

How Does a TSA Work?

Tax Sheltered Annuities In Action

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Everyone should use a Tax Sheltered Annuity (TSA) in their retirement planning, but because of misunderstanding, lack of education on both the salesperson and the eligible participant; TSAs today only comprise about 12% of any not-for-profit organization.

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NMIN Alliance wants to help more people take advantage of their TSA!

Please study the following pages, if you have questions please feel free to call our customer service center. If you have no questions please feel free to sign up for your own TSA.

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Are you ready?
Let's look at how a TSA works...

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How Does a TSA Work?

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Paycheck Example Without a TSA

Gross	With Tax	Net Take Home	Savings	Net After Savings
\$100				

Let's assume you make \$100.

It doesn't matter for the sake of this explanation if it's weekly, monthly or anything in between. We will also assume that there are no state taxes, FICA or Medicare taxes. Remember this is just an example to show you how a TSA works.

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Paycheck Example Without a TSA

Gross	With Tax	Net Take Home	Savings	Net After Savings
\$100	\$20			

Let's also assume you are in a 20% tax bracket.
So Uncle Sam will take \$20 out of your gross.

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Paycheck Example Without a TSA

Gross	With Tax	Net Take Home	Savings	Net After Savings
\$100	\$20	\$80		

After taxes, you have \$80 left over.

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Paycheck Example Without a TSA

Gross	With Tax	Net Take Home	Savings	Net After Savings
\$100	\$20	\$80	\$10	

Now, let's assume you save \$10.

It might be in a credit union, bank or other kind of after-tax (deduction) savings account.

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Paycheck Example Without a TSA

Gross	With Tax	Net Take Home	Savings	Net After Savings
\$100	\$20	\$80	\$10	\$70

After the IRS takes it's 20% (\$20) and you save your \$10, you have \$70 left over to pay your bills, buy groceries, etc.

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The next steps show the effect of using a TSA *instead of* a bank or credit union.

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TSA Paycheck Example with a TSA (10% of Gross)

Gross	TSA Savings	Adjusted Gross	With Tax	Net After Savings
\$100	\$10			

We'll move your \$10 after-tax savings (deduction) to a pre-tax TSA (reduction).

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TSA Paycheck Example with a TSA (10% of Gross)

Gross	TSA Savings	Adjusted Gross	With Tax	Net After Savings
\$100	\$10	\$90		

With this shift, the Adjusted Gross is now \$90.

One important thing to remember about a TSA is, the money comes out **before it is taxed!**

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TSA Paycheck Example with a TSA (10% of Gross)

Gross	TSA Savings	Adjusted Gross	With Tax	Net After Savings
\$100	\$10	\$90	\$18	

The new tax would be 20% of \$90... or \$18.

Tax was \$20 without a TSA.

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TSA Paycheck Example with a TSA (10% of Gross)

Gross	TSA Savings	Adjusted Gross	With Tax	Net After Savings
\$100	\$10	\$90	\$18	\$72

After the IRS takes their \$18 and you save \$10 in your TSA, your new take home pay has INCREASED by \$2..

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The next steps show the effect of increasing your contribution to a TSA.

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TSA Paycheck Example with a TSA Increase

Gross	TSA Savings	Adjusted Gross	With Tax	Net After Savings
\$100	\$12.50			

Let's increase the \$10 TSA (reduction) by 25% so it becomes \$12.50.

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TSA Paycheck Example with a TSA Increase

Gross	TSA Savings	Adjusted Gross	With Tax	Net After Savings
\$100	\$12.50	\$87.50		

The Adjusted Gross is now \$87.50.

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TSA Paycheck Example with a TSA Increase

Gross	TSA Savings	Adjusted Gross	With Tax	Net After Savings
\$100	\$12.50	\$87.50	\$17.50	

The new Withheld Tax is now \$17.50.

That's 20% of \$87.50.

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TSA Paycheck Example with a TSA Increase

Gross	TSA Savings	Adjusted Gross	With Tax	Net After Savings
\$100	\$12.50	\$87.50	\$17.50	\$70

Your new take home pay is now \$70. You've INCREASED your TSA savings to \$12.50, but your take home pay remains the same!

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TSA Paycheck Example with a TSA Increase

Gross	TSA Savings	Adjusted Gross	With Tax	Net After Savings
\$100	\$12.50	\$87.50	\$17.50	\$70

That's how a TSA works. By shifting funds into a pre-tax position, you can increase your savings without changing your take home pay.

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But how would you know the \$12.50 pre-tax TSA contribution would equal the same take home pay?

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There is a formula used for figuring pre-tax contributions.

The amount of the contribution (\$10)

Divided by the opposite of the tax bracket (20%/80%)

It would look like this: **$\$10 \div .80 = \12.50**

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Let's take it one step further...

What if you were in the 25% tax bracket and the amount of the contribution was \$100?

It would look like this: **$\$100 \div .75 = \133.33**

It only costs you (out of your pocket) \$100 to save \$133 into your TSA!

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If you were paid 12 times a year and saved \$100 per pay period into a bank or credit union, you would have \$1,200 at the end of that year AND you would have to pay taxes on the interest.

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If you saved that same \$100 into a TSA, it would be \$133 per pay period (your out of pocket would be the same \$100).

$$\mathbf{\$133 \times 12 = \$1,596}$$

That would equal \$396 MORE in your savings
AND your taxes are deferred!

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So which would you rather have?

\$1,200

in a bank/credit union

1-2% Interest

Pay year-end taxes

-OR-

\$1,596

in a TSA

5% Interest*

No year-end taxes

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* Rates could be higher or lower, it depends on whether the TSA is fixed, indexed or variable.

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Now, lets take this one step further –
Let's use an Index Universal Life in
conjunction with a TSA and see how it
turns out.

Case Study -

Jane Doe

Female age 44, single

\$68,400 annual salary

Paid 12 times per year – monthly

No TSA

Calculations	Current
Tax Filing Information	
Federal Status/Allow	S/0
State Allowances	0
Incomes	
Gross Income/Paycheck	\$5,200.00
Additional Income	\$0.00
Summer Pay	\$0.00
Pre-Tax Withdrawals	
Pre-Tax 125	\$165.00
401(k)	\$0.00
	0%
TSA	\$0.00
	0%
Pension	\$416.00
Total Taxable	\$4,619.00
Taxation	
Federal Taxes	\$762.56
State Taxes	\$298.33
Local Tax	\$0.00
FICA	\$312.17
Medicare	\$73.01
Marginal Tax Bracket	32%
Tax Savings	N/A
After-Tax Deductions	\$325.00
Net Pay	\$2,847.93

Jane Doe's Paycheck

No TSA

The Pension is for the South Carolina Retirement System – 8% automatically taken out.

She has after-tax deductions of:

\$200 savings in Credit union

\$75 loan pay back

\$50/mo for \$50k of term insurance

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Calculations	Proposed #1
Tax Filing Information	
Federal Status/Allow	S/2
State Allowances	2
Incomes	
Gross Income/Paycheck	\$5,200.00
Additional Income	\$0.00
Summer Pay	\$0.00
Pre-Tax Withdrawals	
Pre-Tax 125	\$165.00
401(k)	\$0.00
	0%
TSA	\$370.00
	0%
Pension	\$416.00
Total Taxable	\$4,249.00

The first thing we did is reposition her Credit Union deduction from \$200 to \$370 into the TSA.

That's an increase of \$170 per paycheck.

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Taxation	
Federal Taxes	\$505.48
State Taxes	\$230.43
Local Tax	\$0.00
FICA	\$312.17
Medicare	\$73.01
Marginal Tax Bracket	32%
Tax Savings	\$324.98
After-Tax Deductions	\$263.20
Net Pay	\$2,864.71

The next step is to put in the products that Jane requested. These changes are in the After-Tax Deductions, she now has:

- \$188.20 – IUL Plan that provides \$150,000 face amount , plus \$9000/YR tax free retirement income.
- \$75 – Loan payback

Total of - \$263.20

A monthly increase of:

\$138.20

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What we have accomplished for Jane Doe:

Increased her savings from \$200 to \$370 (\$170 more)

Increased her life insurance protection from \$50k to \$150k, but this also increased her premium from \$50 to \$188.20.

Jane also has additional retirement income of \$9000 per year TAX FREE!

And she still has her \$75 loan payback

Calculations	Current	Proposed #1
Tax Filing Information		
Federal Status/Allow	S/0	S/2
State Allowances	0	2
Incomes		
Gross Income/Paycheck	\$5,200.00	\$5,200.00
Additional Income	\$0.00	\$0.00
Summer Pay	\$0.00	\$0.00
Pre-Tax Withdrawals		
Pre-Tax 125	\$165.00	\$165.00
401(k)	\$0.00	\$0.00
	0%	0%
TSA	\$0.00	\$370.00
	0%	0%
Pension	\$416.00	\$416.00
Total Taxable	\$4,619.00	\$4,249.00
Taxation		
Federal Taxes	\$762.56	\$505.48
State Taxes	\$298.33	\$230.43
Local Tax	\$0.00	\$0.00
FICA	\$312.17	\$312.17
Medicare	\$73.01	\$73.01
Marginal Tax Bracket	32%	32%
Tax Savings	N/A	\$324.98
After-Tax Deductions	\$325.00	\$263.20
Net Pay	\$2,847.93	\$2,864.71
<i>Estimated Change in Take Home Pay:</i>		\$16.78

After the TSA savings and the IUL Plan increases Jane actually took home \$16.78 MORE than she did BEFORE we did our planning.

So what did it actually cost her?

NOTHING!

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For more information about how to use a Tax Sheltered Annuity or how to use a Tax Sheltered Annuity with an Index Universal Life for ultimate tax savings, please contact us.

No pressure – No Obligation

NMIN **Advisor**

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