TRS FINANCIAL AWARENESS VIDEO SERIES

VIDEO #12: Saving in a Tax-Deferred Plan

Transcript

Meet Jamie. Jamie is a bilingual teacher at an elementary school. She's been a TRS member for 7 years. Jamie's dream retirement would be spent traveling around the world. While her TRS pension is an excellent starting point, it probably won't provide enough retirement income to get Jamie where she wants to go. How can Jamie reach her destination? She can supplement her TRS pension with personal savings.

Jamie's school district offers two retirement plan options: a 403(b) plan and a 457(b) plan. Both plans are tax-deferred, which means that Jamie won't have to pay income tax on the money in her account until she withdraws it. This offers several advantages.

One – A certain percentage of Jamie's taxable income is withheld each month for federal income taxes. By making a pre-tax contribution to a 403(b) or 457(b) account, Jamie could lower her taxable income, reducing the amount she pays in income tax and increasing her remaining take-home pay.

Two – Although it is not guaranteed, Jamie will likely have investment earnings on her 403(b) or 457(b) contributions. Any investment earnings on her savings will remain in her account and grow tax-free until withdrawal, when taxes will be due.

Three – Ideally, by the time Jamie withdraws the money in her 403(b) or 457(b) account, she will be retired. At that point, she may be in a lower income tax bracket, and may pay less in taxes on her savings than she would have paid while she was working.

While tax-deferred plans offer many benefits, not every 403(b) or 457(b) plan will be the right fit for you. Before opening a 403(b) or 457(b) account, thoroughly research the options available to you. You can start by checking out the resources accompanying this video.

Soon, both you and Jamie will have your retirements all mapped out.

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