University of Wisconsin System

TSA Inve$tor

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Rollovers to Your UW TSA Account

If you have retirement accounts from previous employment and want to consolidate, you may roll them into your UW 403(b) account, so long as the other plan permits the rollover. Eligible plans include §401(a), §403(a), §403(b), and §457 accounts. The tax-deferred portions of traditional IRAs are also eligible.

The rollover monies are treated like all other §403(b) accumulations. However, under recent Internal Revenue Service guidance, you can withdraw funds that you roll over into the UW 403(b) Program at any time. You do not have to terminate UW employment, although in most cases you will be subject to a 10% tax penalty for early withdrawal if you are under age 59 ½.

Unlimited access to your rollover funds is *only* available if your investment company keeps track of your rollovers separately from your UW 403(b) accumulation. Most UW providers do keep separate records for rollovers, however American Express/IDS and Dreyfus currently do not account separately for rollovers. The Wisconsin Retirement System does not accept rollovers of any kind (transfers from other plans to the WRS to purchase forfeited service are permitted).

Note: Your State of Wisconsin §457 Deferred Compensation account cannot be rolled over until you terminate all state employment. Also, if you are under age 59 ½, you may wish to avoid rolling any §457 money to another plan, since this usually will cause your §457 money to become subject to the 10% early withdrawal penalty. ■

Bring on retirement!!

Lucretia Mattson, Professor of Finance and Accounting at UW-Eau Claire, is a CPA and a licensed Certified Financial Planner. She was just appointed by the Governor to a three-year term on the Wisconsin Accounting Examining Board and has served on the TSA Review Committee since 2001.

I'll admit it! I'm looking forward to retirement: to be able to do what I want to do and do it on my own time schedule. Many people have this same hope. One way to help achieve this goal is to use your 403(b) account or tax-sheltered annuity within the university system. This program allows you to set aside part of your current salary as an investment. When you reach age 59 ½, you can receive cash payments as you want or need the money.

A 403(b) account offers two major advantages for each of us. First, it reduces your income taxes **NOW**. Second, the money grows without reduction each year for taxes (tax-deferred).

Why would anyone prefer to receive his/her money later rather than now?

1. To retire early to enjoy life on your own terms.
2. To be a snowbird with a home in a warm location for the winter and your Wisconsin home for the summer.
3. To be financially free and independent.
4. To know that you don't have to retire, but you could if you wanted to.
5. To leave something for your children or grandchildren.
6. To leave a legacy to your charity of choice or even a scholarship in your name at the university where you are employed.

Let's examine the first advantage: a reduction of your income taxes in the current year. The amount you contribute to a 403(b) account is not subject to federal or

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How much do you really need to save?

Compared to your current income, how much money will you need each month after you retire? And where will it come from? If you have good answers to these questions you've cleared a major roadblock on the way to a comfortable retirement. This article is meant to help you get started by filling in some of the unknowns, based on current law.

Your Replacement Rate. Your replacement rate is the percent of your current income that you will need in retirement. Choose a percentage that seems reasonable to you. If you are comfortable with your current salary, you can use the percent of your gross income that is left after deductions for Social Security (7.65%) and retirement savings. If your mortgage will be paid off and your children on their own by retirement time, you can reduce your replacement target by still more, but don't forget that medical and health insurance costs, purchase of a different home, or retirement activities can add new expenses. According to the experts, you should plan on at least 70% to 80% of your pre-retirement income in order to maintain a comparable lifestyle. Moderate- and low-income earners will need even more.

A. Your Replacement Rate _____%

Fortunately, most UW employees can rely on the Wisconsin Retirement System (WRS) and on Social Security to meet a substantial portion of this goal.

WRS. It's fairly easy to figure roughly how much the WRS will provide as a percent of your final average earnings (the average of your three highest years of earnings).

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The purpose of the ***TSA Inve$tor*** is to provide educational information regarding opportunities and investment principles to assist University of Wisconsin employees who participate in the UW approved 403(b) Tax-Sheltered Annuity program to prepare for a financially secure retirement.

The ***TSA Inve$tor*** is published semi-annually in the Spring and Fall by staff members of the UW System Office of Staff Benefits and Payroll Policy, 780 Regent Street, Madison, WI 53715

Investment options and recent returns are listed at the TSA Web site.
www.uwsa.edu/hr/benefits/retsav/tsa.htm

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Investment company news

Fidelity has added four **new** targeted ways to save for your retirement – **Freedom 2005, 2015, 2025, and 2035** to the ten-year funds already available. The Fidelity Freedom Funds® are an investment alternative if you don't have the time or the desire to actively manage your retirement portfolio. You simply select the Freedom fund with the target date closest to your expected retirement date. Then you can monitor it knowing that all the management, risk control, investment research, asset reallocation, and portfolio rebalancing will be done for you.

If you need help deciding or want more information, call 1-800-343-0860 (Monday through Friday, 8:00 A.M. to midnight ET) or visit www.fidelity.com/atwork/freedom.

Lincoln, with Ibbotson Associates, a leading investment research firm, has designed five Lifestyle Asset Allocation Models that contain different mixes of stocks, bonds, and cash, ranging from conservative to aggressive. Based on your investment horizon and risk tolerance, a Lincoln financial advisor can help you identify the model best suited to you and choose funds to carry out your plan. Contact Lincoln at 608-231-2231.

T. Rowe Price offers a ***Retirement Planning Guide*** to help determine how much you should be saving and establish an investment strategy that's appropriate for you.

For those already retired or who will retire within five years, the T. Rowe Price ***Retirement Readiness Guide*** can help determine how much you can afford to spend and how to best invest during retirement. Planning and maintaining a realistic withdrawal amount is vital. Generally, in the first year of retirement, an initial withdrawal rate of 3% to 4% of your investment account is recommended. Then, in subsequent years, continue to withdraw that amount – increased for inflation in each succeeding year.

To request either of these guides, contact T. Rowe Price specialists at 1-800-492-7670.

TIAA-CREF announces the redesign of its Web Center www.tiaa-cref.org. The Web Center is geared to be inviting to both savvy and novice investors. The home page has been reorganized to provide easy access to standard and customized performance data, general and in-depth product information, and basic and detailed financial strategies. ■

How much

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B. WRS Pension

Years of Service before 2000	______	x	1.765 =	__________%
Years of Service after 1999	______	x	1.60 =	__________%
Total of two previous lines				__________%
WRS Adjusted Total*				__________%

*Your WRS benefit will be adjusted downward if you retire before age 65 with less than 30 years of service or choose an payout option that includes a death benefit. When you are estimating your WRS benefit it's prudent to reduce your formula amount by 10%–15% to make allowance for these reductions. Or use the Department of Employee Trust Funds' retirement calculator at etf.wi.gov/calculators/disclaimer.htm to get a more accurate picture.

Social Security. If you earn roughly the national average ($33,250 in 2002) during your working life and you retire around the year 2020 at about age 66, your Social Security benefit is projected to replace about **41.7%** of your previous earnings. Low-wage workers (defined as those who earn only 45% of the average national wage, or around $15,000 in 2002), would receive **56.2%** of previous earnings; high-wage workers (those who earn 160% of the average national wage, or about $53,000 in 2002) would replace about **34.5%** of previous earnings.

You can begin your Social Security benefit as early as age 62, but your benefit will be lowered. For people born after 1937, normal retirement age will gradually increase to age 67. It is age 66 if you were born between 1943 and 1954. People in that age group who retire at 62 will receive 75% of their full Social Security benefit.

C. Social Security Benefit __________**%**

Enter 34.5%, 41.7%, or 56.2%, depending on whether you are a high-, average-, or low-wage earner. If you plan to begin benefits at age 62, use 25.9%, 31.28%, or 42.2% instead. These are just ball-park figures: your actual benefit depends on your individual work history. For a more accurate estimate, visit the Social Security Administration website at www.ssa.gov/planners/calculators.htm

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Retirement . . .

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state income taxes as you earn it in 2004. The income tax you would have paid on it is reassigned to work for you, not the government. You must still pay the Social Security and Medicare tax of 7.65% on it because the money is earned as salary.

If you receive $1,000 in salary and are in the 25% federal income tax bracket and the 6% state income tax bracket, the income tax is $310 ($250 for federal and $60 for the state). You give up that $310 to the governments and do not have it to use. By contributing $1,000 to your 403(b) retirement account, you rearrange who gets that $310. You get to keep it and only have to take another $690 of your own money to make $1,000. The after-tax cost of your contribution is only $690. You were going to give up the $310 for taxes anyway. This way you spend it on yourself!

Second, the dollars grow tax-deferred. You don't give any of your gains to income taxes each year. All of your dollars work for you, and the value of the account increases over time. The value does fluctuate, and if the economy is poor, the value can decrease. But in any ten-year time period since the 1920s, the value of an investment was higher at the end of the ten-year span than it was at the beginning. During 1999 to 2002, our accounts decreased in value, some considerably. As the economy has improved, the accounts are recovering. By the end of 2003, the balances were in reasonably good condition.

You make the choice of where your money will be invested. You can choose from a variety of funds with our approved investment companies listed on the back page. The money is under your control, and you determine where to invest.

For example, suppose you decide to contribute $100 a month to your retirement account when you are 35 years old. If the account earns a 6% annual rate of return and you retire at age 65, you have 30 years to accumulate retirement money. The available amount will be about $100,450. If your return is 10%, your account would contain over $226,000.

If you are 25 years old, that's 40 years of compounding to the age of 65. If you contribute $100 a month at a 6% return, this investing would provide you with $199,150 at retirement. At 10% return, you would have approximately $632,400.

So you procrastinated and are 50 when you open a retirement account. At 6% you would have over $29,000 and at 10%, you would have $41,450 when you retire at 65. If you are closer to retirement, you have to save more to achieve what you want.

In any ten-year time period since the 1920s, the value of an investment was higher at the end of the ten-year span than it was at the beginning.

Increasing your monthly contribution means earlier retirement and/or financial independence!

The question is, what are your financial goals? Where do you want to be when you retire? Are you willing to reduce your spending a little now so the retirement can be more fun? Not that you should cramp your lifestyle so much that you can't enjoy the present. Where can you cut spending a bit without hurting your image or fun now? Put that money aside for your future, and enjoy the lifestyle you want in retirement. The easiest way is to achieve that is to use your 403(b) plan. So call your payroll office today and bring on retirement! ■

How much

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Your Savings Gap. Subtract your WRS pension and your Social Security percentages from your ideal replacement rate. The result equals the percent of your salary that you must provide from other sources after you retire. (You may have existing retirement savings or non-WRS pension benefits to draw on, or perhaps you plan to work part-time after retiring. This article cannot take account of these resources, but they will reduce your savings gap.)

D. Your Savings Gap (A - B - C) ____________%

Your Savings Goal. How much must you save each year to replace 1% of your salary at retirement? Here is a rough estimate:

Years until Retirement	5	10	15	20	25	30
Target Savings %	4.85%	2.3%	1.5%	1.04%	0.79%	0.67%

For example, if you earn $40,000 this year and you hope to replace 5% of your income from your savings starting in 15 years, you should save 7.5% of your gross income, or $3,000 per year, until then. Both inflation and investment returns will affect your results. This calculation assumes that both your salary and your contributions increase by 3% per year before retirement, your withdrawals increase by 3% each year after retirement, and you earn a 5% real return on your investments in both periods. You are assumed to live for 35 years after retiring.

Of course, no one can guarantee a uniform 5% return over 40 years or more. During retirement, a few years of poor returns can deplete your savings much too fast. To improve your chances of meeting your needs, you might have to save more.

For detailed scenarios using various portfolios, see T. Rowe Price's easy-to-use retirement calculator at www3.troweprice.com/ric/RIC/.

E. Your Yearly Savings Goal

Your Annual Salary x Savings Gap x Target Savings % $__________

If your savings goal looks unattainable, there's another alternative. You can save toward purchasing an annuity that is guaranteed to pay you a monthly amount for your lifetime. At age 62, about $50,500 in additional contributions would purchase a single-life annuity of $4,000 per year ($333 per month) from the WRS. Private insurance companies offer similar products. Prices differ, so if you decide to go this route, be sure to shop around. It's much cheaper to buy a guaranteed income from an annuity provider than to provide it for yourself from your own savings, because you share investment and mortality risks with many other people. The downsides: you are dependent on the financial strength of the provider; the annuity may not keep pace with inflation; and after you die, in many cases nothing further is payable to others.

What next? Start thinking concretely about your retirement savings goals. Develop an estimate of how much you can expect to receive from pensions and Social Security. Define the size of your savings gap, and what it would take to fill it. Then, take action!

You have many investment options. You can save at work, pretax, through the UW 403(b) Program or the state Deferred Compensation Program. You can open a traditional or a Roth IRA at any bank, credit union, or mutual fund. The important thing is to get started. Remember: **Procrastination is expensive!** ■

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Individual Counseling

Would you like to sign up for the program or make some adjustments in your investments but aren't sure how? These free sessions are here for you! Other sessions may be scheduled. Check our web site at **www.uwsa.edu/hr/benefits/retsav/tsa.htm**.

Fidelity – Call 800-642-7131 to schedule a session.
Milwaukee – April 29

TIAA-CREF – Call 800-842-2005 ext. 5657 or sign up on their web site at www.tiaa-cref.org/moc.

Eau Claire – March 30-31
Milwaukee – April 21-23
Oshkosh – May 5
Parkside – April 28
Platteville – May 4
Stevens Point – May 6
Stout – April 1-2
Superior – May 6-7
Whitewater – March 31

TSA 403(b) workshops this spring

Learn about the TSA 403(b) Program—your voluntary retirement savings plan—and the basics of investing from TSA staff.

UW Green Bay: April 21, 1:00 – 2:30, Rose Hall – Room 220
UW Parkside: April 15, 1:00 – 2:30, Union – Room 104
UW Platteville: April 14, 10:30 or 1:30, Pioneer Center – Wisconsin Room

TSA events are free and open to all UW employees and their families.

Check your statements carefully

Investment companies are not infallible. The University has no way to detect errors – it's up to you. Check your quarterly statements to make sure all your contributions have been received and deposited in the correct fund, note any discrepancies, and notify the company. If you do not get timely satisfaction, let us know, and we will help to get the issue resolved. Mistakes are rare, but they do happen! ■

UW TSA 403(b) Investment Company Contacts & Program Fees