



# The Roth contribution option

For retirement plans



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## The Roth contribution option

Is the Roth contribution savings option right for you? 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.

You may be familiar with how pretax contributions work through your current retirement plan—your contributions are made on a pretax basis. This means the money comes out of your paycheck before your income is taxed, which lowers your taxable income.

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

When you withdraw funds from your 403(b) or 401(k) retirement plan, you won't pay taxes on any earnings on the Roth contributions, as long as you're at least age 59½ or disabled, and your withdrawal is made at least five years after making your first Roth contribution.\* For governmental 457(b) plans, withdrawals are allowed only following separation from service or attainment of age 70½. And like 403(b) and 401(k) plans, you won't pay taxes on any earnings if your withdrawal is made at least five years after making your first Roth contribution. Withdrawals of Roth contributions in all cases are always tax free since you have already paid the taxes when the contribution was made.

\* 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.

Making traditional pretax contributions, on the other hand, gives you a tax break now by lowering your current taxable income. You don't pay taxes on your contributions or any earnings until 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 Upon withdrawing money from the account, you pay ordinary income taxes on the amount withdrawn.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?** As usual, it 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.

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. Well, 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.\*

## You may benefit 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

\* Keep in mind that TIAA group of companies does not provide tax advice and you should consult your tax advisor regarding your particular situation. Diversification is a technique to help reduce risk. It is not guaranteed to protect against loss.

# Comparing Roth after-tax and pretax contributions

The following table will help you compare the differences between making a \$3,000 annual Roth after-tax contribution and a \$4,000 pretax contribution to your retirement plan. **The net impact to your take home pay within this scenario will be the exact same.** We show the potential future value of the contributions over 20 years and assume you earn an annual return of 6%. The 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. 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
Annual contribution	\$3,000	\$4,000
Annual tax savings	\$0.00	\$1,000
Effect on annual income	(\$3,000)	(\$3,000)
Future account value	\$116,978	\$155,971
Future account value (after taxes paid) - assuming 25% bracket before and after retirement	\$116,978	\$116,978
Future account value (after taxes paid) - assuming 25% bracket while working and 30% bracket after retirement	\$116,978	\$109,180
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.

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.



## Frequently asked questions

### Making Roth contributions

**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](http://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.

**Q: If I choose to make Roth contributions, can these contributions go into my plan account as after-tax Roth elective deferrals?**

**A:** Yes. To add the Roth savings option to your account, you only need to complete a new salary reduction agreement with your employer. If you do not have an existing account with TIAA, you will also need to complete a TIAA enrollment form.

## Withdrawing money from your Roth 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 once you reach age 59½ and at least five years after you make your first contribution, or if you're disabled. 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. Tax-free withdrawals of your Roth contributions and earnings from a governmental 457(b) plan can be made following separation from service or attainment of age 70½, and at least five years after you make your first contribution (or by your beneficiaries if you are deceased).

**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. Also, if you roll over your savings to another employer's retirement plan, you keep your original start date.\*

\* Rollovers of Roth contributions and earnings from governmental 457(b) plans to other retirement or deferred compensation plans are currently not allowed.

**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 70½. If you continue working at the same employer past the age of 70½, 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.

Keep in mind that 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.\*

\* Rollovers of Roth contributions and earnings from governmental 457(b) plans to other retirement or deferred compensation plans are currently not allowed.

# 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.

## Next steps to consider

You can contact us today for more information or if you are considering opening 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.



## 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, 2017. The expense ratio on all mutual fund products and variable annuity accounts managed by TIAA-CREF is generally less than half the mutual fund industry average. 60% are less than half their respective Morningstar Universe average and 50% are less than half their respective Morningstar Universe median.

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. (03/31/2017)

\*\* 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.



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

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