



The Roth contribution option: A new way to save for retirement

What is a Roth contribution option?

In the plan, your pretax contributions have the potential to accumulate tax deferred and withdrawals are taxable.¹ With the Roth option, your after-tax contributions have the potential to accumulate tax free. Withdrawals after age 59½ are tax free if distribution is no earlier than five years after contributions were first made. These tax benefits are similar to a Roth IRA. Additionally, Roth contributions allow higher contribution limits than a Roth IRA.

Consider a Roth contribution if you:	Roth contribution benefits
Are not eligible to make Roth IRA contributions because of high income	The Roth option does not have adjusted gross income (AGI) limits.
Would like to make Roth contributions greater than the Roth IRA limit	In 2020, the contribution limit for a 403(b) account (\$19,500) is higher than the limit for a Roth IRA (\$6,000), letting you increase your after-tax retirement savings.
Feel confident your retirement income needs are met and want to leave a potential tax-free legacy	Assets may be passed along to your beneficiaries income tax free.
Would like to help protect retirement assets from potential tax consequences	Having both pretax and after-tax assets in retirement accounts may provide a hedge against the uncertainty of future tax rates.
Are just starting out and in a lower tax bracket	The earlier you start, the more time you give your money to work for you. Also, withdrawals from a Roth are typically tax free. ²

The TIAA group of companies does not offer tax advice. See your tax advisor regarding your particular situation.

Is the Roth contribution option right for you?

While it's difficult to predict what your future tax situation may be, you'll want to estimate as best as you can, taking into consideration the best choice for your current tax circumstances and how they may change over time. If you anticipate a higher tax rate, an after-tax option might be considered since taxes are already paid on your contributions. If a lower tax rate is anticipated, a pretax contribution option might be considered if you expect to benefit from a lower tax bracket. You may want to consult your tax advisor.

1. Distributions from 403(b) plans before age 59½, severance from employment, death, or disability may be prohibited, limited, and/or subject to substantial tax penalties. Different restrictions may apply to other types of plans.
2. Withdrawals of earnings prior to age 59½ are subject to ordinary income tax and a 10% penalty may apply. Earnings can be distributed tax free if distribution is no earlier than five years after contributions were first made and you meet at least one of the following conditions: age 59½ or older or permanently disabled. Beneficiaries may receive a distribution in the event of your death. For governmental 457(b) plans, withdrawals are only allowed following separation from service or when you reach age 70½.

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What is a Roth in-plan conversion option?

You now have the opportunity to convert some (or all) of your pretax retirement plan savings to Roth 403(b) with the Roth 403(b) in-plan conversion feature. Speak with your tax advisor before you make the decision to convert to Roth 403(b) within the plan because there are important items, such as tax implications, to consider.

How does it work:

- Your elective deferrals (pretax contributions and earnings on those contributions) are eligible for in-plan conversion.
- Roth 403(b) in-plan conversions are limited to once per calendar year and cannot be reversed after the transfer is made.
- The amount converted is treated as taxable income in the year of conversion. You will be responsible for paying taxes on the full amount of the conversion. No taxes are withheld from your account as part of the conversion.

Before electing a Roth in-plan conversion, you should consult your personal tax advisor to ensure this strategy is consistent with your overall personal financial goals.

Other things to consider:

There is a five-year holding period required for tax-free withdrawal of Roth 403(b) savings from retirement plans.

The five-year period begins as soon as you convert to Roth 403(b) within your retirement plan or when you make your first Roth 403(b) salary deferral, if earlier. However, you still have to meet other qualifications for the tax-free withdrawal: be age 59½, no longer employed with the associated employer, disabled or deceased.

Another five-year holding period is used to determine whether a 10% recapture tax is applicable when you take a distribution of converted amounts. This five-year period is independent of the five-year period discussed above for the tax-free distributions of earnings. If you are under age 59½, the 10% early distribution penalty is waived at the time of conversion. However, if you withdraw any of the converted amount within five years of the conversion and you are still under age 59½ at the time of the withdrawal, you will owe the 10% early distribution penalty that was waived at the time of the conversion (“recaptured”) on the amount withdrawn unless an exception applies, e.g., disability.

There is a five-year holding period, which is applied separately to each Roth in-plan conversion.

Getting started

Enrolling in the Roth contribution option is easy, should you choose to do so. Simply complete and submit a new salary deferral agreement Human Resources office. Visit [TIAA.org](https://www.tiaa.org) to learn more about the investment choices available through the plan.

If you have questions about the Roth contribution option, call TIAA at **800-842-2252**, weekdays, 8 a.m. to 10 p.m. and Saturday, 9 a.m. to 6 p.m. (ET), or visit [TIAA.org](https://www.tiaa.org). We look forward to helping you as you plan for—and live well in—retirement.



Note: Roth contributions are included in your maximum contribution limits, plus any catch-up limits, if applicable.

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