Understanding TRS' Financial and Accounting Terms

As a member of the Teachers' Retirement System of the City of New York (TRS), you receive many TRS communications and have access to dozens of our publications. Many of these include financial and accounting references that may be unfamiliar to you. This brochure defines some of the accounting and financial terms that we use. We hope that you will find it helpful.

1099 Forms—A 1099-R is a statement that TRS sends in January to members who received a distribution from TRS during the previous year. Interest associated with retroactive retirement allowance payments would be reported on a separate 1099-INT form, which is also sent in January.

- For more information, please refer to the *1099 Forms* brochure.

Annuity Savings Accumulation Fund (ASAF)—An account containing a monthly supplemental contribution provided by the Board of Education to Tier III and Tier IV members who have reached the maximum of their salary schedule. The supplemental contribution is not provided to adjuncts, college employees, or paraprofessionals.

Annuity Savings Fund (ASF)—An account containing Tier I or Tier II members' Qualified Pension Plan (QPP) contributions, reflecting investment results and any withdrawals. Loans and excess withdrawals also affect this account.

Certified Rate—The percentage of salary that Tier I or Tier II members would need to contribute to the QPP to meet the minimum accumulation required for full benefits under Plan A (Tier I) or Plan C (Tier II). This rate varies based on factors such as age and credited prior service.

Compounding—A method of crediting interest by which interest accumulates on the principal amount invested, as well as on any accumulated interest.

Defined-Benefit Plan—A retirement plan, such as TRS' QPP, that guarantees a retirement allowance to participants and is typically based on the participants' service and salary before retirement.

Defined-Contribution Plan—A retirement plan, such as TRS' Tax-Deferred Annuity (TDA) Program, in which the benefit to participants is based on the amount that is contributed to the plan. The contribution rate is generally defined as a percentage of the participants' salary.

Direct Rollover—A distribution in which payment of QPP funds is made directly to an Individual Retirement Account (IRA) or another Section 401(a) Plan, or which the payment of TDA Program funds is made directly to an IRA or another Section 403(b) Plan. Unlike Direct Withdrawals, Direct Rollovers are not subject to current taxes and penalties.

- For more information, please refer to the *Withdrawals, Rollovers, & Transfers* brochure.

Direct Transfer—A distribution in which payment of TDA funds is made directly to a Section 403(b) Plan whose withdrawal rules are at least as restrictive as those of TRS' TDA Program. Unlike Direct Withdrawals, Direct Transfers are not subject to current taxes and penalties.

Direct Transfers are also not subject to the withdrawal restrictions that Direct Withdrawals and Direct Rollovers are.

- For more information, please refer to the *Withdrawals, Rollovers, & Transfers* brochure.

Direct Withdrawal—A distribution of QPP or TDA funds in which the payment is made directly to members. Any funds that are received through a Direct Withdrawal are taxable, and the IRS requires TRS to withhold 20% of the withdrawn amount, except for TDA hardship withdrawals. In addition, an IRS-imposed 10% tax may also apply in some cases.

- For more information, please refer to the *Withdrawals, Rollovers, & Transfers* brochure.

Distribution—A payment from TRS, which may have certain tax implications and penalties.

Excess—Any amount that Tier I or Tier II members have accumulated above their required minimum accumulation in their QPP account.

Extract of Balance—An account statement provided to members on request, which reports QPP and TDA contribution amounts, overall account balances, and outstanding loan amounts, as of a specific date.

FICA—Social Security payroll taxes that are collected under the authority of the Federal Insurance Contributions Act (FICA) are sometimes called "FICA taxes." Under FICA Class A, Social Security tax is deducted from Tier I or Tier II members' gross salary, in addition to their TRS pension contributions.

FICA Offset—A method whereby Tier I or Tier II members may change the rate of their QPP contributions. By electing FICA Class C, pension contributions are reduced by the amount of the Social Security tax paid.

Final Average Salary (FAS)—A calculation used to compute the retirement allowances of TRS members. For Tier I members, the FAS is generally the annual salary earnable during the last year of the most recent position they held for at least three years. For Tier II, Tier III, and Tier IV members, the FAS is generally the average of their highest earned three consecutive salaries, with certain limitations.

Hardship Withdrawal—A method by which TDA participants, who would otherwise be ineligible, may withdraw all or part of their post-1988 TDA contributions. To be eligible, members must have had a sudden and heavy financial emergency that left them unable to reasonably meet certain expenses, and other TRS resources must be unavailable to them. Hardship conditions include the payment of certain medical expenses, payment of funeral expenses, payment of post-secondary school tuition, the purchase of a principal residence, or payment to prevent eviction or foreclosure.

- For more information, please refer to the *TDA Program Summary* booklet.

Increased-Take-Home-Pay (ITHP)—An amount contributed by the City of New York toward the retirement allowance of Tier I and Tier II members. This amount, which equals $2\frac{1}{2}$% of the members' gross salary, reduces the contributions that the members would have to make to the QPP and thereby increases their take-home pay. Members may waive their ITHP, which would reduce their take-home pay but provide them with a higher annuity benefit upon retirement.

Individual Retirement Arrangement (IRA)—A savings vehicle designed to provide post-retirement income. Depending on the type of IRA, taxes may be deferred on contributions or on the earnings that the contributions generate. Members may have their QPP or TDA funds directly rolled over to an IRA, subject to certain restrictions.

Internal Revenue Service (IRS)—The department of the federal government that regulates, among other things, taxes and investment plans. The Internal Revenue Code (IRC) outlines the applicable laws and regulations.

Investment-in-Contract—This represents the contributions that members made towards their retirement allowance, which accumulated in either the ASF (Tier I/Tier II members) or MCAF (Tier III/Tier IV members). Interest and investment returns are not reflected in the investment-in-contract.

Loan Insurance—For all TDA loans and for QPP loans issued to Tier III and Tier IV members, full insurance coverage begins 30 days after a loan check is issued, and insurance premiums are included in regular loan payment amounts. For QPP loans issued to Tier I and Tier II members, partial insurance coverage begins 30 days after a loan check is issued; this coverage gradually increases and reaches full coverage 90 days after the loan check is issued, up to a $10,000 limit. Tier I and Tier II members are not charged for the insurance on a QPP loan. Insurance on a loan would be terminated if the borrower defaults on a loan payment.

- For more information, please refer to the *QPP Loans* brochure and/or the *TDA Loans* brochure.

Member Contributions Accumulation Fund (MCAF)—An account containing Tier III or Tier IV members' QPP contributions with interest, including any amounts that they paid to purchase prior service credit. Loans also affect this account.

Minimum Accumulation—The minimum amount that Tier I and Tier II members must contribute to their QPP account to be eligible for full retirement benefits.

Required Minimum Distribution (RMD)—The amount that certain participants in TRS' TDA Program must receive from their TDA funds in a given year to meet the IRS' distribution regulations. RMDs only apply to TDA participants who are still in service at age 75 and retirees who are at least age 70½ and have TDA Deferral status.

- For more information, please refer to the *Required Minimum Distributions* brochure.

Post-1986 Funds— The amount of contributions and investment return accumulated *after* December 31, 1986. In the Tax Reform Act of 1986, the IRS made a distinction between "post-1986" and "pre-1987" funds. For QPP funds, post-1986 funds are taxable. For TDA funds, distribution of post-1986 funds must begin by April 1 of the year following a) the year in which the member reaches age 70½, or b) the year in which the member separates from service, whichever is later.

Pre-1987 Funds—The amount of contributions and investment return accumulated *as of* December 31, 1986. In the Tax Reform Act of 1986, the IRS made a distinction between "post-1986" and "pre-1987" funds. For QPP funds, pre-1987 contributions are considered tax-free. For TDA funds, distribution of funds must begin by the year in which members reach age 75.

Qualified Pension Plan (QPP)—TRS' retirement plan is a Section 401(a) Plan that provides retirement allowances to eligible members. Tier I and Tier II members' QPP accounts include ASF and ITHP; Tier III and IV members' QPP accounts include MCAF and ASAF.

Section 401(a) Plan—TRS' QPP is a retirement plan administered under this section of the IRC. The QPP combines features of a defined-benefit plan with those of a defined-contribution plan. Benefits are provided through employer contributions, member contributions, and investment income.

Section 403(b) Plan—TRS' TDA Program is a tax-deferred plan administered under this section of the IRC. These plans, which are administered by a hospital, educational institution, public or nonprofit employer, allow employees to contribute pretax dollars to a company-sponsored investment plan.

Section 414(h)—The section of the IRC that changed how members' contributions to the QPP were taxed. Before Section 414(h) took effect, contributions were federally taxed *before* being collected. Under Section 414(h), contributions made after February 1993 for Tier I and Tier II members and after July 1989 for Tier III and Tier IV members are not federally taxed until distribution. The contributions reduce the members' gross salary for federal income tax purposes and become taxable when the members receive them as a distribution.

Section 415—The section of the IRC that established limits for retirement benefits that members acquire as a result of a plan change enacted after October 14, 1987. Plan changes occur periodically due to new legislation (*e.g.*, early retirement incentives).

Social Security Offset—A federally-required reduction to the retirement allowance of Tier III members equal to 50% of the Social Security benefit they accrued while they were in public employment with New York State or its political subdivisions (*e.g.*, New York City). The reduction takes effect on the date their payments commence or upon their reaching age 62, whichever is later.

Tax-Deferred—Tax-deferred refers to a type of investment option in which the payment of taxes due on the amount invested (and/or its earnings) is postponed until the funds are withdrawn from the investment and received by the participant.

Tax-Deferred Annuity (TDA) Program—TRS' optional investment program is a Section 403(b) Plan that allows members to save money for retirement on a tax-deferred basis.

- For more information, please refer to the *TDA Program Summary* booklet.

TDA Post-1988 Balance—TDA contributions and earnings a member has accumulated *after* December 31, 1988. In-service members who have not yet reached age 59½ may only withdraw their post-1988 contributions in cases of hardship. However, they may not withdraw their post-1988 earnings.

TDA Pre-1989 Balance—TDA contributions and earnings accumulated *as of* December 31, 1989. Pre-1989 Funds may be withdrawn at any time, but may be subject to taxes, penalties, and withholding.

Tax Equity and Fiscal Responsibility Act (TEFRA) of 1982—In accordance with this act, members may elect whether 10% withholding will be applied to certain distributions they receive from TRS. If members do not make a withholding election at the time of distribution, TRS would automatically withhold 10%. In all cases, members would be able to claim withheld amounts as tax paid on their tax return for the year of distribution.

Unit Values—A monthly value attributed to each Variable-Return Program based on each portfolio's closing market value as of the end of the preceding month.

W-4P Form—An IRS form that retirees may file with TRS to change their federal tax withholding election for their retirement allowance payments.

Zero Rate—The QPP contribution rate for which Tier I and Tier II members are eligible once they have met their minimum accumulation and have at least 20 years of qualifying service.

For your convenience, TRS forms and publications are available on our website.
If you require additional assistance, we encourage you to contact our Member Services Center at 1 (888) 8-NYC-TRS.

This publication should not be solely relied upon, as it is based on currently available information that is subject to change. TRS suggests that you consult with an attorney and/or a tax advisor if you have any specific legal or tax questions concerning this information. In all cases, the specific provisions of the governing laws, rules, and regulations prevail.

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