# Know Your Retirement Plan Options

*As an educator, two possible savings options include a tax-sheltered annuity (TSA) and a Roth IRA.*

## What is a TSA?

A TSA is also known as a 403(b) plan, and is available through your employer. Participation is limited to employees of public educational organizations and certain non-profit organizations.

Generally, you put money into an annuity contract in the form of a salary reduction contribution made through your employer. The insurance company that issues the annuity contract agrees to pay you an income in the future. The contributions you make to a TSA contract, as well as any earnings, accumulate on a tax-deferred basis until you begin receiving payments at retirement. Withdrawals at retirement are all taxable, and if made before age 59½ are generally subject to an additional 10% federal penalty tax. Tax deferral is provided by the qualified plan. The use of an annuity in a qualified plan does not provide additional tax deferral and should be chosen for features and benefits other than tax deferral, such as the death benefit and life income option.

## How much can I contribute?

In 2020, you may contribute up to 100% of your salary, to a maximum of $19,500 per year. The dollar limit on TSA contributions must be reduced by any elective deferrals to a 401(k) plan or salary reduction SEP plan in which you participate. Other limits may apply.[1] Additional contributions in excess of the $19,500 limit may be allowed if you are age 50 or older, or if you have 15 years of service with your employer. In addition, these limits are subject to increase annually. Your tax advisor and financial professional can help you determine the amount you may contribute.

## What is a Roth IRA?

A Roth IRA is a personal savings vehicle that offers certain tax benefits to encourage saving for retirement. A Roth is funded with after-tax dollars, so your contributions are not tax deductible on your federal income tax return. However, contributions may grow on a tax deferred basis. If certain requirements are met, distributions are tax free!

Roth IRA distributions that represent a return of contributions are always tax free. Distributions that represent earnings are tax free if you have had your Roth IRA for five years and also meet one of the following requirements: you are over age 59½; you are disabled; you are deceased and the funds are distributed to a beneficiary; or the distribution is a qualified first-time home buyer distribution. Tax advantages are provided by a Roth IRA. The use of an annuity as a Roth IRA does not provide additional tax advantages and should be chosen for features and benefits other than tax benefits, such as the death benefit and life income options.

## How much can I contribute?

Total contributions for all of your IRAs in 2020 (both traditional and Roth) cannot exceed $6,000 ($7,000 if you're age 50 or older). Contributions to a Roth IRA for 2020 are phased out at modified gross income of $124,000 to $139,000 (single), $196,000 to $206,000 (married filing jointly), and $0 to $10,000 (married filing separately).

While a TSA allows higher contribution amounts to save toward your retirement goal, a Roth IRA may be a good choice for additional retirement savings after you've made the maximum contribution allowed to your TSA.

GREAT AMERICAN® INSURANCE GROUP

Uncomplicate Retirement®

The table below assumes you make annual contributions of $2,000 to a Roth IRA. If you make a pre-tax contribution to a TSA and are in a 28% tax bracket, you can use the tax savings to increase the annual contribution up to $2,777.78.[2] However, the TSA benefits will be taxable when distributed, while a qualified distribution from the Roth IRA will be tax-free. If your tax rates remain the same, the table below shows that you will have the same after-tax amount available in retirement regardless of whether you choose the TSA or the Roth IRA.

| TSA | Roth IRA |
|---|---|
| ➤ Pre-tax contribution: $2,777.78<br>➤ Assumed return[3]: 4% (compounded annually) | ➤ After-tax contribution: $2,000<br>➤ Assumed return[3]: 4% (compounded annually) |

| Years | Tax rate[4] | Tax deferred accumulation | After tax amount[5] |
|---|---|---|---|
| 5 | 28% | $15,647.17 | $11,265.96 |
| 10 | 28% | $34,684.34 | $24,972.72 |
| 15 | 28% | $57,845.97 | $41,649.10 |
| 20 | 28% | $86,025.63 | $61,938.45 |
| 25 | 28% | $120,310.50 | $86,623.56 |
| 30 | 28% | $162,023.28 | $116,656.76 |
| 35 | 28% | $212,773.26 | $153,196.75 |

| Years | Tax rate[4] | After tax amount | Roth advantage? |
|---|---|---|---|
| 5 | 28% | $11,265.96 | $0 |
| 10 | 28% | $24,972.72 | $0 |
| 15 | 28% | $41,649.10 | $0 |
| 20 | 28% | $61,938.45 | $0 |
| 25 | 28% | $86,623.56 | $0 |
| 30 | 28% | $116,656.76 | $0 |
| 35 | 28% | $153,196.75 | $0 |

This chart is hypothetical for illustration purposes only. Actual results may vary.

If you expect to be in a lower tax bracket after retirement, then the TSA will provide higher after-tax amounts in retirement than the Roth IRA. If tax rates rise and you are in a higher tax bracket after retirement, then a Roth IRA will provide higher after-tax amounts in retirement than the TSA. In addition, if you will receive Social Security benefits in retirement, then, depending on income levels, the taxable income from a TSA might also result in a greater proportion of those Social Security benefits being taxed.

Roth IRAs do not restrict tax advantages based on an individual's coverage under an employer provided retirement plan. In other words, even if you contribute to a 403(b) or a 457(b), you can still contribute to a Roth IRA as long as you do not exceed the income limits! A Roth IRA might be suitable if you have maxed out your TSA contributions, or if you would like to save more for retirement but want protection against possible future increases in tax rates.

## Contact me today to learn more about how to maximize your retirement preparations!

[1] Other limits may apply if contributions are made for you under a qualified retirement plan for an outside business of which you are an owner.
[2] $2,777.78 on pre-tax basis equals $2,000 on after-tax basis using 28% tax bracket.
[3] The assumed return is hypothetical for example only. No particular annuity or investment product is illustrated. Actual returns may vary.
[4] Tax rates are hypothetical for example only. Actual tax rates may vary, and may change over time.
[5] Assumes distribution is subject to 28% tax bracket but not subject to 10% penalty tax. You should consider a variable annuity contract's and underlying portfolios' investment objectives, risks, charges and expenses carefully before investing. Call 800-789-6771 or visit GAIG.com to obtain a free prospectus containing this and other information to read carefully before investing.

This information is not intended or written to be used as legal or tax advice. It was written solely to support the sale of annuity products. As a taxpayer, you cannot use it for the purpose of avoiding penalties that may be imposed under the tax laws. You should seek advice on legal or tax questions based on your particular circumstances from an independent attorney or tax advisor.

Annuities issued by Great American Life Insurance Company® and Annuity Investors Life Insurance Company®. Products and features may not be available in all states.

Variable Annuity Principal Underwriter/Distributor: Great American Advisors®, Inc., member FINRA and of Great American Insurance Group®, 301 E Fourth St., Cincinnati, Ohio 45202.

| Not FDIC or NCUSIF Insured | No Bank or Credit Union Guarantee | May Lose Value | Not Insured by any Federal Government Agency | Not a Deposit |
|---|---|---|---|---|