



The Roth contribution option

For retirement plans

Contents

1 The Roth contribution option savings choice

Learn about the differences between pretax and after-tax contributions

4 Comparing Roth after-tax and pretax contributions

How each type of contribution stacks up

5 When is the Roth contribution option right for you?

Find out if it fits in to your retirement savings plan

6 Frequently asked questions

Find answers to commonly asked questions and concerns

8 About TIAA

9 Take the next step

Contact us by phone, email or in person

The Roth contribution option savings choice

Now that your employer offers a new way to save for retirement, you can learn about the Roth contribution option and decide whether it is the right savings choice for your situation.

The Roth contribution advantage

With the Roth contribution option, your contribution is taken out of your paycheck after your income is taxed; this does not lower your current taxable income. You might be wondering why contributing after-tax income would be to your advantage. Your after-tax contributions, and the earnings on them, are tax free upon withdrawal in retirement provided certain conditions, discussed below, are met.

You pay taxes now with a Roth contribution.

Unlike traditional pretax contributions, withdrawals of Roth contributions are always tax free since you have already paid the taxes when the contributions were made.

You pay taxes later with a traditional contribution.

Traditional pretax contributions give you a tax break now by lowering your current taxable income. You pay taxes on your contributions or any earnings when you take the money out, typically in retirement. Upon withdrawing money from the account, you pay ordinary income taxes on the amount withdrawn.

Should you pay taxes now or later?

This depends on your situation. Generally, if you anticipate being in a higher tax bracket during retirement, you may benefit from making Roth contributions. If you think you'll be in a lower tax bracket at retirement, pretax contributions may be the way to go. Either way, consider taking advantage of your employer's retirement plan and start saving today.

Because of the tax implications associated with traditional pretax and after-tax contributions, you should consult with a tax advisor regarding your situation.

The benefits of diversification

You often hear about the importance of diversification when investing: spread your funds across asset classes and don't put all your eggs in one basket. Roth contributions are another way of diversifying your investments, but on an after-tax basis.

It's difficult to say what your tax situation will be at retirement and what changes the government will make. The Roth contribution option savings feature could potentially reduce the amount of tax you pay in retirement by balancing out other sources of taxable income.

A Roth contribution might be the right option if you:

- Are just starting out and are currently in a lower tax bracket than you expect to be at retirement
- Want to make Roth contributions that are greater than the Roth IRA contribution limit
- Are not eligible to make Roth IRA contributions because your income exceeds the limits
- Believe your income tax rates are likely to rise in the future
- Want to hedge against the uncertainty of future tax rates by having both pretax and after-tax assets in your retirement account
- Are interested in passing a portion of your retirement assets tax free to your heirs

Conditions for withdrawal

Roth contributions are made with after-tax dollars. Earnings can be distributed tax free if distribution is no earlier than five years* after contributions were first made, and when you meet at least one of the following conditions**:

- Age 59½ or older
- Permanently disabled
- Deceased

In the event of your death, your beneficiaries may make withdrawals anytime. The availability of withdrawals may also depend on your employer's plan terms.

Governmental 457(b) plans only: Tax-free withdrawals of your Roth contributions and earnings can be made following separation from service or attainment of age 72 and at least five years after you make your first contribution (or by your beneficiaries if you are deceased).***

* The five-year period begins on the first day of the year in which you make your first contribution to your Roth account in the Plan.

** Nonqualifying withdrawals of Roth earnings that don't meet the above conditions are taxable, and earnings withdrawals are subject to ordinary income tax rates. A 10% federal tax penalty may apply if the participant is younger than age 59½.

*** The age at which required minimum distributions (RMDs) must begin has increased from age 70½ to age 72 for individuals who attain age 70½ after December 31, 2019 (those who attained age 70½ before this date are not affected and will continue to be subject to RMDs).



Comparing Roth after-tax and pretax contributions

Let’s compare the differences between making a \$3,000 annual Roth after-tax contribution versus making a \$4,000 pretax contribution to your retirement plan.

We show the potential future value of the contributions over 20 years and assume you earn an annual return of 6%. The actual future value of your account will depend on what your tax bracket is before and after you retire. The bottom three rows of the chart reveal three possible scenarios. Try to estimate which one best reflects your present and future tax situation.

It’s difficult to predict what your future tax situation will be, but you’ll want to estimate that as best as you can, and also take into consideration what type of contribution will help your current tax situation.

If you expect your tax bracket to increase, the Roth contribution option will clearly make more financial sense. If you predict the reverse, pretax contributions will benefit you more in the long run.

	Roth after-tax contributions	Pretax contributions
Your annual contribution	\$3,000	\$4,000
		

Track your potential account values

Account value in 20 years	\$116,978	\$155,971
Scenario 1: Future account value (after taxes paid)—assuming 25% bracket before and after retirement	\$116,978	\$116,978
Scenario 2: Future account value (after taxes paid)—assuming 25% bracket while working and 30% bracket after retirement	\$116,978	\$109,180
Scenario 3: Future account value (after taxes paid)—assuming 25% bracket while working and 20% bracket after retirement	\$116,978	\$124,777

This illustration is hypothetical and not intended to represent the performance of any specific investment product and cannot be used to predict or project investment performance. Charges and expenses that would be associated with an actual investment are not reflected.

When is the Roth contribution option right for you?

You want to make higher after-tax contributions

You can contribute up to the maximum allowable limit set by the IRS each year. Then, if you meet the IRS income limits, you may also be eligible to contribute to a Roth IRA.

You expect to be in a higher tax bracket when you retire

It may be difficult to predict what your tax situation will be in the future. But, if you think you will be in a higher tax bracket in retirement than you are right now, you may want to consider the Roth option. You will pay taxes on the contributions now—potentially at a lower tax rate—and then receive your assets tax free when you're in the higher tax bracket.

You earn too much to contribute to a Roth IRA

If you earn more than what the income limits allow for contributing to a Roth IRA, you might want to consider making Roth contributions to your retirement plan since there are no income limits.

You want to pass on tax-free income to your heirs

If you are near retirement and believe you will have more than enough savings to meet your immediate retirement income needs, Roth contributions may be a way you can pass some of your retirement assets to your beneficiaries tax free, under certain circumstances.

Now that you have a better understanding of the new Roth contribution savings option, you may be in a better position to decide whether Roth contributions will benefit you.

Because of the tax implications associated with traditional pretax and after-tax contributions, you should consult with a tax advisor regarding your situation.

Frequently asked questions

Making Roth contributions

Q: How do I sign up?

A: To add the Roth contribution option to your account, ask your employer for a new salary deferral agreement which includes the Roth option.

Q: What if I don't have an existing account with TIAA?

A: Your employer can help you enroll with TIAA.

Q: Will my Roth contributions go into my plan account as after-tax deferrals?

A: Yes.

Q: How much can I contribute using the Roth contribution option?

A: The Internal Revenue Service announces contribution limits each year. In addition to regular contributions, you also may contribute an additional amount if you are age 50 or over. You can make any combination of pretax and after-tax Roth contributions to your plan as long as your total does not exceed the IRS limit. Visit www.irs.gov for this year's limits.

Q: Are there income limits with the Roth option?

A: No. The income limits that apply to your ability to make a Roth IRA contribution do not apply to the Roth contribution option in your retirement plan.

Q: Can my employer match my Roth contributions?

A: If your employer makes a matching contribution, your account will accept the funds, but the employer contributions will be made on a pretax basis. Therefore, you will owe income tax on the employer-matching contributions and any earnings upon withdrawal.

Withdrawing money from your Roth account

Q: When can I withdraw money from my Roth account?

A: You can withdraw money once you have reached your five-year time frame requirement

Q: How is the five-year time frame for my Roth contributions determined?

A: The five-year period begins on the first day of the year in which you make your first Roth contribution to your retirement or deferred compensation account.

Q: When can I take a tax-free withdrawal from my Roth balance?

A: You can make a tax-free withdrawal of your Roth contributions and earnings from your 403(b) or 401(k) plan when you meet one of the following conditions:

- Age 59½ or older
- Permanently disabled
- Deceased

Q. What happens to my Roth contribution when I die?

A. In the event of your death, your beneficiaries may make withdrawals anytime. The availability of withdrawals may also depend on your employer's plan terms.

Q: Are Roth assets subject to IRS required minimum distribution rules?

A: Yes. If you participate in a retirement or deferred compensation plan—including plans offering the Roth contribution option—you are generally required to take minimum distributions at age 72. If you continue working at the same employer past the age of 72,* you are not required to take your first minimum distribution until April 1 following the year you retire from that employer.

The Roth IRA, on the other hand, is not subject to required minimum distributions, and you can roll over your Roth retirement plan option contributions to a Roth IRA. If you do that prior to the required distribution start date, you won't be required to make any withdrawals.

Rolling over money from your Roth account

Q: What do I need to know about rolling over Roth contribution balances into a Roth IRA?

A: If you roll over your Roth retirement balances from your plan into a new Roth IRA, your five-year time frame for the Roth IRA begins on the date you roll over the Roth retirement plan balances. Your five-year period is not carried over to the Roth IRA with the money. On the other hand, if you roll over savings into an established Roth IRA, the five-year Roth IRA period begins with the date you make your first contribution to a Roth IRA and is unaffected by the transfer of Roth retirement plan option balances into the account.

Q: Can I roll over my Roth savings from one employer's plan to another?

A: Yes. You can roll over your Roth savings in your 403(b) or 401(k) retirement plans to another retirement plan if the new plan accepts the funds. Check with your previous employer to see if your funds are available to be rolled over and check with your new employer to make sure their plan can accept them before you start the process.

Q. Can I roll over my Roth contribution earnings if I have a governmental 457(b) plan?

A. No. Rollovers of Roth contributions and earnings from governmental 457(b) plans to other retirement or deferred compensation plans are currently not allowed.

* The age at which required minimum distributions (RMDs) must begin has increased from age 70½ to age 72 for individuals who attain age 70½ after December 31, 2019 (those who attained age 70½ before this date are not affected and will continue to be subject to RMDs).

About TIAA

TIAA is a full-service financial services organization and a leading provider of retirement benefits to those in the academic, medical, cultural and research fields.

Your financial well-being is our top priority, and we can help guide you to the financial future you desire.

We are committed to pursuing competitive returns. We keep our fees low* to help our participants maximize their investments and ensure more of their money is working hard for them. We offer personalized advice** from knowledgeable professionals. And most importantly, we leverage our knowledge and expertise to provide retirement income solutions that guarantee our participants won't outlive their income.***

* Applies to mutual fund and variable annuity expense ratios.

Source: Morningstar Direct, March 31, 2020. 75% of TIAA-CREF mutual fund products and variable annuity accounts have expense ratios that are in the bottom quartile (or 96.02% below median) of their respective Morningstar category.

Our mutual fund and variable annuity products are subject to various fees and expenses, including but not limited to management, administrative, and distribution fees; our variable annuity products have an additional mortality and expense risk charge.

** Personalized advice is offered for the retirement plan investment options and Investment Solutions IRAs using an independent third-party tool.

*** Applies to fixed annuity products only. Any guarantees under annuities issued by TIAA are subject to TIAA's claims-paying ability.

Take the next step

You can contact TIAA today for more information or to open an account. It's easy to reach us:

By phone

You can contact us at **800-842-2273** to speak with one of our experienced consultants. They are available weekdays, 8 a.m. to 10 p.m. and Saturday, 9 a.m. to 6 p.m. (ET).

Online

Visit us at **TIAA.org** to explore the many ways that we can serve your financial needs. To send an email message to us, just click *Contact Us* at the top of the home page.

In person

You can arrange a one-on-one meeting with a TIAA consultant if your employer's plan offers this as an option. Just log in to **TIAA.org/schedulenow** or call **800-732-8353** to schedule an appointment at the TIAA office nearest you. You can also check with your employer's human resources department to find out when a TIAA consultant will be visiting your workplace.



This material is for informational or educational purposes only and does not constitute investment advice under ERISA. This material does not take into account any specific objectives or circumstances of any particular investor, or suggest any specific course of action. Investment decisions should be made based on the investor's own objectives and circumstances.

The tax information contained herein is not intended to be used, and cannot be used by any taxpayer, for the purpose of avoiding tax penalties that may be imposed on the taxpayer. It was written to support the promotion of the products and services addressed herein. Taxpayers should seek advice based on their own particular circumstances from an independent tax advisor.

Investment products, insurance, and annuity products are not FDIC insured, are not bank guaranteed, are not deposits, are not insured by any federal government agency, are not a condition to any banking service or activity and may lose value.

Investment products may be subject to market and other risk factors. See the applicable product literature, or visit [TIAA.org](https://www.tiaa.org) for details.

You should consider the investment objectives, risks, charges, and expenses carefully before investing. Please call 877-518-9161 or log on to [TIAA.org](https://www.tiaa.org) for underlying product and fund prospectuses that contain this and other information. Please read the prospectuses carefully before investing.

TIAA-CREF Individual & Institutional Services, LLC, Member FINRA, distributes securities products. Annuity contracts and certificates are issued by Teachers Insurance and Annuity Association of America (TIAA) and College Retirement Equities Fund (CREF), New York, NY. Each is solely responsible for its own financial condition and contractual obligations.

©2020 Teachers Insurance and Annuity Association of America-College Retirement Equities Fund, 730 Third Avenue, New York, NY 10017