Introducing the after-tax Roth contribution option

September 16, 2019

Today's agenda

- The after-tax Roth contribution option
- Why the after-tax Roth contribution option may be right for you
- Comparing after-tax Roth contributions and pretax contributions
- Frequently asked questions
- Take the next step

The after-tax Roth contribution option

- After-tax Roth contributions are taken from your paycheck after taxes.
- With the Roth option, your after-tax contributions have the potential to accumulate tax free upon withdrawal, if certain conditions are met.
- Withdrawals after age 59½ are tax free if the distribution is no earlier than five years after contributions were first made.*
- As of July 1, 2019, Roth after-tax contributions will be accepted in the:
  - 403(b) Supplemental Tax Deferral Plan and 457(b) Public Deferred Compensation Plan** within the IRS calendar year contribution limits
- You can start, stop, increase or decrease your contribution at any time. Changes are effective the next available pay period.
- To change contribution elections, go to **TIAA.org/cmich** and click *Log In.*

*Withdrawal 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.

**Roth contribution option is not available in the 403(b) Basic Retirement Plan (CMU's contribution).

The after-tax Roth contribution option

Who might benefit from the after-tax Roth contribution option?

- Just starting out in a lower tax bracket
- Want to make after-tax Roth contributions greater than Roth IRA limit
- Current income exceeds eligibility for Roth IRA contributions
- Believe income tax rates are likely to rise
- Hedge against uncertain future tax rates
- Wish to pass a portion of retirement assets to heirs
- Expect large one-time need in retirement
- Tax diversification upon withdrawal*

*The TIAA group of companies does not give tax or legal advice. See your tax advisor regarding your particular situation. Diversification is a technique to help reduce risk. It is not guaranteed to help protect against loss.

Why the after-tax Roth option may be right for you

You want to make higher after-tax contributions

- Maximize your after-tax savings up to the allowable IRS limit
- You may also contribute to a Roth IRA

You expect to be in a higher tax bracket in retirement

- Pay taxes on the contributions now—potentially at a lower tax rate
- Receive assets tax free when you're in a higher tax bracket

You earn too much to contribute to a Roth IRA

- After-tax Roth contributions to your retirement plan have no income limits

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

- After-tax Roth contributions may be tax free for your beneficiaries under certain circumstances

Consult with you tax advisor regarding your situation.

Comparing after-tax Roth and pretax contributions

What is the difference between the pretax contribution and the after-tax Roth contribution options?

- Pretax participant contributions made on a pretax basis*
  - Lower your taxable income now
  - Pay taxes on contributions and earnings upon withdrawal, usually in retirement
- After-tax Roth participant contributions taken from paycheck after taxes
  - Do not lower your current taxable income
  - You make contributions after your income is taxed

* 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.

Comparing after-tax Roth and pretax contributions

Should you pay taxes now or later?

- If you anticipate a higher tax bracket in retirement, you may benefit from after-tax Roth contributions.
- If you anticipate a lower tax bracket in retirement, continued pretax contributions may be a better option.

After-tax Roth contributions are another way to diversify

- You may not know today your tax situation at retirement
- Can't predict changes the government will make
- After-tax Roth contributions could potentially reduce taxes in retirement, balance other sources of taxable income

Comparing after-tax Roth and pretax contributions

	Roth 403(b) after-tax contributions	Pretax contributions
Annual contribution	$6,000	$8,000
Current tax savings	$0	$2,000
Effect on annual income	($6,000)	($6,000)
Future account value	$233,956	$311,942
Future account value (after taxes paid) assuming 25% tax bracket before and after retirement	$233,956	$233,956
Future account value (after taxes paid) assuming 25% tax bracket while working and 30% tax bracket after retirement	$233,956	$218,359
Future account value (after taxes paid) assuming 25% tax bracket while working and 20% tax bracket after retirement	$233,956	$249,553

* 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. Chart assumes 6% rate of return and 25% current tax bracket.

Frequently asked questions

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

A: The Internal Revenue Service announces contribution limits each year.

- Any combination of pretax and after-tax Roth contributions up to the IRS limits
- 2019 IRS annual limits: $19,000 under age 50, $25,000 over age 50

Q: Will Central Michigan University make pretax or after-tax Roth contributions?

A: CMU will only make pretax contributions into the 403(b) Basic Retirement Plan.

- Roth contributions are only allowed in the 403(b) Supplemental Tax Deferred Plan and the 457(b) Public Deferred Compensation Plan.

Q: How do I make after-tax Roth contributions to my account?

A: To change contribution elections, go to **TIAA.org/cmich** and click *Log In.*

Frequently asked questions

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

A: Age 59½, no earlier than five years after the first contribution was made, or if you are permanently disabled. Beneficiaries may receive a distribution in the event of your death.

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

A: Period begins on first day of year in which the first after-tax Roth contribution is made to the plan.

- If you roll over your savings to another employer's retirement plan, you keep your original start date.
- If you roll over your savings 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**.
- If you roll over your 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.

Frequently asked questions

Q: Are there income limits with the after-tax Roth option?

A: Roth IRA income limits do not apply to after-tax Roth contributions in the CMU 403(b) Supplemental Tax Deferred Plan and the 457(b) Public Deferred Compensation Plan.

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

A: If you participate in a retirement or deferred compensation plan you are generally required to take minimum distributions at age 70½.

— Roth IRA not subject to required minimum distributions. You can roll over after-tax Roth retirement plan contributions to a Roth IRA but the five-year period does not carry over.

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

A: Rollovers from other plans are allowed (may be subject to different rules in the new plan).

Prior to rolling over assets, you should carefully consider your other available options. You may also be able to leave money in your current plan, roll over money to an IRA, or cash out all or part of the account value. You should weigh each option carefully and its advantages and disadvantages, including desired investment options and services, fees and expenses, withdrawal options, required minimum distributions, tax treatment, and your unique financial needs and retirement plan. You should seek the guidance of your financial professional and tax advisor prior to rolling over. Learn more at **TIAA.org/knowyouroptions**.

Take the next step

Contact TIAA for more information or help

Phone

Call TIAA at **800-842-2776** to speak with a financial consultant, weekdays, 8 a.m. to 10 p.m. and Saturday, 9 a.m. to 6 p.m. (ET).

Online

Go to **TIAA.org/cmich**

In person

Schedule a one-on-one consultation. Go to **TIAA.org/schedulenow** or call **800-732-8353**, weekdays, 8 a.m. to 8 p.m. (ET) to schedule an appointment.

Questions?

This material is for informational or educational purposes only and does not constitute a recommendation or investment advice in connection with a distribution, transfer or rollover, a purchase or sale of securities or other investment property, or the management of securities or other investments, including the development of an investment strategy or retention of an investment manager or advisor. 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 in consultation with an investor's personal advisor based on the investor's own objectives and circumstances.

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

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.

TIAA-CREF Individual & Institutional Services, LLC, Member FINRA and SIPC, 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.

tiaa.org

©2019 Teachers Insurance and Annuity Association of America-College Retirement Equities Fund, 730 Third Avenue, New York, NY 10017

911783
141033233

BUILT TO PERFORM.
CREATED TO SERVE.