

# Tax Sheltered Saving

## What Is It?

Tax sheltered saving is a term that means a person is saving money on a "before tax" basis. You will delay until a later date the payment of income taxes on any amount of income that you contribute to a tax shelter account. Tax shelters for teachers exist in the form of 403b's, IRA's, and deferred compensation 457 plans.

## What's So Good About It?

1. **Everyone wants lower taxes.** Any amount you tax shelter this year will reduce the tax you owe when you file your income tax forms in April. Therefore, there are tax incentives to participate.
2. **Everyone wants more money.** In a tax shelter plan, you don't pay income tax on your investment earnings until those earnings are withdrawn after you retire. Since more money is left in your tax shelter account to be invested and to generate more income, a tax shelter investment will grow much faster than an investment that is not tax sheltered.

## Why Is It Smart?

Putting money aside in a tax shelter investment account is smart not only for tax and investment reasons, but for another very important reason. **You will create options for yourself as you approach the conclusion of your working career.** Teachers who have worked to create substantial tax shelter investment accounts will have another source of income to rely on when considering when to retire, or how to afford the pursuit of other interests.

# Can Small Amounts Make a Difference in Accumulating Money For Retirement?

Generally, for a new teacher, over time, the answer is - **YES!** The charts below will give you an idea of how much you could accumulate, depending on your investment return, by saving a pretty modest amount.

<b>Saving 3% of Pay Annually</b>				
<i>Your Age</i>	<i>Your Pay (increased by 3%)</i>	<i>Amount Saved Per Yr./Check</i>	<i>Your balance, If you earn 10% annually</i>	<i>Your balance, If you earn 12% annually</i>
25	\$25,000	\$ 750/\$31	\$ 787	\$ 795
30	\$28,982	\$ 869/\$36	\$ 6,496	\$ 6,887
35	\$33,598	\$1,008/\$42	\$ 16,524	\$ 18,499
40	\$38,949	\$1,168/\$49	\$ 33,640	\$ 39,976
45	\$45,153	\$1,355/\$56	\$ 62,324	\$ 79,001
50	\$52,344	\$1,570/\$65	\$109,817	\$149,137
55	\$52,344	\$1,570/\$65	\$186,927	\$273,404
<u>60</u>	\$52,344	\$1,570/\$65	<b>\$311,115</b>	<b>\$492,407</b>
<i>total of 35 yrs.</i>				

<b>Saving 7% of Pay Annually</b>				
<i>Your Age</i>	<i>Your Pay (increased by 3%)</i>	<i>Amount Saved Per Yr./Check</i>	<i>Your balance, If you earn 10% annually</i>	<i>Your balance, if you earn 12% annually</i>
25	\$25,000	\$ 1,750/\$73	\$ 1,837	\$ 1,855
30	\$28,982	\$ 2,029/\$85	\$ 15,159	\$ 16,071
35	\$33,598	\$ 2,352/\$98	\$ 38,558	\$ 43,166
40	\$38,949	\$2,726/\$114	\$ 78,494	\$ 93,279
45	\$45,153	\$3,161/\$132	\$145,423	\$ 184,336
50	\$52,344	\$3,664/\$153	\$256,241	\$ 347,987
55	\$52,344	\$3,664/\$153	\$436,166	\$ 637,945
<u>60</u>	\$52,344	\$3,664/\$153	<b>\$725,938</b>	<b>\$1,148,952</b>
<i>total of 35 yrs.</i>				

**Open a tax shelter account today! You will be amazed at how successful the strategy is. You will be inclined to continue and increase your contributions. Still not convinced? - talk to a seasoned fellow teacher. They have the best stories. Or call Jay at the DTRFA at 722-2894.**