TEXAS TECH EMPLOYEES NEED TO PLAN AHEAD

Having the money you want in your later years requires careful planning NOW.

Recent legislation, the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA), includes significant changes which depending on your specific situation may help you save even more for your future.

**Exciting Changes for 403(b) Tax Deferred Annuity Programs**

Beginning January 1, 2002, the limits on your contributions to 403(b) programs are higher than ever before! In addition, the new pension reform laws provide exciting new opportunities for participants in 403(b) programs. The bottom line for 2002:

- Nonrefundable tax credit for individuals with incomes under $50,000.
- Repeal of the Maximum Exclusion Allowance (MEA).
- $11,000 limit for salary reduction contributions to the Tax Sheltered Annuity Program (TSA).
- $1,000 catch-up deferral if you reach age 50 by December 31, 2002.
- $3,000 per year additional catch-up possible (must have at least 15 years with your present employer). Subject to $15,000 maximum.
- Up to $40,000 in total employee and employer contributions to your 403(b) program. This would be the maximum for the combined Optional Retirement Program (ORP) and the Tax Sheltered Annuity Program (TSA).
- Ability to consolidate your retirement accounts.
- Purchase of service credits under a state or local retirement system.

**Exciting Changes for 457 Deferred Compensation Plans**

Beginning January 1, 2002, a 457 deferred compensation plan becomes a valuable opportunity for employees of educational institutions. Previously, 457 deferred compensation plans had lower contribution limits than 403(b) programs. In addition, any contribution made to a 457 deferred compensation plan had to be coordinated with contributions made to a 403(b) program. Sometime after the first of the year, Texas Tech employees will receive information about the State 457 Plan and will be permitted to enroll at that time. The bottom line for 2002:

- Nonrefundable tax credit for individuals with incomes under $50,000.
- Contributions to a 457 deferred compensation plan have no impact on 403(b) program contributions - you can contribute $11,000 to each plan.
- Double the normal limit - $22,000 - if you are eligible for catch-up in last three years of service or you can take advantage of a $1,000 catch-up deferral if you reach age 50 by December 31, 2002.
- Ability to consolidate your retirement accounts.
- Purchase of service credits under a state or local retirement system.

**DETAILED ANALYSIS**

**Nonrefundable Tax Credit for Participants with Incomes Under $50,000**

Beginning in 2002 and expiring in 2006, a tax credit is available to low-income individuals who make pre-tax contributions. The credit is calculated as a percentage of the first $2,000 contributed, and the percentage is based upon the adjusted gross income (AGI).
*(To benefit from this tax credit, for joint filers, AGI must not exceed $50,000; for single filers, AGI must not exceed $25,000).

**What This Means for You:**
Eligible individuals can contribute pre-tax to a 403(b) program or a 457 deferred compensation plan and get an additional tax credit.

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**Repeal of Maximum Exclusion Allowance (MEA)**
Effective 2002, the MEA is entirely repealed. Contributions to your 403(b) program will only be subject to the newly increased "elective deferral" limit and the "annual additions" limit, allowing you to save even more.

**What This Means for You:**
You may be able to contribute more pre-tax dollars to your 403(b) program.

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**Increased Annual Additions Limit**
The total amount of employee and employer contributions which can be made to your combined ORP and TSA 403(b) program plan is increased to the lesser of 100 percent of eligible compensation up to $40,000.

**What This Means for You:**
Both you and your employer have the opportunity to make more contributions to your 403(b) program

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**Repeal of Coordination of Contributions Made to a 403(b) Program and a 457 Deferred Compensation Plan**
You can make before-tax contributions to both a 403(b) TSA program and a 457 deferred compensation plan, which are separately subject to the limits. Your contributions to your 403(b) TSA program no longer impact your ability to contribute pre-tax to a 457 deferred compensation plan.

**What This Means for You:**
You can now contribute more to both a 403(b) program and a 457 deferred compensation plan. In 2002, for example, you can contribute up to $11,000 to a 403(b) program and can defer up to $11,000 to your 457 plan. Watch your mail in January for information on the State 457 Plan, which will be offered.

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**Increased Ability to Catch-Up in a 403(b) Program and a 457 Deferred Compensation Plan at age 50+**
Employees who are at least age 50 can contribute an additional $1,000 pre-tax amount to both their 403(b) program and 457 deferred compensation plan over the elective deferral limit.

**What This Means for You:**
You may be able to contribute more pre-tax dollars to your 403(b) program.

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**Increased Ability to Catch-Up in a 457 Deferred Compensation Plan**
In a 457 deferred compensation plan, you may use the catch-up provision, available during the three years prior to your normal retirement age. Under this provision, you may shelter $22,000 in 2002. Please note that you cannot use both this catch-up provision and the age 50 catch-up provision described above at the same time.

**What This Means for You:**
As you approach retirement, you may be able to contribute up to two times the normal deferral limit to your 457 deferred compensation plan.

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**Increased Portability**
Rollovers are permitted among 403(b) programs, 401(a) plans, governmental 457 deferred compensation plans, and IRAs. Employees will want to work with the providers to ensure the rolled over amounts are not constructively received, which could make them subject to the IRS 10 percent penalty tax.

**What This Means for You:**
Employees and their beneficiary spouses who make career changes may now consolidate their retirement accounts.
Ability to Buy Back Service Under A Defined Benefit Plan
Amounts accumulated under a 403(b) program and a 457 deferred compensation plan may be transferred to a defined benefit plan, such as the Teachers Retirement System (TRS), to buy service credits. Amounts used will not be taxable in the year transferred.

What This Means for You:
You can now increase your benefits under a state or local retirement system. Watch for more information from TRS on when and how this would be made available.

Pay Check Illustration

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
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</thead>
<tbody>
<tr>
<td>Gross pay per period</td>
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<tr>
<td>Tax-deferred contribution</td>
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<tr>
<td>Adjusted gross pay</td>
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<tr>
<td>Social Security</td>
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<td>Net take home pay</td>
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<tr>
<td>Taxes deferred</td>
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<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Estimated account value at age 65</td>
<td>$135,653 **</td>
</tr>
</tbody>
</table>

* based on married (filing jointly with 2 dependents)
** 30 year old investing $50 per month at 9% rate of return

Contact your Benefits Office for the approved Tax Sheltered Annuity vendor lists and forms.