



YOUR GUIDE TO  
**TAX-DEFERRED  
ANNUITIES**

HOW MUCH CAN YOU CONTRIBUTE?



FINANCIAL SERVICES  
FOR THE GREATER GOOD®

Today it's more important than ever to put aside extra funds over and above your employer's contributions to your retirement plan. Tax-deferred annuities (TDAs), help you build extra savings to defer paying taxes on contributions you make to a tax-favored financial vehicle that would otherwise go to pay current income taxes. With a TDA, your contributions may continue to grow tax deferred until withdrawn.

Since tax deferral is such a powerful financial tool, the Internal Revenue Code (IRC) limits the amount you can contribute to a TDA. We'll help you calculate your maximum deferral limit and help to ensure that you make the most of your chance to save for a comfortable retirement.

Please keep in mind that TDA Plans are designed for retirement and other long-term goals. When you contribute to a TDA Plan, your money must remain in the plan until you reach 59½. Withdrawals before then will be taxed as ordinary income and you may be subject to an additional 10% early withdrawal penalty.

Sometimes referred to as a “nonqualified” or TDA plan, a 403(b) plan is a defined contribution retirement plan established under Section 403(b) of the Internal Revenue Code (IRC). If you participate in both a 403(b) and 401(k) plan, the combined elective deferral contributions cannot exceed the maximum contribution amount.

## **TDA PLANS ARE DESIGNED FOR RETIREMENT AND LONG-TERM GOALS**

When you contribute to a TDA Plan, your money must remain in the plan until you reach 59½. If you make a withdrawal before then, the money will be taxed as ordinary income and you may be subject to an additional 10% early withdrawal penalty.

## **HOW MUCH CAN YOU CONTRIBUTE TO A 403(b) PLAN?**

You can contribute up to \$15,000 to a 403(b) plan in 2006, which is the 402(g) limit for 2006 on all elective deferrals.\*

Please note: After 2006, the limit will be adjusted for inflation in \$500 increments. In addition, total contributions to 403(b) plans for an individual in a given year, including both employee and employer contributions, are further limited by IRC Section 415. The 415 limit is the lesser of \$44,000 in 2006 or 100% of the employee’s compensation.

\* Elective deferrals are pretax contributions an employee makes voluntarily. Your employer’s 403(b) TDA plan may have a \$200 minimum contribution per year.

## **HOW MUCH CAN YOU CONTRIBUTE TO A 401(k) PLAN?**

In 2006, you can contribute up to \$15,000 to a 401(k) plan, which is the 402(g) limit for 2006. However, total employer and employee contributions to all “qualified” defined contribution retirement plans, including those that qualify under IRC Sections 401(a), 403(a) and 401(k), are subject to an overall IRC Section 415 limit, which is the lesser of \$44,000 or 100% of the employee’s compensation.

## **50+ CATCH-UP PROVISION**

Employees age 50 and older have the opportunity to make additional contributions above the 402(g) limit through the “50+ Catch-Up” provision. Contributions under this provision will be \$5,000 in 2006. After 2006, the catch-up provision amount will be indexed and adjusted for inflation in increments of \$500.

## **THE 15-YEAR RULE. WHO IS ELIGIBLE?**

The 15-Year Rule is available to employees in a 403(b) plan with at least 15 years of service at an eligible employer.\* If you were employed part time, we will convert your time into the full-time equivalent. That is, if you worked 50% of the time for the past two years, your years of service would be calculated as one year. The 15-Year Rule may allow you to exceed the 402(g) limit on yearly elective deferral contributions by up to \$3,000.

However, any contributions made over and above the 402(g) limit have a total cap of \$15,000. So, each year that a contribution of more than the 402(g) limit is made, that amount is applied toward the total cap of \$15,000.

Here’s how the total cap works: Suppose you contribute \$3,000 a year above the 402(g) limit, which is considered part of the 15-Year Rule. You may contribute at this level for only five years, because by making an additional contribution of \$3,000 a year for five years, the \$15,000 combined cap will be reached. Thereafter, you would not be able to contribute more than the 402(g) limit in any year after that five-year period.

\* Eligible employers are teaching institutions, hospitals, churches, home health care service organizations, and health and welfare service agencies. If an individual is eligible for both the 50+ Catch-Up Provision and the 15-Year Rule, contributions above the 402(g) limit count first against the 15-Year Rule. Only contributions in excess of both the 402(g) limit and the 15-Year Rule count as 50+ Catch-Up contributions.

## PERFORM YOUR OWN CALCULATION

In the following tables, we illustrate hypothetical examples of TDA calculations:

- Salary Reduction Calculation
- The Maximum Deferral Limit
- The 15-Year Rule

These calculations are for a hypothetical staff member, Professor Green. **Our calculations assume Professor Green has been employed for 15 years at an eligible institution and participates in a 403(b) retirement plan.** If you haven't been employed at an eligible institution for 15 years or more, your annual contribution limit is either the maximum contribution limit for the current year or 100% of compensation, whichever is less. The following amounts are examples:

## SALARY REDUCTION CALCULATION

	Your Calculation	Prof. Green's Calculation
S = Salary for the calculation year (see glossary) for which the calculation is being performed. (Include any taxable cafeteria/flexible benefit credits, since they can represent additional salary to pay for dental or medical co-insurance, or to pay for life, health, or dental plan premiums, or that is contributed to flexible spending, health care accounts or Section 132- transportation fringe benefit.) <b>Please see Pages 7 and 8 to determine if adjustments to the worksheets are necessary.</b>	\$	\$54,000
C = Non-Roth Contributions made by your employer for you under its defined contribution plan for the calculation year. <b>Please see Pages 7 and 8 to determine if adjustments to the worksheets are necessary.</b>	\$	\$2,500

## SALARY REDUCTION CALCULATION

(continued)

	Your Calculation	Prof. Green's Calculation
P = Cumulative amount of salary reductions at current employer. <b>(Applicable only if you have 15 years or more of service. Elective salary deferrals only, no contributions to TAMRA and employer pickup plans.)</b>	\$	\$45,000
D = Contributions you made by salary deduction (after taxes) in the calculation year. <b>Please see Pages 7 and 8 to determine if adjustments to the worksheets are necessary.</b>	\$	\$0
N = Years of service with current employer through the end of the calculation year. After the first year of service, N must account for fractional years of service. For example, 2 <sup>1</sup> / <sub>2</sub> years equals 2.5. N must also be adjusted for any part-time employment (e.g., 50% of full-time service equals .5 years), while any breaks in service, such as a leave of absence without pay, must not be counted.		15

## THE MAXIMUM DEFERRAL LIMIT

Under the Maximum Deferral Limit, a participant may be able to voluntarily tax defer up to a maximum specified by Section 402(g) of the IRC, which is the contribution limit for the current year or 100% of compensation, whichever is less.

	Your Calculation	Prof. Green's Calculation
<b>Step 1</b> Indicate 100% of your salary. Subtract any adjustments. <b>Please see Pages 7 and 8 to determine if adjustments to the worksheets are necessary.</b>	\$	\$54,000
Add (C) + (D). Subtract the total from the amount above. (\$2,500 + \$0) <b>Please see Pages 7 and 8 to determine if adjustments to the worksheets are necessary.</b>	-	- \$2,500
Enter amount here.	\$	\$51,500
<b>Step 2</b> Enter the 2006 415 limit: \$44,000	\$44,000	\$44,000
Add (C) + (D). Subtract the total from the amount above. (\$2,500 + \$0) <b>Please see Pages 7 and 8 to determine if adjustments to the worksheets are necessary.</b>	-	- \$2,500
Enter amount here.	\$	\$41,500
<b>Step 3</b> Before entering your amount, see if you're eligible for the 15-Year Rule. (The 402(g) limit is \$15,000 for 2006.) See Page 6.	\$	\$18,000

## THE 15-YEAR RULE

To be eligible for a 15-Year Rule calculation, you must answer “yes” to both of the following questions:

- Do you currently work for an eligible institution (i.e., a teaching institution, hospital, church, home health care service organization, or health and welfare service agency)?
  - Yes  No
- If you work for an eligible institution, do you have 15 or more years of full-time service there?
  - Yes  No

*If you answered “no” to either question, you are not eligible for a 15-Year Rule calculation. You should, therefore, skip the 15-Year Rule calculation that follows and enter the 402(g) limit amount at Step 3 of the Maximum Deferral Limit calculation.*

The 15-Year Rule Calculation	Your Calculation	Prof. Green's Calculation
I. \$3,000	\$3,000	\$3,000
II. \$15,000 minus any prior contributions that exceed the unadjusted 402(g) limit (for Professor Green \$15,000 - \$0, since the 15-Year Rule was never used).	\$15,000 -	\$15,000 \$0
	\$	\$15,000
III. Multiply \$5,000 by the years of service.  Subtract the prior employee salary reduction contributions (P) from the subtotal.	\$ 5,000 x	\$ 5,000 x 15
	\$	\$75,000
	-	- \$45,000
Total.	\$	\$30,000
IV. Take the lowest of the calculations I, II, or III above (in Professor Green's calculation it is \$3,000), and add the result to the unadjusted 402(g) limit, which in 2006 is \$15,000.	+ \$15,000	+ \$15,000
	\$	\$18,000

Based on the 15-Year Rule calculation results, Professor Green’s 402(g) limit as shown in Step IV in the chart on Page 6 is \$18,000, which is also the Step 3 amount. (If Professor Green was age 50 or over, we would have added \$5,000 in 2006 to the Step IV result.) Your maximum deferral limit is \$ \_\_\_\_\_, which should be the lowest of Steps 1, 2 and 3. If you have questions about your calculation results, please call us at **800 842-2776**, Monday to Friday from 8:00 a.m. to 10:00 p.m. (ET) and Saturday from 9:00 a.m. to 6:00 p.m., (ET).

	Your Calculation	Prof. Green's Calculation
Step 1	\$	\$51,500
Step 2	\$	\$41,500
Step 3	\$	\$18,000

## ADJUSTMENTS TO THE WORKSHEETS

### Adjustment 1:

You must adjust the worksheet on Pages 3 and 4 if you participate in a defined contribution plan and you:

- are required to make plan contributions as a condition of employment, or
- have signed a one-time, irrevocable salary reduction agreement, or
- are participating in a Section 414(h)/414(h)(2) pickup plan—i.e., governmental employer plan. Include pretax contributions to purchase service credits in a defined benefit plan.

***An Employer Pickup plan** is a section of the IRC which refers to mandatory contributory governmental retirement plans. In a pickup plan, a public employer—such as a state university—makes contributions to its qualified retirement plan on behalf of an employee. In exchange, the employee's salary is reduced by the amount the employer contributes, that is, “picked up” for him or her.*

**Please adjust worksheets by:**

- subtracting your required contribution from your salary (Item S, Page 3), and
- adding the required contribution to your employer's plan contribution (Item C, Page 3).

**Adjustment 2:**

You must adjust the worksheet on Pages 3 and 4 if you participate in a defined contribution plan and you:

- also participate in a 401(a) or 403(a) qualified defined contribution plan (please ignore Items C and D).

**WHY YOUR MAXIMUM LIMIT MAY CHANGE**

Since the results of your maximum calculations depend on several factors that may change from year to year, your maximum limits may also change. Here are some things to keep in mind.

**Your limit may increase if:**

- you are receiving additional compensation through summer bonuses, etc.,
- you have at least 15 years of full-time service with an eligible employer, or
- you have reached age 50 and are now eligible for catch-up contributions.

**Your limit may decrease if:**

- you've been employed on a part-time basis,
- you are participating in a 403(b) or 401(k) plan with another employer,
- your includible compensation is lower than the limit,
- you have reached the \$15,000 maximum allowed under the 15-Year Rule, or
- your average annual elective deferrals reach \$5,000 or more, and you have at least 15 years of full-time service.

## HELPFUL REMINDERS

Most people don't have a problem staying within the allowable limits. But if you contribute above your limit in a given year, there may be adverse tax consequences. A good way to avoid over-contributing is to get a calculation of your limit every year so you can keep track of your contributions. **For a calculation using our website, go to [www.tiaa-cref.org/calcs](http://www.tiaa-cref.org/calcs).**

Find the section "Maximize Tax Deferral," and click on "Calculate TDA Contribution Limits." You can also call our Telephone Counseling Center toll-free at **800 842-2776**, Monday to Friday from 8:00 a.m. to 10:00 p.m. (ET) and Saturday from 9:00 a.m. to 6:00 p.m. (ET).

Please be prepared to have the following information (it may also help to have a recent pay stub handy):

- Your salary during the calculation year (usually the calendar year). You may want to consult your benefits office to ensure you provide us with the appropriate salary.
- The date you were hired at your current employer, or the years of service if you're employed with an eligible employer (for the 15-Year Rule).
- Your date of birth to determine if you qualify for the "50+ Catch-Up" provision.
- Any contributions you are making or have made to retirement accounts with other carriers.
- Any contributions you are making through plans of other employers.

**REMEMBER, WITH TAX DEFERRAL IT COSTS YOU LESS TO CONTRIBUTE MORE, SO IT'S NEVER TOO LATE TO START OR INCREASE YOUR CONTRIBUTIONS.**

***YOU SHOULD CONSIDER THE INVESTMENT OBJECTIVES, RISKS, CHARGES AND EXPENSES CAREFULLY BEFORE INVESTING. THIS PUBLICATION MUST BE PRECEDED OR ACCOMPANIED BY A PROSPECTUS. PLEASE CALL 877 518-9161 (OR GO TO [WWW.TIAA-CREF.ORG](http://WWW.TIAA-CREF.ORG)) FOR ADDITIONAL COPIES THAT CONTAIN THIS AND OTHER INFORMATION. PLEASE READ THE PROSPECTUS CAREFULLY BEFORE INVESTING.***

## VISIT US ON THE WEB OR CALL US TOLL-FREE

- For a calculation of the maximum amount you can contribute to your annuities or for questions about our other investment choices, visit our website at **www.tiaa-cref.org** or call our Telephone Counseling Center, Monday to Friday from 8:00 a.m. to 10:00 p.m. (ET) and Saturday from 9:00 a.m. to 6:00 p.m. (ET) at **800 842-2776**.
- For the hearing- or speech-impaired, our TTY Direct Line is available using text telephones, Monday to Friday from 8:00 a.m. to 10:00 p.m. (ET) and Saturday from 9:00 a.m. to 6:00 p.m. (ET) at **800 842-2755**.
- Our Automated Telephone Service (ATS) at **800 842-2252** is available 24 hours a day, 7 days a week. ATS provides you with a direct line to your accounts.

To call us from outside the United States, use AT&T's International Access Code.

- Visit our website at **www.tiaa-cref.org** for easy access to your personal account information and our financial information and tools.

## GLOSSARY OF TERMS

**After-Tax Contributions** - Employee contributions made after taxes have been taken from gross income.

**Cafeteria/Flex Benefit Plan** - A plan that allows employees to pay expenses such as medical, dental, insurance, or childcare on a tax-exempt basis under IRC Section 125.

**Calculation Year** - The calendar year for which the maximum limit calculation is performed.

**Contributory Plan** - A retirement plan under which employee contributions are made to obtain employer contributions; employee contributions can be voluntary, or mandatory as a condition of employment, or they can be made pursuant to a one-time irrevocable election.

**Deferred Compensation Plan** - An arrangement in which part of an employee's income is deferred to a future date to avoid taxation in the current year; this is not a TDA, 401(k), or qualified retirement plan. For tax-exempt and governmental employees, these plans are subject to IRC Section 457.

**Defined Benefit Plan** - A retirement plan that provides a benefit based on a formula such as a percentage of final salary multiplied by years of service.

**Elective Deferrals** - Pretax contributions an employee voluntarily makes to a retirement plan. Elective deferrals are not required as a condition of employment or part of a one-time irrevocable Salary Reduction Agreement. In an employer-sponsored retirement plan, elective deferrals may be required in order to receive employer contributions; also referred to as voluntary contributions.

**Employer Pickup (IRC Section 414(h) (2))** - A section of the IRC which refers to mandatory contributory governmental retirement plans. Employee contributions to the state retirement plan are "picked up" by the employer (or state) in lieu of an equal amount of salary.

**Flexible Benefit Credits** - Dollar credits provided by the employer for health care, childcare, etc.

**Gross Income** - Cash compensation receipts before taxes, benefit costs, and other expenses are deducted.

**Irrevocable Salary Reduction Agreement** - A one-time irrevocable election to reduce salary made at the employee's initial eligibility to participate; these contributions cannot be changed or stopped.

**Keogh Plan** - A retirement plan for the self-employed which allows tax-deductible contributions of up to \$44,000 or 20% of net earnings from self-employment, whichever is less.

**Mandatory Employee Contributions** - Employee contributions made to a retirement plan that are required as a condition of employment.

## GLOSSARY OF TERMS (continued)

**Nonqualified Plan** - A pension plan that does not meet the requirements of Sections 401(a) or 403(a) of the IRC. Often used to refer to plans established under 403(b) of the IRC.

**Normal Retirement Age** - The normal retirement age (if any) specified by an employer's retirement plan; not the age you intend to retire.

**Qualified Plan** - Any retirement plan that meets IRS criteria under Sections 401(a), 403(a) or 401(k) of the IRC. It also allows employees to defer income tax on employer contributions and earnings until received as income.

**Salary Deduction** - Contributions that are withheld from salary, but still subject to current income tax (i.e., after-tax contributions).

**Salary Reduction** - Contributions that are withheld from salary under the terms of an agreement between the employee and the employer. This is called a Salary Reduction Agreement. The funds withheld and the earnings accrued are not subject to federal (and in most cases, state and local) income taxes until they are received.

**Salary Reduction Simplified Employee Pension Plan (SARSEP)** - A type of Simplified Employee Pension Plan (SEP) that allows employees of companies with 25 employees or less to make voluntary tax-deferred contributions under the employer's SEP.

**Simplified Employee Pension Plan (SEP)** - A retirement plan that allows employers to contribute to their employee's IRA plan rather than establishing a pension plan.

**TAMRA Plan** - A retirement plan that requires employee contributions under a one-time irrevocable Salary Reduction Agreement or as a condition of employment. TAMRA stands for Technical And Miscellaneous Revenue Act, which clarified the Tax Reform Act of 1986.

**Taxable Flexible Benefit Credits** - Dollar credits provided by the employer minus any costs associated with paying for coverage (see Flexible Benefit Credits).

**Total Compensation** - Gross salary from the current employer during the calendar year. For calculation purposes, any required tax-deferred contributions, such as those made as a condition of employment or as part of a one-time irrevocable Salary Reduction Agreement, or for public employers through employer pickup, are subtracted from total compensation. For calculation years prior to 1998, employee pretax contributions by salary reduction through flexible benefit and TDA plans are also subtracted from total compensation.

**Years of Service** - The number of years you're employed with your current employer through the end of the calculation year; past employment with other institutions is not included.



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