



The Roth contribution option

For retirement plans

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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 Upon withdrawing money from the account, you pay ordinary income taxes on the amount withdrawn.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.

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**:

w Age 59½ or older w Permanently disabled w 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

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 proffer investment pr,180

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:

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

A.

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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 [TIAAorg](https://www.tiaa.org)

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