

**Highlights
of
The Tax-Sheltered Annuity Program**



The California State University

Tax-Sheltered Annuity Program

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Tax-Sheltered Annuity Program

TSA PROGRAM OVERVIEW

Retirement may be right around the corner, or it may be years away. Whenever you plan to retire, saving now can benefit you later. You play an important role in planning and saving for your future.

The California State University (CSU) offers a program to help you build retirement savings for tomorrow, while you save on taxes today. The program is called a tax-sheltered annuity (TSA) or 403(b) program.

The information in this brochure highlights the main features of the TSA program and identifies the steps you need to take to enroll in this program. This brochure also provides you with basic information about investing and your TSA investment options. If you have specific tax questions regarding tax laws, consult with your tax advisor or financial planner. General questions regarding the TSA program may be directed to your campus Benefits Representative.

The Economic Growth and Tax Reconciliation Relief Act (EGTRRA) of 2001 (HR 1836), signed into law on June 7, 2001, made major changes to the rules governing tax-qualified plans such as the CSU Internal Revenue Code (IRC) section 403(b) plan, and the State's Savings Plus Program IRC section 401(k) and Deferred Compensation IRC section 457 plans. Historically, these plans operated under different IRC rules. Effective January 1, 2002, EGTRRA reduced the differences between these plans, made the benefits more portable and allowed employees to save more each year for retirement. Information in this brochure reflects the new EGTRRA provisions, and also provides a summary of the new tax law changes that impact the TSA program.

What is a Tax-Sheltered Annuity?

A TSA is a program that allows you to save for your retirement while providing you with a tax break. The program is designed primarily for employees of educational, religious and charitable organizations.

TSAs give you the opportunity to:

- save with pre-tax dollars,
- benefit from tax-deferred investment growth,
- choose the investment company(ies) and funds you want to invest with,
- use easy payroll deduction, and
- access your money through loans and withdrawals.

Simply put, the program allows you to save for retirement by investing pre-tax contributions in tax-deferred investments. Pre-tax contributions lower your taxable income because your contributions are made through payroll deduction *before* income taxes are calculated. This means you pay less in current taxes. Your investment earnings are also sheltered from taxes as long as they stay in your account.

Generally all employees are eligible to participate in the TSA program with the exception of certain student classifications.

The TSA program is strictly voluntary. You are not required to participate. All contributions are made by payroll deduction; CSU does not make contributions to your TSA account.

SAVING THROUGH THE TSA PROGRAM

The Power Behind Pre-tax Saving

The TSA program gives you the opportunity to put away dollars for tomorrow while saving on taxes today. Furthermore, your savings are conveniently deducted from your paychecks.

When you save through the program, your savings are deducted on a pre-tax basis, meaning *before* federal and state income taxes are withheld. In turn, your remaining taxable pay is lower, and you pay lower taxes on the amount you save. In fact, both your pre-tax savings and investment return on your savings remain free from taxes as long as the money stays in your TSA account.

To see the advantage of pre-tax saving, let's look at an example. In this example, we'll assume that you earn \$25,000 annually and you want to save \$1,250 (or 5% of your pay) over the course of a year. The example below gives you an idea of the tax savings you could have by participating in the TSA program (as compared to a regular, after-tax savings account at a bank or credit union).

An Example

	Pre-tax Savings Through the TSA Program	After-tax Savings Through a Traditional Savings Account
Annual pay	\$25,000	\$25,000
Pre-tax savings	\$1,250	\$0
Taxable pay	\$23,750	\$25,000
Federal income taxes*	\$4,750	\$5,000
Regular, after-tax savings	\$0	\$1,250
Remaining take-home pay	\$19,000	\$18,750
Tax savings	\$50	\$0

*Assuming a 20% tax rate

Tax-Sheltered Annuity Program

Key Terms You Should Know

After-tax—Savings that are made after taxes have been withheld from your paycheck.

Investment company—The TSA company(ies) you choose to handle the investments, recordkeeping and administration of your savings and investment elections. Your TSA representative helps you determine how much to save, provides you with investment fund information and helps you if you need to access money in your account.

Payroll deduction—The method by which your TSA contributions are deducted from your paychecks and deposited into your TSA account.

Pre-tax—Savings that are made before taxes have been withheld from your paycheck, lowering the amount on which you pay state and federal income taxes.

Tax-sheltered annuity or 403(b) program—A tax-advantaged retirement savings program governed by Section 403(b) of the federal tax code and designed primarily for employees of educational, religious and charitable organizations. Through the program, you can save for your retirement by investing pre-tax contributions.

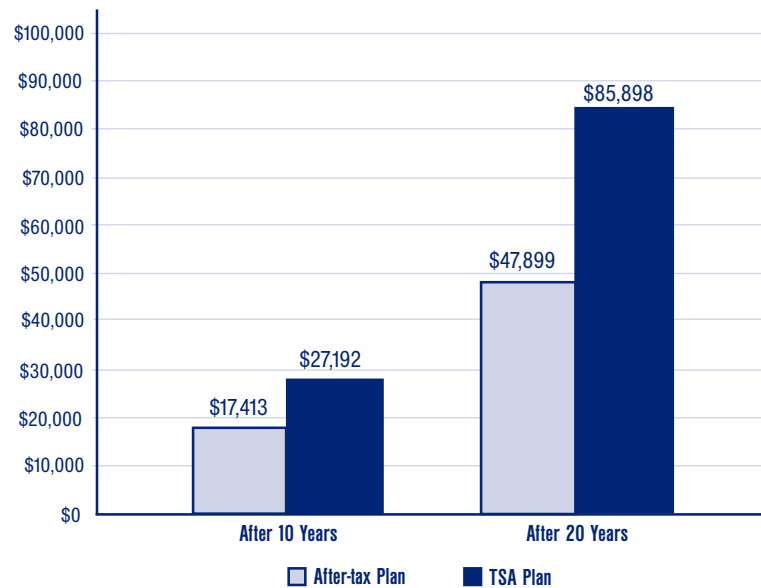
By saving through the TSA program, you save just as much money as you could without it, but you end up paying less in income taxes. So, you actually increase your spendable income by \$250.

As you can see in the previous chart, saving on a pre-tax basis can mean significant savings to you today. Now, let's see what happens over 10 years and 20 years.

Knowing How Much You Can Save

Deciding how much to save through the TSA program depends on several factors, such as your individual savings goals, what you can afford to save and savings limits set by the Internal Revenue Service (IRS).

TSA vs. After-tax Savings



The Internal Revenue Code (IRC) establishes specific limits that govern the amounts an individual can contribute to a 403(b) plan. As a result of the Economic Growth and Tax Relief Reconciliation Act (EGTRRA), effective January 1, 2002, two different IRC sections determine 403(b) annual contribution limits: the 402(g) elective deferral limit and the 415(c) percentage of compensation limit. For 2002, your maximum contribution limit is the lesser of \$11,000 (402(g) limit) or 100% of adjusted gross salary (415(c) limit). Adjusted gross salary includes all pre-tax contributions to retirement, medical insurance, and health and dependent care reimbursement account plans, plus your W-2 taxable income.

The 402(g) maximum elective deferral limit will increase incrementally over the next four years, as follows:

Tax Year	Limit
2003	\$12,000
2004	\$13,000
2005	\$14,000
2006 or thereafter	\$15,000

Special Catch-Up Provisions

There are also special “catch-up” elections unique to TSA programs, which permit you to increase your 403(b) deferrals over the 402(g) limit. The following chart illustrates basic guidelines of these provisions:

EGTRRA PLAN PROVISIONS TAX CHART	
Internal Revenue Code (IRC) Plan Provision	
<p>IRC Section 402(g)(8) Catch-up Also referred to as the “15-year” catch-up. Permits certain long-term employees who have under-deferred in previous years to make additional contributions beyond the IRC Section 402(g) limit. Applicable only to the 403(b) plan and can be used concurrently with the IRC Section 414(v) catch-up.</p>	<p>\$3,000 per year beyond the 402(g) limit, for up to 5 years or a lifetime maximum of \$15,000.</p>
<p>IRC Section 414(v) Catch-up Also referred to as the “over-age-50” catch-up. Permits employees who are at least age 50 by the end of a calendar year to make catch-up contributions on a graduated scale. An additional annual contribution, as noted in this section, is permitted even if the employee participates in another retirement savings plan, i.e., 401(k) or 457 plan(s), administered by Department of Personnel Administration (DPA).</p>	<p>\$1,000 in 2002 \$2,000 in 2003 \$3,000 in 2004 \$4,000 in 2005 \$5,000 in 2006</p>

Please consult with your Benefits Representative for additional information.

There are a number of other EGTRRA tax law provisions that you may want to consider, that could affect your participation in the CSU TSA 403(b) Program:

Coordination With Other Retirement Savings Plans

Contributions to a 403(b) plan will no longer have to be offset by contributions to a 457 deferred compensation plan. You can contribute the maximum to a 403(b) plan and the maximum to a 457 plan. Contributions to a 401(k) plan continue to offset contributions to a 403(b) plan.

The Savings Plus Program and the Department of Personnel Administration (DPA) administer the 401(k) and 457 plans. You may obtain information regarding these plans via the Department of Personnel Administrator’s Web page at: <<http://www.dpa.ca.gov>>.

Tax Credit for Low-Income Contributors

For 2002 through 2006, you may be eligible to claim a federal tax credit on your tax return to match your salary reduction contributions to a 403(b) plan, 401(k) plan, 457 plan, or to an Individual Retirement Account (IRA). The credit is a percentage of the first \$2,000 in annual contributions, with the applicable percentage depending on your adjusted gross income (AGI) and tax filing status. Please contact the IRS or your tax and/or financial advisor for more information about this benefit.

Purchase of Service Credit

If you participate in a 403(b) plan, you may be able to use accumulated funds to purchase past service credits, or to repurchase service credits previously forfeited in a governmental defined benefit plan, such as the CalPERS retirement system. Contact CalPERS, or consult with your tax or financial advisor for more information.

MAKING INVESTMENT ELECTIONS

Once you've decided how much you want to save through the TSA program, you'll need to make two other important decisions:

1. the investment company with whom you want to invest your savings, and
2. how you want to invest your savings among the investment funds offered by that investment company.

Deciding which Investment Company to Choose

It's up to you to choose the investment company with whom you'll invest the savings in your TSA account.

There are a variety of TSA companies that offer a wide range of investment options from which you can choose. In fact, the University permits approximately 100 companies to solicit your business under the TSA program. For a list of these authorized organizations, please see your campus Benefits Officer. You may only enroll with a company on that list.

When considering which investment company to choose, consider the following:

Creditworthiness

If you are considering investing in an annuity option underwritten by an insurance company, consider the credit quality of that insurance company. If you choose to invest in a fixed account or fixed annuity, your contributions are included in the general asset pool of the insurance company and invested along with all other assets. Because those contributions are part of the general assets of the insurance company and are not segregated (as would be the case of contributions invested in the variable subaccounts of the annuity), they would be subject to the insurance company's creditors in the event the insurance company failed.

Credit quality is reflected in the credit ratings issued by several independent ratings agencies. The best-known agencies are A.M. Best, which issues general creditworthiness ratings, and Moody's, Standard & Poor's and Duff & Phelps, which issue claims paying ability ratings. Each agency issues ratings on an independent scale, with qualifiers to indicate the quality of the rating. When considering your investment options, ask the representative of the insurance company for credit ratings and see how those ratings compare to other insurance companies of similar size and reputation.

Expenses

Another factor to consider when choosing an investment company is the cost of investing in one company or fund versus another. There are a number of different fees and charges you need to be aware of when selecting your investment option. It is important to note, however, that higher fees should not necessarily be considered in a negative light. You need to equate those fees with what you get for your money. Paying for something you will not use rarely makes sense. However, if there is value received for the fees you pay, that could be acceptable. For example, an investment option that charges higher fees, but provides additional services that other companies do not offer, may be of value to you as an individual investor.

The following are the types of fees and charges typically included in TSA programs:

Sales Charges	Sales charges are also known as “loads.” These may be assessed when you invest in an option (a “front-end” load) or when you sell funds (a “back-end” load). This is similar to a surrender charge. The purpose is generally to pay sales representatives’ commissions.
Administrative Fees	These fees are assessed on a periodic basis, generally quarterly or annually, to assist in offsetting the investment company’s costs in maintaining your account during the period.
Surrender Charges	These charges may be assessed when you take a distribution from your account. Charges may be based on: <ul style="list-style-type: none"> ■ Years of participation – the level of charge applied to your account is tied to the number of years you have been investing in the option. For example, the charge may be 5% if you take a distribution during the first year you invest in the fund, but only 1% during your fifth year of participation. ■ Contribution years – each contribution you make must remain in the fund for a specified period of time before the surrender charge. This means that there may always be a certain amount of contributions subject to the surrender charge.
Mortality and Expense Charges	These charges are assessed by insurance companies to offset their risk in paying annuities.
Investment Advisory Fees	These are fees charged by an investment company and paid to the investment manager of the mutual fund or separate account.
Annuity Conversion Rates	This is the cost involved to pay for an annuity that may extend for a participant’s lifetime.

All of these charges, and others, are explained more fully in the prospectus that each investment company is required to provide to you before you invest in any fund. In order for you to more accurately compare the expenses of one company to those of another, each prospectus includes an example that assumes a \$1,000 investment earning 5% over a period of 1, 3, 5 and 10 years, showing the expenses that would be incurred during each period. If expenses are a concern, this is a good way to compare one company’s options to another.

Tax-Sheltered Annuity Program

Choosing Your Investment Funds

All the TSA companies offer a wide range of investment alternatives including annuity contracts or mutual funds, or both. Here's a closer look at the types of investment options offered.

Annuity Contract

This is a contract between you and an insurance company that generally provides a way for you to save money during your working years and receive a guaranteed income for the remainder of your lifetime during retirement. Annuities typically pay out in monthly installments, but both the form of payment and the period over which annuities pay out vary according to the provisions of the contract. All annuities provide some form of guarantee.

There are two types of annuity contracts offered through the TSA program:

1. **Fixed annuities** are generally considered the most conservative investments available. They are conservative because they provide at least a minimum rate of return, which is guaranteed by the insurance company.

Your contributions are invested by the insurance company and become a part of the general assets of the insurance company. As a result, they are subject to the financial stability of the insurance company.

2. **Variable annuities** are less conservative than fixed dollar annuities because, while they guarantee certain minimum benefits, the rate of return on your investment and the ultimate amount of money you receive are not guaranteed.

Your contributions are combined with the money of a large pool of other investors, and a professional money manager manages the total amount. There can be many different investment funds, each with a different investment objective and a different level of risk.

Mutual Funds

A mutual fund is an investment in which your contributions are combined with the money of a large pool of other investors, and the total amount is managed by a professional money manager. When you invest in a mutual fund, you are buying shares in the pooled assets of that fund. As the value of the fund rises or falls, the value of your shares rises or falls.

Mutual funds invest their assets in many different ways—in common stocks, corporate and government bonds, U.S. Treasury bills, certificates of deposit, and various other vehicles. Some mutual funds concentrate on one type of investment vehicle, such as common stocks, and some concentrate on stocks within certain industries. Other mutual funds maintain diverse portfolios. Here's more about each of these types of investments.

Bonds

A bond is like a loan to a company. As an investor, you do not have an ownership in the company; you merely lend the company money in exchange for the promise of repayment plus interest. The interest a company pays is often fixed for the term of the loan. When the loan period is over, the company will pay back the entire amount it borrowed from the owner of the bond.

Bond funds are generally considered to be low- to moderate-risk funds. There are many types, including government, high-yield and investment-grade bonds. The maturity level, or length of time until the bond is repaid can be short-term, intermediate-term or long-term.

Returns are based primarily on interest earnings. The long-term return rate is affected by both the type of bond and maturity level.

Stocks

When you invest in stocks, you buy a part of a company. Your investment increases when the price of the stock increases. Many companies also pay dividends, which can increase your investment.

When you invest in stocks, you are invested in specific corporations. Stocks offer the highest potential for return, but also have the highest risk. The risk can be moderate to very high, depending on the type of stock and the diversity of the stocks held in the fund.

Investment return is based on dividends and the growth in the stock's value. Long-term investment returns range from moderate to high depending on the types of stock held in the fund. There are several types of stocks, including the following:

- international,
- aggressive,
- growth,
- growth and income.

Combination

In this type of fund, money is invested in a mixture of stocks and bonds. The risk and return falls between investing in bonds only and investing in stocks only. There are two common types: balanced funds and lifestyle funds.

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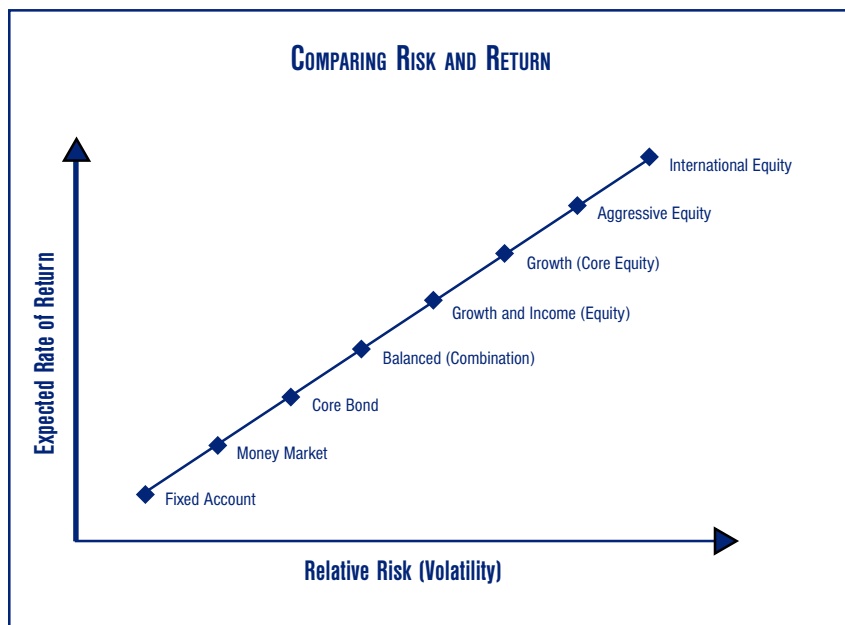
Balanced funds differ from one another in the proportion and types of stocks and bonds they hold. They generally have moderate risk. Returns are based on dividend and interest income and changes in the market value of the stocks and bonds. Long-term investment returns generally range from moderate to high.

Lifestyle funds invest in a mixture of stocks and bonds with the objective geared to a lifestyle stage, such as retirement or risk tolerance. Companies may offer aggressive, moderate and conservative funds.

- The **aggressive fund** is primarily targeted to younger investors with a longer amount of time to save with the aim of taking high risks to achieve long-term high returns.
- The **moderate fund** is targeted to investors in the middle of their careers who are looking for high long-term return, but not willing to take such a high level of risk.
- The **conservative fund** is targeted to older investors who are closer to retirement and want low-risk, conservative investments.

Lifestyle funds can also be tailored to an investor's retirement date. Initially, for a younger investor, the objective is to achieve high long-term return with a high level of risk. As time goes on, the fund begins to change its objective to lower the risk level to become conservative as the investor nears retirement age.

The graph below shows where these different investments fall on the risk and return spectrum.



MAKING INVESTMENT DECISIONS

When considering your investment options, you need to think about many factors such as your risk tolerance, how long you'll have to invest and your current age. The following five general tips should help you think about your individual investment goals.

Tip #1: Evaluate your risk tolerance. Everyone would like to get higher rates of return on their savings. But, the types of investments that can grow fast enough to beat inflation also have some risk of investment loss. As a general rule, the greater an investment's potential for growth, the greater the risk of potential loss.

The good news is that if you have at least five to 10 years before you need your savings (a long "savings horizon"), experience shows that the actual risk of losing money in a higher-earning investment goes down. Although higher-earning investments usually experience short-term ups and downs in value in response to economic conditions, the chances are better that, over time, the higher rate of return should more than make up for short-term dips in market value. If you have only a short time to invest, you may want to choose investments with more stable, consistent rates of return.

Tip #2: Diversify your investments. A good way to minimize your risk of investment loss is diversification. This means including a variety of investment alternatives in your savings portfolio to offset the risk of any single investment.

"Don't put all your eggs in one basket." This old saying is a good, simple way to illustrate the value of diversification. To a certain extent, every time you invest, there will be some diversification, as you will not be investing in only one stock or bond. The mutual funds and annuity separate accounts, by their nature, invest in a diversified portfolio of investments. In addition, by spreading your savings among two or more different types of funds or annuity accounts, you're less likely to be hurt by the poor performance of a single investment or fund.

Tip #3: Define your strategy and stick with it. One way to help reduce some of the risk of up and down swings in market value is to invest regularly, regardless of what is happening to prices. Contributing through payroll deduction is a convenient way to do this.

This technique, called dollar cost averaging, is widely regarded by investment professionals as a less risky way to invest than trying to time your investments to market swings. Using the dollar cost averaging approach, you invest regularly and average the purchase price so that you lessen the risk of a large purchase when the price is high or a sale when the price is low.

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Keep these points in mind when determining your investment strategy

- **Evaluate your risk tolerance:**
Think about how much risk you are willing to take for the potential of higher returns.
- **Diversify your investments:**
Consider investing in a variety of different investment options.
- **Define your strategy and stick with it:** Experts agree that once you define your investment strategy, stick with it over the long run.
- **Make changes when you need to:** If your financial needs or goals change and you need to make a change, do so with careful planning.
- **Risk vs. return:** Know how your investment options stack up on the risk vs. return scale.

Tip #4: Make changes when you need to. After you've selected the investment funds that are right for you, be prepared to make changes when necessary. For example, as you get closer to retirement, you may want to move your investments to a more conservative fund. Always remember that the technique of dollar cost averaging also works when changing investments: move smaller amounts over time instead of one large move to help minimize market value loss. Many of the investment companies have systematic transfer options to help you accomplish this goal.

Tip #5: Risk vs. return. Different investment options have varying potential for risk and return. For purposes of illustration, we have chosen to associate risk with volatility. That is, the more a fund fluctuates up and down, the greater the risk. The investment options available to you through the TSA program have investment funds with many different investment objectives to help you balance risk and return.

When reviewing the returns of competing options, make sure you are comparing the return and risk levels of funds with similar investment objectives. For example, an aggressive growth fund may have achieved a high historical return and have experienced substantial volatility in achieving that return. It would be unfair to compare that fund to a balanced fund whose investment objective might aim for less volatility and, as a consequence, have achieved a lower return.

Making Changes to Your Account

If your financial goals change and you need to make changes to your saving or investment elections, you can do so. Here's a look at the different changes you can make and the timing of each.

If you need to:	Follow these steps:
Increase or decrease your savings	<ul style="list-style-type: none"> ■ You can make changes monthly. ■ Contact your Benefits Representative and complete a revised Salary Reduction Agreement at least 30 days before the date you want the change to take effect. ■ Notify your TSA representative in writing at least 30 days before the date you want the change to take effect.
Stop saving through the plan	<ul style="list-style-type: none"> ■ You can stop saving through the program at any time. ■ To do so, you must complete a revised Salary Reduction Agreement reducing your contribution to zero. Give that Agreement to your Benefits Officer at least 30 days before you want your savings to stop. Be sure to do the revised Agreement before you close your TSA account. ■ Also, notify your TSA representative in writing at least 30 days before you want your savings to stop. Again, please make sure you stop your savings before you close your account. Once your account is closed, payroll contributions will not be accepted by the TSA company and will be returned to the State Controller.
Change your investment elections (within the same company)	<ul style="list-style-type: none"> ■ Refer to the materials you received from your TSA representative for instructions on making a fund transfer. ■ Check your materials for any timing, costs or restrictions associated with fund transfers. ■ Talk to your TSA program representative for more information including prospectus(es).
Change investment companies	<ul style="list-style-type: none"> ■ The maximum number of companies to which you may make contributions at any given time is two. ■ Decide if you want to have your future savings invested with a new company. ■ Decide if you want to transfer your existing account balance to the new investment company. ■ Refer to the material you received from your TSA representative for information on any transfer rules including surrender charges and/or withdrawal fees. ■ Establish your qualified 403(b) account with your new investment company. ■ Complete a new Salary Reduction Agreement indicating your investment company change. ■ Contact your Benefits Representative at least 30 days before the date you want the investment company change to take effect. ■ If you do not establish your qualified 403(b) account at your new investment company before payroll deductions begin, your deduction will be returned to the State Controllers' Office and refunded to you as taxable income. ■ Talk to your TSA representative for more information or if you have questions.

ACCESSING YOUR ACCOUNT

The TSA program is designed to build your future retirement income. However, the program is flexible and allows you to access the money in your account before retirement through loans and, under certain circumstances, through withdrawals.

Generally, when you withdraw money from your account, your withdrawal is taxable to you and, under some circumstances, a 10% penalty tax applies. There may also be surrender charges or other restrictions imposed by the investment company that is investing your money.

There are four circumstances under which you can withdraw money from your account before you retire:

- to take out a loan,
- when you reach age 59½,
- if you have a financial hardship, and
- if you leave CSU.

Let's take a closer look at each, beginning with the loan feature of the program.

Borrowing Against Your Account

You can borrow against your TSA account as long as the investment company you've chosen offers a loan feature. You can borrow from your account while you are employed by CSU or after you have terminated employment if you leave your contributions in your account.

Loans must meet the requirements of IRS Code 72(p). Loans that do not meet these requirements are treated as taxable distributions at the time the loan is made and are included in your gross income for taxation. If your plan permits loans, the amount of the loan cannot be more than:

- \$50,000 (reduced by the excess, if any, of the highest outstanding loan balance during the prior 12-month period over the outstanding loan balance on the date the new loan is made) or
- the greater of 50% of the employee's vested balance under the plan, or \$10,000, whichever is less.

Investment companies may have more restrictive limits to provide sufficient funds in the event of default.

A loan is not treated as a taxable distribution because you are borrowing the money. However, you must pay it back in substantially level payments that are made at least quarterly over a period not longer than five years (longer if you are borrowing to purchase a home). If you don't pay it back according to the loan terms, the investment company will consider the arrangement a distribution and the amount then becomes taxable.

When You Reach Age 59½

When you reach age 59½, you may withdraw money at any time, even if you haven't yet retired. The 10% penalty tax does not apply, but surrender charges may apply.

Hardship Withdrawals

If you experience a financial hardship, you may be able to withdraw enough money to meet the hardship need. However, you will need to check with your TSA representative to determine if hardship withdrawals are permitted for your particular investment. Withdrawals are subject to ordinary income taxes and may be subject to the 10% penalty tax as well. Under this exception, you may withdraw your own contributions from the program, but not investment earnings on those contributions.

You may only make a hardship withdrawal because of an immediate and heavy financial need. The IRS has identified certain circumstances that qualify as a hardship. These are:

- post-secondary school educational expenses for you or your dependents,
- medical expenses not covered by insurance for you and your dependents,
- money for a down payment on your home or to prevent foreclosure on or eviction from your residence.

Withdrawals may be made if the investment company determines that money is not reasonably available from other sources. Funds are eligible for withdrawal if:

- the amount requested does not exceed the amount needed to meet the hardship,
- all other available distributions and loans from all plans have been used first,
- contributions to all plans will be suspended for 6 months after the distribution, and
- any contributions made in the following taxable year are limited by your maximum allowable contribution limit, reduced by the amount of the hardship withdrawal.*

These hardship withdrawal rules apply to contributions made in the past to mutual funds held by a custodial bank and any contributions to insurance annuity products made on or after January 1, 1989. They do not apply to amounts accumulated in insurance annuity products before January 1, 1989. Those funds are freely withdrawable under the law, subject to any contractual restrictions by the insurance company. This "grandfather" rule may not apply if you had transferred your investment from an annuity contract to a mutual fund, even if you later transferred the assets back to an annuity contract.

Regardless of the source, no hardship withdrawal may be rolled over to another retirement program or IRA.

* Please consult with your Benefits Representative.

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Leaving CSU

If you leave CSU, you are entitled to receive the value of your account. You may choose to:

- Receive a lump sum payment. If you choose this option before you reach age 55, your account will be subject to ordinary income taxes and possibly a 10% penalty tax.
- Transfer your savings to another TSA program. There is no tax penalty.
- Roll your account into another type of retirement program, including an IRC section 401(a) qualified plan, or IRC section 457 deferred compensation plan. There is no tax penalty.
- Roll your account into a rollover IRA. There is no tax penalty. Keep in mind that rollover funds need to be kept separate from other kinds of IRA accounts. If you elect this option, you need to establish a separate account. Loans and hardship withdrawals will still be available from your TSA arrangement, but not from your IRA arrangement.
- Leave your funds where they are and let them grow with investment earnings. There is no tax penalty.

Before you make a decision about taking a distribution, consider these key factors:

Penalty Taxes

Withdrawals and distributions, but not loans, are generally taxable when you receive them, and there is usually an additional 10% early distribution tax applied by the IRS.* The penalty tax will *not* apply if:

- you are over age 59½, regardless of whether or not you have terminated employment,
- the payment is made to your beneficiary upon your death,
- you are disabled,
- the payment is made over your life expectancy, or over the life expectancy of you and your spouse, or
- you are over age 55 and have terminated employment.

* You may also be assessed a state tax penalty.

Withholding Taxes

If you choose to receive your account in a lump sum, the investment company is required by law to withhold 20% of the distribution for income taxes. This withholding does not apply if you decide to leave your account balance in the program, you transfer your balance to another TSA, or you roll over your balance to another type of retirement program or IRA. You can transfer or roll over your funds in three ways:

- a direct transfer from one TSA to another TSA,
- a direct rollover from a TSA to an IRA, or
- a direct rollover from a TSA to another type of retirement program.

Any of these methods will preserve the tax-deferred status of your account. Be aware, however, that you may not make a direct rollover of amounts withdrawn as a hardship distribution.

Free Outs

Many investment companies offer the opportunity to withdraw a percentage of your savings without imposing the usual surrender charge. The free-out percentage is generally about 10-15% of your account balance. Other contract restrictions may apply.

When You Must Start Using the Money in Your Account

TSAs are designed to be a source of retirement income. The government encourages you to use the savings in your account in your retirement years.

You may begin accessing your account without paying a penalty tax when you reach age 59½ (in addition to the special circumstances described in *Accessing Your Account* on page 13). You are required by law to start taking a distribution from your TSA account by April 1 following the year you reach age 70½ or by April 1 following the calendar year of your termination with CSU, whichever is later.

The amount you must take is based on your age in each year that you have a remaining account balance. If you don't take out this minimum amount, you will be subject to a penalty tax of 50% of the amount you were required to receive. Similar rules apply to your beneficiaries with respect to any balance remaining upon your death.

Accessing Your Account

You can access a part or all of your account:

- when you reach age 59½,
- if you have a financial hardship,
- if you leave CSU, and
- if you need to borrow against your account.

Tax-Sheltered Annuity Program

Program Responsibilities

Under the TSA program, you, CSU and the investment companies each have certain responsibilities. Here's a review:

TSA Program Responsibilities	
You	<ul style="list-style-type: none"> ■ Deciding how much you want to contribute (up to certain limits).* ■ Selecting the investment company in which you want to invest. ■ Choosing the investment funds you want. ■ Making sure your TSA account is established at your investment company before your Salary Reduction Agreement begins.** ■ Amending your Salary Reduction Agreement if you want to change your contribution amount or if you close your account.
CSU	<ul style="list-style-type: none"> ■ Offering the TSA program to ensure that you have an opportunity to save for your retirement, and ■ Assuring that you have a wide variety of TSA investment options from which you can choose.
Investment Company	<ul style="list-style-type: none"> ■ Helping you determine how much you can contribute, ■ Assisting you with selecting investments which fit your risk tolerance and future goals, ■ Managing and administering your contributions and investment elections, and ■ Assisting you when you are ready to withdraw your money.

*Make sure your contribution is the lesser of the 402(g) elective deferral limit or the 415(c) 100% of adjusted gross salary limit.

**If contributions start before your account is established, the contributions will be returned to the State Controller and your taxable income will be affected.

ENROLLING IN THE TSA PROGRAM

If you want to enroll in the TSA program, follow the steps below:

- Step 1:** Contact your Benefits Representative who will provide you with a Salary Reduction Agreement and the authorized list of TSA companies.
(Do not complete the Salary Reduction Agreement until you discuss your options with your TSA investment company.)
- Step 2:** Select the investment company(ies) with whom you want to invest. Remember, you may contribute to up to two companies at any one time.
- Step 3:** Arrange a meeting (or a phone conference) with your selected TSA investment company(ies) and:
- Decide how much you want to contribute and the pay period when you want your deductions to begin. The minimum contribution to your TSA account is \$15 per month; however, some investment companies may have higher minimums you must meet.
 - Ask the company to perform a maximum contribution calculation to verify that the amount you want to invest does not exceed your maximum annual permissible amounts. You will have to provide certain information to assist them in preparing an accurate calculation. Ask for a copy of that calculation.
- Step 4:** Set up your qualified 403(b) account with the investment company(ies). Obtain certification from the company(ies) that your account has been established. Choose how you want your savings to be invested.
- Step 5:** Complete a Salary Reduction Agreement indicating how much you want to save in the TSA program and authorizing the CSU to begin payroll deductions.
- Step 6:** Return the following two (2) documents to your Benefits Representative:
- (1) Salary Reduction Agreement; and
 - (2) investment company certification that your qualified 403(b) account has been established.

If your qualified 403(b) account is not established prior to your TSA payroll deductions being sent to your TSA company, the funds will be returned to the State Controller's Officer and refunded to you through the payroll system. The refund may adversely impact your tax situation.

Tax-Sheltered Annuity Program

Summing It Up

The California State University is offering the tax-sheltered annuity program based on the current understanding of the Internal Revenue Code. CSU reserves the right to amend or discontinue the program if regulations or changes in laws make it advisable to do so.

This booklet describes the tax-sheltered annuity program only in general terms. CSU is not responsible for points not covered. Nor is CSU responsible in any way for employees' participation in the program. In the event of a discrepancy between this handbook and the TSA contract, the provisions of the contract will govern.

Tax-Sheltered Annuity Program

