

Board of Education Retirement System



2007 Tax Deferred Annuity Program

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INTRODUCTION

The New York City Board of Education Retirement System (BERS) is pleased to present its membership with the opportunity to participate in the Tax Deferred Annuity (TDA) Program. The program is authorized under Section 403(b) of the Internal Revenue Code and is available to members of BERS in education service. Under this program, members can save money to supplement both their Social Security and Qualified Pension Plan (QPP) benefits on a tax-deferred basis.

The BERS TDA Program is voluntary and is made up of only your contributions and investment earnings. There are no matching contributions by the Department of Education or the City of New York. If you elect to participate in the BERS TDA Program, your contributions are deducted automatically from your paycheck before Federal, New York State and New York City income taxes are taken out, allowing you to conveniently save a portion of your earnings on a pre-tax basis. Any investment gains on your TDA contributions grow tax deferred until you withdraw them.

The TDA Program is structured to enhance your retirement benefits. You decide what percentage of your salary you wish to contribute to the program and how your contributions are invested. You have the option to change this percentage at any time during the year and to change your investment options up to four times per year (once each quarter).

Whether you can save a little or a lot, you should take advantage of the convenience, flexibility, and benefits offered by the BERS TDA Program. This booklet is intended to summarize the provisions of the TDA Program.

If you have questions regarding the TDA Program, please call BERS at 718-935-5400.

NEW THIS YEAR!

The Pension Protection Act of 2006 was enacted to encourage taxpayers to save more money for retirement. This law features rule changes that will permanently institute the TDA Savers Tax Credit which was previously set to expire on December 31, 2006. For more information on this tax-credit for lower-income wage earners please refer to page 4 of this booklet.

Additionally new rules will allow non-spousal beneficiaries to directly rollover, free of current taxes, distributions from a deceased member's TDA into an Individual Retirement Account (IRA) beginning in 2007. Previously this option was only available to surviving spouses. Distributions must be directly transferred trustee-to-trustee in order to be tax-free.

TDA Dollar Limits*	
Maximum contribution	\$15,500
Catch-up contributions**	Additional \$3,000
Members age 50 or older	Additional \$5,000

*TDA Dollar Limits as of this printing.

**For BERS members employed by the DOE for 15 years or more whose average annual contributions is less than \$5,000 (allowed catch-up contributions up to \$15,000).

CURRENT PARTICIPANTS

If you are currently enrolled in the TDA Program and do not wish to change your contribution percentage or investment option for 2007, no action is needed. Your participation will continue automatically into 2007 based on your current elections. However, we encourage you to read this booklet thoroughly to understand the provisions of the program.

You can contribute up to 100% of your salary to the TDA Program, provided your contributions are within the dollar limit imposed by the Internal Revenue Service (IRS). The dollar limit for calendar year 2007 contributions is shown on your personalized TDA Investment Change form.

The maximum contribution amount allowed in 2007 is higher than that allowed for 2006. Contributing at your 2006 contribution rate does not guarantee that you will contribute the maximum allowed in 2007. You should refer to the worksheet on page 8 of this booklet to estimate your contribution percentage for 2007 if you want to contribute a special amount per paycheck.

Your current investment election will remain in effect unless you tell BERS to change it by returning a completed TDA Investment Change form.

If you wish, you can change your current beneficiary(ies) by completing and returning the TDA Designation of Beneficiary form. Please refer to the beneficiary instruction sheet for details on how to complete this form.

HOW TO ENROLL IN THE TDA PROGRAM

If you are not currently participating in the TDA Program, you may file the enclosed TDA Enrollment form at any time to begin contributions in 2007. As a new enrollee, you must indicate the percentage of salary you wish to contribute and how you want those contributions allocated between the Fixed and the Variable Programs. If you return the form without indicating a contribution rate and investment option, the Enrollment form will be

returned to you and no action will be taken. Please read the instructions and this booklet very carefully before completing the form.

Contributions will begin with the first payroll in January 2007 if your form is received on or before December 1, 2006. Otherwise, your contributions will begin within 60 days after BERS receives your application.

Please complete the TDA Designation of Beneficiary form when you enroll. Your beneficiary designation under the TDA Program is very important and is separate from the beneficiary designation you made when you joined the pension plan.

School Crossing Guards, School Safety Agents employed by NYPD, Transferred Contributors and employees of the School Construction Authority are not eligible to participate in this program. If you are a transferred contributor in education services and have not joined the BERS Qualified Pension Plan (QPP), you may be eligible for another TDA Program called the Chancellor's TDA Program. Please call BERS at 718-935-5400 and request an Enrollment Kit for the Chancellor's TDA Program.

MAXIMIZING YOUR TDA CONTRIBUTIONS

Generally, for most participants in the TDA Program, the maximum contribution amount for 2007 is the lesser of 100% of compensation or \$15,500. Under current regulations, that maximum will increase to \$16,000 in 2008. This amount will be indexed to inflation (in \$500 increments) thereafter. Although the law allows contributions of up to 100% of salary, you need to ensure that your contribution rate will allow enough remaining salary to cover post-tax payroll deductions, such as union dues, loan repayments, health insurance and other deductions. If you don't, many consequences may result including loan defaults, union dues arrears and forfeiture of health coverage.

Members of BERS who have been employed by the Department of Education for at least 15 years and whose average TDA contributions during their employment average less than \$5,000 annually, may be eligible for catch-up

contributions. Catch-up contributions can be as much as \$3,000 each year (above the \$15,500 limit) and are limited to a lifetime total of \$15,000. In addition, members age 50 or older are eligible to contribute an additional \$5,000 in 2007.

You can elect to contribute any percentage of pay you desire. Your percentage may allow contributions to be deducted from your pay for the entire year without reaching your dollar limit. Or, contributions may need to be stopped before the end of the year. BERS will automatically stop your contributions when you reach your dollar limit. Participants who are on dual payrolls should be careful to ensure that their TDA deductions are taken from the major payroll only.

If you participate in the BERS TDA Program and a 457 plan, you do not have to coordinate contributions to both plans. You can contribute the maximum under each plan separately. However, if you participate in the BERS TDA Program and a 401(k) plan, contributions must be combined and be within your 2007 dollar limit.

BERS cannot guarantee that your deductions will stop at the dollar limit if you are on two separate payrolls or making contributions to more than one tax deferred savings plan.

A worksheet has been provided on page 8 that can help you estimate your contribution percentage based on the dollar amount you decide to contribute each payday.

INVESTMENT CHOICES

The TDA Program offers a choice of two investment options, the Fixed Program and the Variable Program.

The Fixed Program offers you a guaranteed annual rate of return on your investment, set by the New York State legislature. Currently the annual rate is 8.25%.

The Variable Program invests in a fully diversified portfolio of common stock. The financial objective is to capture the return of the broad equity market, while attempting to control its short-term volatility. The value of your Variable

Program is based on the investment performance of the portfolio and may increase or decrease from month to month. Since this program is subject to the fluctuations of the stock market, it may carry higher risk than the Fixed Program but offers the potential for greater return. The Variable Program is currently co-invested in the Teachers' Retirement System Tax Deferred Annuity Variable A Program and returns are based on the performance of the investments in that program. The Variable Program also includes a 4% annual incremental increase credited monthly to your accumulated units.

The BERS TDA Program is a self-sustaining program. The expenses for administration of the Fixed Program are covered by a charge of \$1.50 per month from contributing participants. Additionally, to cover the expenses of the Variable Program, a base charge is levied against the assets. Currently, this base charge is 2/100^{ths} of 1% of the assets per month.

FLEXIBILITY

The TDA Program allows for flexibility in the selection of a percentage of salary you wish to contribute and how you wish to allocate your contributions between the Fixed and Variable Programs.

Each quarter, you may change the way your future contributions and past contributions are invested between the Fixed and Variable Programs by filing a TDA Election Change form with BERS. Contributions can be split between the Fixed Program and the Variable Program in whole number percentages (in multiples of 5%). Your investment percentages to the Fixed plus Variable Programs must total 100%.

You may convert a portion of your past contributions from one account to the other. The converted portion must be a multiple of 5%. If you are converting less than \$1,000, it will be transferred in monthly installments of \$83.33 until the entire amount is converted.

Conversions of \$1,000 or more will take place over a one-year period in monthly installments.

Each request takes up to 12 months to be completed. A new conversion request immediately stops any prior conversions.

Your completed TDA Investment Change or Election Change form must be received at least 30 days before the beginning of the next calendar quarter. The following table shows the 2007 schedule for submitting TDA Investment Change and Election Change forms:

Deadline for BERS to receive your form	Effective date of change
December 1, 2006	January 1, 2007
March 1, 2007	April 1, 2007
June 1, 2007	July 1, 2007
September 1, 2007	October 1, 2007

You can stop contributing to the TDA Program at any time by filing a TDA Investment Change form with BERS. Your contributions will stop as soon as possible, but no later than 60 days after BERS receives your form. Unless you take a TDA withdrawal during the year, you can re-enroll in the Program at any time. If you take a TDA withdrawal during the year, you must wait until the following calendar year to re-enroll.

ADVANTAGES OF JOINING THE TDA

The BERS TDA Program gives you the opportunity to enjoy immediate tax advantages over after-tax savings programs. The following chart compares the income of a TDA participant with the income of a non-participant and is for illustration purposes only. Both participants earn and save the same amount of money monthly, but one utilizes the TDA Program while the other utilizes a program without the benefit of tax deferral.

The chart assumes that a Tier 4 regular pension contribution of 3% has already been taken from your gross pay and a marginal tax rate of 25% (2007, single filing status) applies. Your tax savings will vary according to your personal contribution rate and tax bracket.

	TDA Participant	Non-participant
Gross Pay	\$1500	\$1500
Tier 4 Pension Contribution (3%)	45	45
TDA Contribution Amount (10%)	145	0
Current Taxable Income	1310	1455
Federal Tax (25%)	328	364
After Tax Income	982	1091
After Tax Savings Amount	0	145
Net Income	982	946

As the chart illustrates, the TDA participant will have a lower Current Taxable Income than the non-participant. Therefore, the TDA participant will pay fewer taxes and, in some cases, have a higher net income.

You may also be eligible to take advantage of a tax credit called the Saver's Tax Credit. The Saver's Tax Credit is a federal income tax credit for investing in a retirement plan, such as the BERS TDA Program. The amount of credit you're entitled to is based upon your contribution amount and credit rate. Your Adjusted Gross Income (AGI) is the basis for the credit rate, which ranges from 10% to 50% of your contribution amount.

The Savers Tax Credit is in addition to any deduction or exclusion allowed for your contributions. The following chart illustrates how it works.

Credit Rate	Income Limits			Maximum Credit
	Married Joint Return	Head of Household	Others	
50%	Up to \$30,000	Up to \$22,500	Up to \$15,000	\$1000
20%	\$30,001 to \$32,500	\$22,501 to \$24,375	\$15,001 to \$16,250	\$400
10%	\$32,501 to \$50,000	\$24,376 to \$37,500	\$16,251 to \$25,000	\$200

Another advantage of investing in the TDA Program is that your investment returns are tax-deferred. With other savings programs, you have to pay taxes each year on your earnings. Investment returns in the TDA Program remain tax-deferred until you withdraw them. This means you earn even more on the money that you would have paid in taxes.

The TDA Program also gives you the convenience of payroll deductions. You decide your contribution percentage rate and your allocation between the Fixed and Variable Programs. In addition to the convenience, payroll deductions allow you to invest the same amount at regular intervals. This strategy, known as dollar cost averaging, can be a successful tool when investing in the equity market (i.e. the Variable Program) or long-term growth. Dollar cost averaging allows you to buy more units when the value is low and buy fewer units when the value is high.

LOANS

You may be eligible to take a loan from your TDA account if you:

- have been a TDA participant for at least one year, and
- are a BERS member in active service, are on an approved leave of absence, have resigned with vested retirement benefits, or are retired, having deferred your TDA account, and
- are not in default on an existing TDA, Pension, or Tier Enhancement loan, and
- have not taken a TDA loan in the last 12 months.

Loan procedures have changed from prior years. Every loan you take out may be computed and maintained separately. Please refer to the current Tax Deferred Annuity Loan Program brochure, which is available at BERS, for more information.

WITHDRAWALS

Withdrawals are also available to TDA participants in certain circumstances. Since the TDA Program was established to assist you in

retirement savings, the IRS has imposed certain restrictions on withdrawals.

You are able to withdraw all or a portion of your account if you:

- are no longer a member of BERS for any reason, or
- are at least age 59½, or
- have a hardship (see page 6 for IRS hardship conditions), or
- have TDA Deferral status (see page 7 for details), or
- have a December 31, 1988 balance and are not yet age 59½.

If you decide to close your QPP account with BERS, you must also withdraw or rollover all of your TDA funds.

If you withdraw funds from the Variable Program, the value of your account will depend upon the unit value for the month following the receipt of your request for the withdrawal. If however, your withdrawal is made in conjunction with your retirement, the value of your variable account will depend on the unit value for the month in which you retire.

DIRECT WITHDRAWALS

Any withdrawal that you receive is subject to a mandatory Federal Income Tax Withholding of 20%, as well as any applicable New York State and New York City income taxes.

The amount withdrawn may also be subject to a 10% Federal Income Tax penalty in the year of the withdrawal unless one of the following exceptions applies:

- You make your withdrawal in conjunction with your termination of employment in or after the year in which you attain age 55; or
- You make your withdrawal after you reach age 59½; or
- Your withdrawal is used to pay medical expenses to the extent that those expenses are deductible for Federal Income Tax purposes; or
- Your withdrawal is made in conjunction with your disability or service retirement.

If you withdraw money from your account, your contributions to the TDA Program will cease and cannot be resumed until the next calendar year.

HARDSHIP WITHDRAWALS

You may withdraw your contributions made since December 31, 1988 (but not investment earnings on those contributions) as an active member in the event of a hardship. However, you may only withdraw contributions to the extent that you do not have other financial resources to meet the hardship. Accepted hardship conditions include:

- Medical expenses incurred by you, your spouse, or dependents.
- Payment of post-secondary school tuition for you, your spouse, or dependents.
- Payments to prevent the eviction from, or foreclosure on your principal residence.
- The purchase of a principal residence.

RETIREMENT OPTIONS

At retirement, you may arrange to receive regular payments through the purchase of an annuity, make a direct withdrawal, rollover, or transfer of your account. You may also elect TDA Deferral status at retirement, which allows you to leave your contributions and investment results in the TDA Program until Required Minimum Distributions begin.

Retired participants may elect to receive their contributions in the form of a fixed or variable annuity, which provides monthly payments along with your pension.

TRANSFERS/ROLLOVERS

You may transfer or rollover your TDA funds provided you meet the conditions outlined for withdrawals on page 5. A direct transfer or rollover (the check is payable directly to a new investment provider) allows you to move up to 100% of your account value and retain the tax-deferred status of your funds. That means there is no withholding on your funds until they are subsequently withdrawn.

If you transfer to another public employee retirement system, you may be able to transfer your TDA account directly to that system. You should discuss this with your new retirement

system before requesting a direct transfer from your BERS TDA account.

Rollovers from your TDA account can be made to another TDA plan, 401(a) or (k) retirement, profit sharing or stock bonus plan, governmental 457 plan or IRA. **The receiving plan must be able to accept TDA funds into your account there.** You should check with any new investment provider you are considering before requesting a rollover of your TDA funds. A surviving spouse of a member with a TDA account may also be able to roll the TDA funds into their own IRA, TDA, 401 (k), or 457 plan if their own plan will accept the rollover.

You may also be eligible to transfer all or a portion of your TDA account to purchase pension credit for service prior to your membership in BERS (prior service), as well as military service. Please call BERS for the necessary forms.

REQUIRED MINIMUM DISTRIBUTIONS

The IRS mandates that you begin making withdrawals from your account at a certain time depending on your employment status. If you elect TDA Deferral status, you will have to begin receiving payments of contributions and earnings credited to your account after December 31, 1986 prior to the April 1st of the year following the year in which you reach age 70½. Your contributions made before December 31, 1986 and the earnings on those contributions may be deferred until age 75. If you are still in active service, you do not have to begin receiving any TDA payments until age 75.

You can meet these requirements by receiving a Required Minimum Distribution (RMD) of your TDA account, paid annually as long as you maintain a TDA balance. RMDs are made annually based on an IRS Uniform Lifetime Table. Special rules apply if your spouse is at least ten years younger than you and is your only beneficiary. If you are age 70½ or older, you can elect to receive your RMD each year automatically from your BERS TDA account. BERS will remind you beginning at age 70½ of the IRS requirements regarding distributions. For information regarding RMDs please visit www.nycbers.org/content/rmd.htm.

WHEN EMPLOYMENT ENDS

When you resign or otherwise end your employment with the Department of Education, you have several options available to you.

If you leave employment *after* attaining vested rights under the QPP, you can withdraw the balance of your TDA account or you may elect TDA Deferral status.

Should you leave employment for any reason before vesting in the QPP, you may withdraw the balance of your TDA account at any time. If you do not withdraw your QPP account balance, your TDA account will continue to accrue investment returns for up to five years from the date of your resignation. A withdrawal of your QPP account balance will automatically terminate your participation in the TDA Program.

If you die prior to withdrawing or annuitizing your TDA account, your balance will be paid to your designated beneficiary(ies) shown on the form last filed with BERS. Beneficiaries have the option to keep their funds in the variable investment program and are responsible for required minimum distributions.

Please review the listing of your current beneficiaries as shown on your semi-annual statements and update your designation, if desired. Your beneficiary designation for the TDA Program is separate from any other designation for your other benefit or retirement plans. In the event you do not have a designation on file for the TDA Program at the time of your death, the death benefit will be paid to your estate.

IMPORTANT REMINDERS

Please review your name, address, membership, and social security numbers on the enclosed form. If any of the information is incorrect, please make the necessary corrections on the form and return it to BERS in the envelope provided. It is important that BERS' records remain accurate in order to provide correct benefits when you need them.

ADDITIONAL INFORMATION

Please be sure to have your form notarized before submitting it to BERS. Failure to have any form notarized will result in a delay in processing your request.

If you have general questions about the BERS TDA Program, you may call BERS at 718-935-5400. You may also visit our office at 65 Court Street, Room 1603, Brooklyn, New York 11201.

The information in this booklet should not be solely relied upon. It is based on our understanding of currently available information, which is subject to change, and should not be considered legal or tax advice. BERS suggests that you consult with an attorney and/or tax advisor if you have any specific legal or tax questions.

In the event any of the information provided in this booklet conflicts with any law, rule or regulation, it is the law, rule or regulation that will govern.

DETERMINING YOUR CONTRIBUTION PERCENTAGE

Your Enrollment Kit contains a personalized TDA Enrollment or TDA Investment Change form. Your dollar limit for 2007 is printed at the top of the form to the right of your name and address.

You are allowed to contribute up to 100% of your salary, not to exceed your 2007 dollar limit.

You can use the following worksheet to help you estimate your contribution rate based on the amount you wish to contribute each pay period. This percentage may not result in you contributing the exact amount of your annual dollar limit. You will need a recent pay stub to complete the worksheet.

To start, you need to determine how much you can afford to contribute per paycheck to the TDA program. Please keep in mind that even though you are starting with a dollar amount, your actual TDA deductions will be based on your contribution rate. Any increase in your pay (e.g. as a result of overtime earned or salary increases) will result in a higher dollar amount deducted per paycheck.

1. Determine the amount you wish to contribute per paycheck. Enter that amount in the box to the right.	\$
2. Find your total pre-tax earnings for a pay period on your pay stub (In example, Total Earnings This Period). Enter this number.	\$
3. Enter any pension deductions (55/25, 57/5, or Transit Check deductions).	\$
4. Subtract any amounts in step 3 from your earnings in step 2.	\$
5. Divide your desired contribution amount in step 1 by your net pre-tax pay - the amount in step 4.	
6. Multiply the figure in step 5 by 100. Round to the nearest whole percentage. (e.g. .092 = 9.2% rounds to 9%) This is your contribution rate. Enter this percentage in the Contribution Rate box on your TDA Enrollment or TDA Investment Change form.	%

If you want to contribute the maximum allowed per year, use the following worksheet to estimate your minimum % contribution.

1. Enter your 2007 dollar limit in the box to the right.	\$
2. Divide the dollar amount in step 1 by the number of paychecks you receive per year. This is the amount you will contribute per paycheck.	\$
3. Find your total pre-tax earnings for a pay period on your pay stub (In example, Total Earnings This Period). Enter this number.	\$
4. Enter any pension deductions (55/25, 57/5, or Transit Check deductions).	\$
5. Subtract any amount in step 4 from your earnings in step 3.	\$
6. Divide your desired contribution amount in step 2 by your net pre-tax pay - the amount in step 5.	
7. Multiply the figure in step 6 by 100. Round to the nearest whole percentage. (e.g. .092 = 9.2% rounds to 9%) This is your contribution rate. Enter this percentage in the Contribution Rate box on your TDA Enrollment or TDA Investment Change form.	%

DETERMINING YOUR CONTRIBUTION PERCENTAGE EXAMPLE

To start, you need to determine how much you can afford to contribute per paycheck to the TDA program. In this example, the member decides to contribute \$40 per paycheck.

1. Determine the amount you wish to contribute per paycheck. Enter that amount in the box to the right.	\$40.00
2. Find your total pre-tax earnings for a pay period on your pay stub (In example, Total Earnings This Period). Enter this number.	\$840.00
3. Enter any pension deductions (55/25, 57/5, or Transit Check deductions).	\$49.14
4. Subtract any amounts in step 3 from your earnings in step 2.	\$790.86
5. Divide your desired contribution amount in step 1 by your net pre-tax pay – the amount in step 4.	.0505
6. Multiply the figure in step 5 by 100. Round to the nearest whole percentage. (e.g. .092 = 9.2% rounds to 9%) This is your contribution rate. Enter this percentage in the Contribution Rate box on your TDA Enrollment or TDA Investment Change form.	5%

REVISED 1/01

The City of New York		EMPLOYEE				Payroll Management System			
ITEM #	PAY PERIOD	PAYDATE	DIRECT DEPOSIT PAY STATEMENT			PAYROLL #	WORK UNIT	CHECK NUMBER	DISTRIBUTION #
	01/23/00 - 02/05/00	02/18/00				740	9998		006998
PENSION #		ELECTRONIC FUND TRANSFER INFORMATION		JOB #	EMP #	REFERENCE #	CD	EMPLOYEE NAME	
E00000				11031A103					
MEMO	TOTAL EARNINGS	FEDERAL TAX	SOCIAL SECURITY	MEDICARE	STATE TAX	CITY TAX	CITY WAIVER	TOTAL DEDUCTIONS	
THIS PERIOD	840.00	46.23	48.37	11.27	18.83	12.80		270.43	
YEAR TO DATE	5215.49	167.13	187.28	43.80	72.07	48.35		NET PAY	
DESCRIPTION		UNITS	HOURS	AMT EARNED PER PERIOD	UNITS	HOURS	AMT EARNED THIS PERIOD	LEAVE BALANCE AS OF	
REGULAR PAY		35:00		420.00	35:00		420.00	12/05/00	569.57
BE ACTIVE, EAT WELL-HEART HEALTH MONTH									
DESCRIPTION	AMOUNT THIS PERIOD	55/25/57/10	US HLT CR CC BERS TDA	AMOUNT THIS PERIOD	ROE 414H STD	US HLT CR CC LOCAL 1251	AMOUNT THIS PERIOD		
	23.94		7.91	10500.00	25.20	15.00			#3