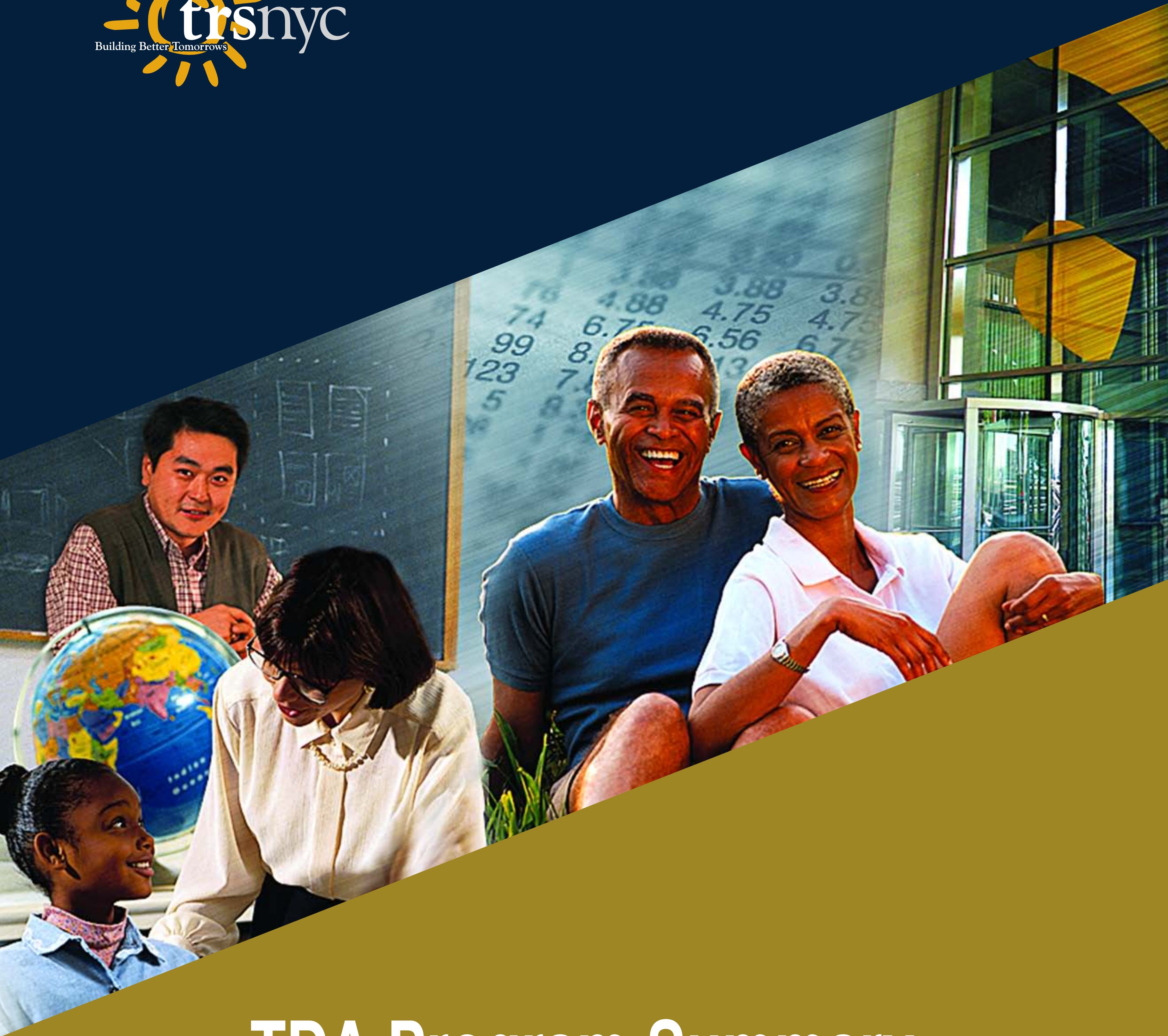

TDA Program Summary

Teachers' Retirement System of the City of New York

Tax-Deferred Annuity Program

Tax-Deferred Annuity Program

Teachers' Retirement System of the City of New York

TRS' Tax-Deferred Annuity (TDA) Program is an excellent way to save additional money for your retirement. 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.

If you require any additional assistance, we encourage you to contact our Member Services Center at 1 (888) 8-NYC-TRS.

Introducing TDA

TRS' TDA Program is a supplemental retirement plan that enables you to invest money for your future on a tax-deferred basis through automatic payroll deductions. You may reduce your taxable income, thereby lowering your current tax liability. For example, if you live in New York State, you will not pay federal, state, or city taxes on the amount you contribute until you withdraw your funds. However, state and local tax exemptions do not exist in all states. Please check with your tax advisor if you file taxes in a state other than New York.

Another tax advantage is that interest and earnings on your TDA investments are not immediately taxed; taxes are deferred until the funds in your TDA account are actually distributed to you. The TDA Program is maintained in accordance with Section 403(b) of the Internal Revenue Code (IRC). Section 403(b) programs are available only to employees of educational institutions, hospitals, and certain other not-for-profit organizations.

The TDA Program provides a structured method for saving, with the convenience of payroll deductions, the assurance of professionally managed funds, and the option to periodically change your investment choices.

Identifying TDA's Advantages

TRS' TDA Program is an outstanding opportunity for you to build a more secure retirement. Many advantages of TDA participation are listed below:

- Tax-deferred savings and investment earnings;
- Lower income taxes;
- Investment flexibility;
- Faster accumulation of funds than in a comparable taxable investment plan;
- Low administrative fees;
- Loan availability;
- Choices for receiving your money after you retire;
- Opportunity to provide death benefits for a beneficiary(ies); and
- Online account access.

Enrolling in the TDA Program

All TRS members are eligible to participate in the TDA Program. The fastest way to become a TDA Program participant is by enrolling online. You may enroll online if you have Full Access to the "My TRS Account" section of our website at www.trs.nyc.ny.us (see "TDA Account Access and Information Online," page 10). If you prefer, you may file a hardcopy "TDA Enrollment Form" (code TD1).

When you enroll in the TDA Program, you designate how your contributions will be invested among TRS' investment programs, which are explained on pages 4 and 5. In general, deductions for your TDA contributions would begin on the first payroll that begins at least 60 days after TRS receives your enrollment request.

As part of the enrollment process, you should also designate a beneficiary (see "Providing for Your Survivors," page 9) by filing a "Designation of TDA Beneficiary Form" (code EN8), which you may obtain by accessing the "Publications/Forms" section of our website. You may also obtain this form by calling 1 (888) 8-NYC-TRS and selecting Option 3 on the TRS Service Line's main menu. It is important to keep your beneficiary designations current throughout your TDA participation, and you may file an updated beneficiary form whenever necessary. Once enrolled, you may view your current beneficiary designations online (see "TDA Account Access and Information Online," page 10).

Comparing the TDA Program to TRS' Qualified Pension Plan (QPP)

As a defined-benefit plan, the QPP guarantees that your employer will provide you with a specific benefit at retirement. You are required to contribute a portion of your salary to the QPP; in addition, your employer makes contributions to your QPP account. QPP funds form the basis for your retirement allowance.

In contrast, as a voluntary, defined-contribution plan, TRS' TDA Program enables you to determine the amount you will invest each year, within the maximum amount allowed by law. Your TDA account is funded exclusively through your own contributions and interest and/or

Comparison of TDA and Taxable Retirement Plans

The following chart compares the income of a TDA participant with the income of a non-participant who grosses the same amount ($3,000) monthly but invests in a taxable retirement plan. As this chart 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 Monthly Income	Monthly TDA Contribution	Adjusted Gross Monthly Income	Monthly Federal Income Tax*	Monthly Contribution for Taxable Investment Plan	Net Monthly Income	Monthly Federal Income Tax Deferral
TDA Participant						
$3,000.00	$150.00	$2,850.00	$298.00	$0.00	$2,552.00	$22.50
Participant in a Taxable Plan						
$3,000.00	$0.00	$3,000.00	$320.50	$150.00	$2,529.50	$0.00

** Figures are based on a single-return filing (standard deduction and one exemption), and taxable income of $26,250 (i.e., a 13.6% marginal tax bracket) and $28,050 (i.e., a 13.7% marginal tax bracket) for the TDA participant and non-participant, respectively. Accordingly, the 2004 federal income tax amount equals $3,576 for the TDA participant and $3,846 for the non-participant.*

investment returns. The benefits depend on the contributions made and their earnings. At retirement, you have several options for receiving your TDA funds, including receiving them as annuity payments (separate from your QPP allowance) or deferring receipt and keeping your retirement account active.

Contributing to the TDA Program

Under federal law, members can contribute a designated amount to TRS' TDA Program each year. In addition, all members 50 years and older are eligible to make pre-tax "catch-up" contributions. An additional "catch-up" rule applies for certain members with 15 years of service. See the box below for contribution amounts through 2007.

If you are a contributor to the TDA Program, and/or a 401(k) Plan, you should be aware that your maximum contribution amount applies to the combination of your TDA Program and 401(k) Plan. If you also belong to a 457 Plan, you would be able to contribute your maximum amount to that plan. (For example, if your maximum contribution amount is $15,000, you would be able to contribute that amount to your TDA and a 401(k) combined in 2006; if you also belong to a 457 Plan, you would be able to contribute up to $15,000 to that plan as well.)

You may choose your "maximum" or a specific contribution rate through the "My TRS Account" section of our website. You may request forms, such as the "TDA Enrollment Form" (for initial contributions only), or the "TDA Contribution Rate Change Form" (code TD4) by accessing the "Publications/Forms" section of our website. As an alternative, you may order forms by calling the TRS Service Line and selecting Option 3 on the main menu.

Personalizing Your TDA Investment Strategy

Financial experts agree that no single option is suitable for all investors. Accordingly, TRS offers you three different investment choices for your TDA account. You may select the combination of investment options that best suits your financial goals.

Fixed Annuity Program—This program currently offers a guaranteed rate of return set by the New York State Legislature. The current 8.25% annual rate is guaranteed through June 30, 2006, and the rate is guaranteed to never fall below 7%.

Variable A Annuity Program—This program's portfolio consists mainly of equity investments. The financial objective is to capture the return of the broad equity market, while attempting to control short-term volatility.

- **The general maximum contribution amount is $15,000.**
- **Members age 50 and older may make additional "catch-up" contributions of $5,000 over this maximum contribution amount.**
-

- **Variable B Annuity Program**—This program's portfolio consists of Guaranteed Investment Contracts (GICs), wrapped fixed-income securities, and other stable-value investment vehicles. The financial objectives are to preserve principal and provide a steady rate of return.

A key to making your investment choices is understanding the term "Annualized Investment Performance," or AIP. AIP refers to the average annual return of an investment over a period of time—typically one, three, five, ten, or fifteen years—as if each year of the period had the same return. The table below compares returns from TRS' investment programs over those periods.

Another step in the enrollment process is selecting how to invest your TDA funds among TRS' three investment programs. Whichever enrollment method you choose—whether online or by a hardcopy form—TRS must receive your investment elections when you enroll.

Benefiting from Tax-Deferred Savings and Investment Earnings

Pre-tax contributions—Your TDA contributions are taken from your paycheck before taxes are deducted, thereby reducing the amount of your gross taxable income. Since your take-home pay is higher than it would be if you invested in a comparable taxable investment plan (see chart on page 3 for illustration), more of your salary is available to you for saving, investing, or meeting other needs.

Tax-deferred earnings—Members residing in New York State do not pay taxes on the money their TDA investments earn until they actually receive the funds from their account. (If you reside outside of New York State, please check with your tax advisor to determine your tax exemptions.) By comparison, in a taxable plan, you would pay taxes on your earnings as they accrue.

Paying Low TDA Fees

TDA's administrative fees are lower than the fees typically charged to participants in other investment programs, such as mutual funds. TRS' TDA Program charges a monthly fee of just 15/1000 of 1% to participants who invest in either Variable Annuity Program. There is no fee for investing in the Fixed Annuity Program.

Taking Advantage of Automatic Payroll Deductions

Your employer deducts your contributions from your pay and forwards your contributions to TRS for deposit to your TDA account. Your contributions are a consistent facet of your savings budget, and you never have to write a separate check 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 when the price is low, and fewer when the price is high, so your money continues to accumulate and generate

Annualized Investment Performance for the Period Ending July 31, 2005

Program	1 Year	3 Years	5 Years	10 Years	15 Years
Fixed	8.25%	8.25%	8.25%	8.25%	8.25%
Variable A	17.11%	14.02%	0.76%	9.51%	10.67%
Variable B	3.55%	3.52%	4.35%	5.09%	5.86%

earnings. In addition, since you contribute to TDA at a set rate, your contributions automatically grow with salary increases.

Enjoying the Flexibility of TDA

As the following information indicates, participation in the TDA Program is flexible:

- You may make contributions in 5% increments to one, two, or all three TDA investment options. You may use any percentage combination, provided your total contribution percentage equals 100%.
- You may change the way your future contributions and past accumulations are invested quarterly by accessing our website's "My TRS Account" section (see page 10), or by filing a hardcopy "TDA Investment Election Change Form" (code TD45).
- If you want to change your contribution rate or stop contributing to the TDA Program, you may do so at any time by accessing our website's "My TRS Account" section, or by filing a hardcopy "TDA Contribution Rate Change Form." If you stop contributing, you may later resume contributions through the same online feature or hardcopy form.

The following chart provides quarterly schedules for TDA investment changes:

Filing Deadlines for TDA Investment Changes		
Filing Period	**Filing Deadline**	**Effective Date of Changes**
February	March 1	April 1
May	June 1	July 1
August	September 1	October 1
October/ November	December 1	January 1

Note: *If the filing deadline falls on a weekend, the actual deadline would be the last business day of the preceding month.*

Borrowing from Your TDA Account

The TDA Program provides loans at the low annual interest rate of 8.25%. You may apply for a TDA loan by accessing the "My TRS Account" section of our website (see page 10), or by filing a hardcopy "TDA Loan Application" (code LO15). Your loan would generally be available within one week after TRS processes your online or hardcopy application.

You must meet the following criteria to be eligible for a TDA loan:

- 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 (see "Repaying Your TDA Loan," page 7); and
- You are not currently in default on a TDA loan.

You may take one TDA loan within a 12-month period. Under Internal Revenue Service (IRS) regulations, TRS must treat each loan issued under the TDA Program independently (*i.e.*, separate loan balances, repayment terms, interest charges, and applicable insurance premiums).

Generally, the minimum loan amount is $1,000. However, you may borrow a minimum of $250 if you have a previous outstanding loan(s). The total amount of any outstanding TDA loan(s) plus any new loan requested must equal at least $1,000.

If you have at least five years of TRS membership service, the maximum (new) TDA loan amount you may request would be limited to the lesser of the amounts described in restrictions **A** and **B** below; otherwise, the maximum (new) TDA loan amount you request would be limited to the least of **A, B,** or **C** below. If you apply for a TDA loan in conjunction with filing a "TDA Annuitization Election Form/TDA Retirement Application" (code TD6), the maximum (new) TDA loan amount you request would be restriction **B** below.

A. $50,000, less your highest combined outstanding TRS and City of New York Deferred Compensation Plan (DCP) loan balance during the previous 12-month period; please be advised that adverse tax consequences would result if the combined balance of your TRS and DCP loans exceeds $50,000.

B. 75% of the value of your TDA account, less your current outstanding TDA loan balance(s); or

C. The greater of: (i) 50% of the combined value of your TDA and QPP accounts (other than Increased-Take-Home Pay, if applicable), less your current combined outstanding TDA and QPP loan balance; or (ii) $10,000, less your current combined outstanding TDA and QPP loan balance.

Note: *If you are an in-service member, your available loan amount may be further limited if your repayment amount would otherwise exceed your net pay.*

A non-refundable service charge ($30 at the time this summary was published) is added to each TDA loan to cover administrative costs. In the event of your death, your loan is fully insured as of 30 days after the date on your loan check.

Insurance premiums at a rate of 3/10 of 1% will be included in your regular loan payments, for as long as you maintain an outstanding TDA loan balance(s).

Repaying Your TDA Loan

In general, 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.

If you are on a leave of absence, you would automatically qualify for a 12-month grace period, when loan payments need not be made (but interest and insurance charges would continue to accrue on the unpaid balance(s)). If you are still on leave when you begin repayment of your outstanding loan, you would be required to make payments directly to TRS. Your payroll deductions would normally resume when you return to active payroll.

If you elect TDA Deferral status when you retire or when you separate from service with vested status, you may maintain an outstanding loan balance(s) and avoid a taxable distribution. In such a case, you would be required to make monthly loan payments directly to TRS. Any new TDA loan taken in conjunction with filing a "TDA Annuitization Election Form/TDA Retirement Application" would not be repaid to TRS; instead, it would be considered a distribution for tax purposes.

Withdrawing Funds from Your TDA Account

Since the TDA Program is designed as a retirement plan, the IRS places restrictions on withdrawals before retirement. The following rules apply:

- You may make a Direct Transfer (see page 8) of any of your TDA funds. If you have reached age 59½, or have separated from service, you may also have unrestricted access to your TDA funds.
- If you are an in-service member who has not yet reached age 59½, you may withdraw your Pre-1989 funds (*i.e.*, the TDA contributions and earnings you accumulated as of December 31, 1988) at any time. You may not withdraw your Post-1988 (*i.e.*, after December 31, 1988) earnings.

To withdraw TDA funds, you must file a "TDA Withdrawal Application" (code TD32). To continue to defer taxes on those TDA funds, you may ask TRS to directly roll over or directly transfer the funds by also filing a "TDA Direct

Rollover Election Form" (code TD22) and/or a "TDA Direct Transfer Application" (code TD15).

- Under a Direct Rollover, the TRS check representing withdrawn funds is made payable directly to the IRS-qualified Individual Retirement Account (IRA) or other eligible successor program that you select.
- Under a Direct Transfer, the TRS check representing withdrawn funds is made payable directly to an IRS-qualified Section 403(b) Program whose withdrawal rules are at least as restrictive as those of TRS' TDA Program.

In addition, if you are an in-service member who has not yet reached age $59^1/_2$, you may withdraw your Post-1988 contributions 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. Hardship conditions include payment to prevent eviction or foreclosure, payment of certain medical or funeral expenses, and payment of post-secondary school tuition. You must, however, have maximized all other reasonably available resources (*i.e.*, TRS and non-TRS resources) before a hardship withdrawal can be granted. Hardship withdrawals are not eligible for Direct Rollover or Direct Transfer.

You may request a hardship withdrawal by filing a "TDA Hardship Withdrawal Application" (code TD44). If your "TDA Hardship Withdrawal Application" is approved, your TDA contributions would automatically cease for six months if you have not already stopped them. You would be eligible to resume contributions after this period.

Any withdrawal of funds should be processed on the first payroll that occurs at least 60 days after TRS receives your valid withdrawal application(s).

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 towards 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 or directly transfer.) If you receive a Direct Withdrawal and do not roll over the distribution within 60 days of the date on the withdrawal check, federal, New York State, and New York City taxes may be applied to the withdrawn amount.

Moreover, the IRS will impose an additional 10% tax on all Direct Withdrawals, unless they are made a) after you reach age $59^1/_2$; or b) after a termination of your employment that occurs during or after the year in which you reach age 55; or c) to pay federally deductible medical expenses; or d) in conjunction with your disability retirement; or e) by your beneficiary in conjunction with a death benefit payment.

For hardship withdrawals, you may elect whether to have 10% withholding applied to your hardship withdrawal on your "TDA Hardship Withdrawal Application." If you do not make an election, 10% withholding would be applied automatically. 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. Amounts distributed through a hardship withdrawal are subject to federal, New York State, and New York City taxes. An additional 10% federal excise tax would also apply.

TRS recommends that you consult your professional tax advisor about the taxability of TDA withdrawals.

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, your TDA participation would automatically end, and TRS would distribute the value of your TDA account to you.

Receiving Your TDA Funds at 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 and thereby delay the distribution of your TDA funds past the payability date of your QPP retirement allowance. 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 is separate from, and in addition to, your QPP retirement allowance. Amounts distributed to you as an annuity will be fully taxable; however, New York State and New York City tax exemptions may apply. You must file a “TDA Annuitization Election Form/TDA Retirement Application” with TRS to make this election.
- You may make a Direct Withdrawal, Direct Rollover, or Direct Transfer of your funds by filing a “TDA Withdrawal Application,” “TDA Direct Rollover Election Form,” and/or a “TDA Direct Transfer Application,” as applicable.

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, distribution must begin 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.

Providing for Your Survivors

The TDA Program allows you to name a beneficiary(ies) to receive your TDA funds in the event of your death. If you are an in-service member or you have TDA Deferral status, you may change your beneficiary(ies) at any time during your membership. Members can also view their current beneficiary designations by accessing the “My TRS Account” section of the TRS website (see page 10). You should keep a current “Designation of TDA Beneficiary Form” on file with TRS at all times. Please be aware that, if you do not have a beneficiary designee on file with TRS, any TDA funds in your account would be paid 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, his/her designated TDA beneficiary(ies) may be eligible to establish a TDA account with TRS rather than receive a TDA death benefit payment.

For more information on TDA death benefits, please consult the *Beneficiary's Guide to Death Benefits* brochure (code 6.2).

How to Get More TDA Information

The following TRS publications fully explain specific aspects of the TDA Program:

- ***TDA Loans* (code 4.2)**
- ***TDA Options at Retirement* (code 5.2)**
- ***TDA Deferral Status* (code 5.3)**
- ***Required Minimum Distributions* (code 5.4)**

TDA Account Access and Information Online

The TRS website at www.trs.nyc.ny.us provides quick and convenient access to general information on the TDA Program. In addition, our website is designed to give you information about and secure access to your TDA Program account.

To access your TDA account information, you must register with TRS. Your registration would allow you to create a user name and password that you may use to view your account information and complete online transactions (*e.g.*, enroll in the TDA Program) in a secure environment. For more information, please consult the following brochures:

- ***Using the TRS Website* (code 2.5)**
- ***Using "My TRS Account" on the TRS Website* (code 2.6)**

You may obtain forms and publications through our website at www.trs.nyc.ny.us, or by calling 1 (888) 8-NYC-TRS and selecting Option 3 on the TRS Service Line's main menu.

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Building Better Tomorrows

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