

INDIANA STATE UNIVERSITY

Tax-Deferred Annuities

The Indiana State University Board of Trustees has approved the participation of full-time staff members in tax-deferred annuity programs under Section 403(b) of the Internal Revenue Code. The Internal Revenue Code provides that colleges, universities and certain other non-profit organizations may place a portion of an employee's compensation in an annuity contract owned by the employee.

The Federal Government permits you to request that your salary be reduced by an amount to be contributed by you to a retirement annuity contract. The portion contributed by you to the annuity contract would not be taxed as part of your current gross income; however, your annuity income would be taxed at the time of retirement. Your gross income is reduced by your contribution before taxes are deducted. Both state and federal taxes are deferred, but gross income reported to Social Security or Indiana Public Employees' Retirement Fund is not affected.

THERE IS NO GUARANTEE THAT THE TAX DEFERMENT WILL ALWAYS WORK TO YOUR ADVANTAGE. CHANGES IN TAX LAWS COULD MAKE THE PROGRAM UNATTRACTIVE.

Advantages of a Tax-Deferred Annuity

1. Participation could result in a lower tax, because in most cases a retired person will be in a lower income tax bracket.
2. The deferral of current income may result in a lower current tax liability if the salary reduction places you in a lower tax bracket.
3. Participation may increase your retirement income because you are contributing additional amounts.
4. Participation increases savings for your future.

Disadvantages of a Tax-Deferred Annuity

1. Substantial increases in future income tax rates could result in higher taxes to be paid at retirement than if paid at the time money was earned.
2. You may have fewer tax exemptions (dependents) after retirement.
3. The tax may be more burdensome to pay at retirement than if paid currently.
4. Retirement income, plus additional income generated by the annuity, may place you in the same or higher tax bracket as you were while working.

The Internal Revenue Code places a limitation (maximum) on the amount by which an individual may reduce salary. By request, the Employee Benefits Office will compute your maximum to assure that Federal limitations are not exceeded.

If you are currently not participating, you may begin a tax-deferred annuity program at any time. Please contact the Employee Benefits Office for more information.