirement plans under the same roof. Approximately 90,000 members (or nearly three-quarters of our in-service membership) were actively contributing to TRS' TDA Program. These members are enjoying the benefits of tax-deferred investing, as well as the following advantages that our TDA Program offers:

- √ **Flexibility:** Six diverse investment options
- √ **Convenience:** Contributions deducted automatically from your pay
- √ **Loan availability:** Access to your TDA money before retirement
- √ **Online access:** Account management on our website

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 (see "Online TDA Account Access," page 7). A paper "TDA Enrollment Form" (code TD1) is also available on request.

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

As part of the enrollment process, you should also 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 TDA participation.

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. You determine the amount you contribute each year, within Internal Revenue Service (IRS) limits. Your TDA account is funded exclusively through your own 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, all members 50 years 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 below for contribution amounts.

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 2019 is $19,000, you would be able to contribute a total combined amount of $19,000 to your TDA and a 401(k) Plan in 2019. If you also participate in a 457 Plan, you would be able to contribute up to $19,000 to that plan as well.)

Personalizing Your TDA Investment Strategy

Financial experts agree that no single investment strategy is suitable for all investors. Accordingly, TRS offers you six different 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.

TDA Contribution Limits for 2019

- The general contribution limit is $19,000 per year.
- Members age 50 and older may make additional "catch-up" contributions of $6,000 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 over their lifetime.

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

The **Diversified Equity Fund** invests primarily in the stocks of U.S. companies, and also invests a portion of its assets in stocks of non-U.S. companies and other types of investments. The objective is to achieve a rate of return comparable to the return of the broad equity market.

The **Balanced Fund** is a moderately conservative investment option that includes exposure to bonds and 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 **Inflation Protection Fund** seeks exposure to multiple asset classes and markets, which may include the following: floating rate debt, commodities, inflation-protected debt (including U.S. Treasury Inflation-Protected Securities), and real estate debt and equity securities. The objective is to provide, over a full market cycle, a real rate of return that exceeds inflation.

The **Socially Responsive Equity Fund** invests in stocks of large- and mid-cap U.S. and non-U.S. companies that meet certain financial and social criteria. It seeks companies that show leadership in areas such as environmental concerns, diversity in the workforce, progressive employment, and workplace practices. The fund attempts to avoid companies that derive substantial revenue from alcohol, tobacco, nuclear power, or weapons. The objectives are to achieve, over a full market cycle, positive long-term capital growth and to earn a rate of return comparable to the return of the broader equity market while reflecting social priorities.

You can change your Passport Fund investment mix on a quarterly basis, and your investment changes can take place over a period of 1 to 12 months.

For more detailed information:

Passport Funds: Fund Profiles

Comparison of TDA and Taxable Retirement Plans

The following table compares the income of a TDA participant with the income of a non-participant who grosses the same amount ($48,445) annually but invests in a taxable retirement plan. As this table illustrates, the TDA participant has a lower adjusted gross income than the participant in the taxable plan; as a result, the TDA participant pays less tax and has higher net income.

Gross Annual Income	Annual TDA Contribution	Adjusted Gross Annual Income	Annual Federal Income Tax*	Annual Contribution for Taxable Investment Plan	Net Annual Income	Annual Federal Income Tax Deferral
TDA Participant						
$48,445	$2,000	$46,445	$5,240	$0	$41,205	$440
Participant in a Taxable Plan						
$48,445	$0	$48,445	$5,680	$2,000	$40,765	$0

*This example is based on 2019 federal income tax rates and assumes that participants file as single taxpayers taking the standard deduction. Individual situations will vary. You may wish to contact your tax advisor.

Benefiting from Tax Deferral

Pre-tax contributions—Your TDA contributions are taken from your pay before taxes are deducted, thereby reducing the amount of your gross taxable income.

Tax-deferred earnings—You do not pay taxes on the money your TDA investments earn until you actually receive the funds from your account. (Distributions generally are federally taxable and may be subject to state and local taxes; please check with your tax advisor.) By comparison, in a taxable plan, you would pay taxes on your earnings as they accrue.

Contributing Through Payroll Deductions

Your TDA contributions are automatically deducted from your pay and deposited in your TDA account. You never have to write a check to deposit money to your account. Investing a set amount on a regular basis (called "dollar-cost averaging") tends to be a reliable method for saving, and produces positive results over time. Your contributions buy more shares (units) when the price is low, and fewer when the price is high, so your money continues to accumulate and generate earnings. In addition, since you contribute to TDA at a set rate, your contributions automatically increase when your salary does.

By using the TDA calculator on TRS' website, you can pick a contribution rate and see the effect it would have on your take-home pay; if you have a specific dollar amount that you want to contribute, the calculator can convert it to a percentage of your pay. Using the calculator can also help you reach your TDA savings goal for the calendar year.

Enjoying the Flexibility of TDA

The TDA Program offers you flexibility in the following ways:

- √ You may invest contributions in any or all of TRS' Passport Funds.
- √ You may change the way your future contributions and past accumulations are invested on a quarterly basis.
- √ If you want to change your contribution rate or stop (or resume) contributing to the TDA Program, you may do so at any time.

Borrowing from Your TDA Account

The TDA Program allows eligible participants to take loans against their TDA account. To qualify, you must meet the following criteria:

- √ You have participated in the TDA Program for at least one year;
- √ You are an in-service member or a member on a leave of absence, **or** you have TDA Deferral status; and
- √ You are not currently in default on a TDA loan.

Your loan would generally be available within 15 days after TRS receives your application.

You may take one TDA loan within a 12-month period. You may have more than one TDA loan open at a time; however, each loan would be treated independently (*i.e.*, separate loan balances, repayment terms, interest charges, and applicable insurance premiums).

Generally, the minimum loan amount is $1,000 (or $250 if you have an existing 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 paid through payroll deductions. For retirees who maintain their TDA account after retiring, TDA loans can be repaid automatically through deductions from retirement allowance payments.

For more detailed information:

📖 ***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.

- √ If you have reached age 59½, or have separated from service, you have unrestricted access to your TDA funds.
- √ If you are an in-service member who has not reached age 59½, you may withdraw Pre-1989 funds (*i.e.*, TDA contributions and earnings accumulated as of December 31, 1988) at any time.

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.

Note: TDA participants are currently not permitted to move funds from TRS' TDA Program to a Section 403(b) plan outside of New York City. TRS has suspended all processing of requests to move TDA funds to a Section 403(b) plan (except the New York City Board of Education Retirement System) pending further clarification from the IRS.

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.

In addition, if you are an in-service member who has not yet reached age 59½, you may withdraw your Post-1988 contributions (but not your earnings) in the case of hardship, which is defined as a sudden and heavy financial need that you are unable to reasonably meet through loans or other financial resources. Examples of qualifying hardship conditions include payment of certain medical or funeral expenses, payment of post-secondary school tuition, and payment to prevent eviction or foreclosure. You must maximize all other available TRS and non-TRS resources and provide TRS with appropriate documentation before a hardship withdrawal can be granted. Hardship withdrawals are not eligible for Direct Rollover.

If your application for a TDA hardship withdrawal is approved, any TDA contributions would automatically cease for six months. You would be eligible to resume contributions after this period.

Understanding the Tax Consequences of Withdrawals

For all Direct Withdrawals other than hardship withdrawals, TRS is required to withhold 20% of withdrawn amounts if the total amount withdrawn exceeds $200. TRS would send the withheld amount to the IRS as credit toward your federal income taxes for the year of distribution. (The 20% withholding would not apply to any portion of the withdrawal that you elect to have TRS directly roll over.) 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 would generally be subject to federal tax (and possibly state and local taxes; please check with your tax advisor).

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; please check with your tax advisor.

In all cases, if withholding is applied, you would be able to claim the amount withheld as tax paid on your tax return for the year of distribution.

Note: Additional amounts may be withheld from your TDA withdrawal/disbursement if a TDA loan balance was deemed a distribution earlier in the same year. (The additional withholding would be applied toward the taxes due on the deemed distribution.) TRS' forms provide details.

Separating from Service Before Retirement

If you leave service after attaining vested rights under the QPP, you may either a) withdraw your TDA funds or b) elect TDA Deferral status by filing a "TDA Deferral Status Election Form for Vested Members" (code TD31). Electing TDA Deferral status would delay the distribution of your TDA funds past the initial payability date of your retirement allowance. Deferring distribution of your TDA funds means that you would avoid paying taxes on those funds (and any resulting interest and/or investment return) until you receive them.

If you leave service before attaining vested rights under the QPP, you may withdraw your TDA funds at any time. If you leave your TDA funds with TRS, they would continue to accrue interest and/or investment return for seven school years. However, 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. Your options are described below. In some cases, you may receive your TDA funds through a combination of these options:

- √ You may elect TDA Deferral status to maintain your TDA balance during your retirement. To do so, you must file a "TDA Deferral Status Election Form for Retiring Members" (code TD30) with TRS.
- √ You may receive your TDA funds as a monthly annuity, which would be separate from, and in addition to, your QPP retirement allowance. Amounts distributed to you as an annuity will generally be federally taxable and may be subject to state and local taxes; please check with your tax advisor. You must file a "TDA Annuitization Election Form" (code TD6) with TRS to make this election.
- √ You may withdraw all or part of your TDA funds and/or direct these funds to an eligible successor program through Direct Rollover.

IRS rules determine how long TDA participants may defer receipt of their TDA funds. In general, TDA distributions are required for members who have left service (having elected TDA Deferral status) and who have reached age 70½ by December 31 of a given year. In most cases, they would have to meet minimum distribution requirements for every year that they maintain a TDA balance. If you are a member with TDA Deferral status, your first distribution must be received by April 1 of the year after you reach age 70½.

Each year, TRS contacts members who are subject to the IRS' Required Minimum Distribution (RMD) rules and informs them of their distribution options.

For more detailed information:

📖 ***Required Minimum Distributions for Members***

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. Please be aware that, if you do not have a beneficiary designation on file with TRS, any TDA funds in your account would 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.

If a TDA participant dies, any designated TDA beneficiaries may be eligible to establish a TDA account with TRS, rather than receive a TDA death benefit payment.

For more detailed information:

📖 ***Guide to Death Benefits*** (Retired Members)

📖 ***Guide to Death Benefits*** (Non-Retired Members)

Online TDA Account Access

Our website at www.trsnyc.org is designed to give you secure access to your TDA Program account. After you have registered on TRS' website (*i.e.*, you have a username and password), you can view your account information and securely complete the following online transactions:

- √ Enrolling in TDA
- √ Designating and changing TDA beneficiaries
- √ Changing your TDA contribution rate
- √ Changing your TDA investment mix
- √ Applying for a TDA loan
- √ Applying for a TDA withdrawal (including hardship withdrawals)
- √ Making your annual election for Required Minimum Distributions

A few TDA transactions are not yet available on our website. You can download paper forms in the **Forms** section of our website. General information about our TDA Program and current and historical performance data are also available through our website.

Teachers’ Retirement System of the City of New York

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February 2019