



ROTH 403(b) CONTRIBUTIONS

A NEW WAY TO SAVE FOR RETIREMENT



FINANCIAL SERVICES
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TIAA-CREF: TRUSTED ADVISORS IN RETIREMENT PLANNING

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* Morningstar Direct (February 2008) based on Morningstar expense comparisons by category.

** Our consultants receive no commissions. They are compensated through a salary plus an incentive program.

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THE ROTH SAVINGS CHOICE

Is the Roth savings option right for you? Now that your employer offers a new way to save for retirement, we're here to help you decide whether the Roth 403(b) 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 option, your contribution is taken out of your paycheck after your income is taxed, which does not lower your current taxes. You might be wondering why contributing after-tax would be to your advantage? Well, the benefits of the Roth option features deferred taxes on any earnings and tax-free withdrawals during retirement.

When you withdraw funds from your Roth retirement plan, you won't pay taxes on any earnings, 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.* Withdrawals of Roth contributions are always tax-free since you have already paid the taxes on the contributions.

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 and 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 Upon withdrawing money from the account, you pay ordinary income taxes on the amount withdrawn.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'll 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, take 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, don't put all your eggs in one basket — well, Roth contributions are another way of diversifying your investments, but on a tax basis. It's difficult to say what your tax situation will be at retirement, and what changes the government will make. The Roth 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.

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

COMPARING ROTH AFTER-TAX AND PRETAX CONTRIBUTIONS

The following table will help you compare the differences between contributing after-tax and pretax funds to your retirement plan. We show the potential future value of a \$3,000 annual contribution over 20 years and assume you earn an annual return of 6%. We also assume that you are in the 25% tax bracket while contributing to the account, and when the money is withdrawn.

	Roth After-Tax Contributions	Pretax Contributions
Annual contribution	\$3,000	\$3,000
Annual tax savings	\$0.00	\$750
Effect on annual income	(\$3,000)	(\$2,250)
Future account value	\$116,978	\$116,978
Future account value (after taxes paid)	\$116,978	\$87,733
Future value of tax savings*	\$0.00	\$23,529
Net value after taxes	\$116,978	\$111,262

*The future value of after-tax savings assumes that the \$750 annual tax savings is invested in an account outside of the retirement plan and earns a hypothetical 6% over the period. But keep in mind that the earnings will be taxable each year, so the balance will not grow at the same rate as the tax-deferred plans. By including the reinvestment of the tax savings, you get a better representation of the net differences assuming the same amount of out-of-pocket invested dollars between the two options.

Of course, if we adjust the tax brackets upwards or downwards either during the savings years or at the time of withdrawal, the figures will be different. 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 option?

A: In 2008, you can contribute up to \$15,500 to a 403(b) plan. After 2008, the limit may be adjusted for inflation in \$500 increments. If you are age 50 or older, you can contribute an additional \$5,000 as part of the catch-up provision. You can make any combination of pretax and after-tax Roth contribution to your plan as long as your total does not exceed the limit.

Q: Are there income limits with the Roth option?

A: No. The income limits that apply to the Roth IRA do not apply to a Roth 403(b).

Q: Can my employer match my Roth contributions?

A: Yes. 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 taxes on the employer matching contributions and any earnings upon withdrawal.



Q: If I make Roth contributions at the start of the year and then I change my mind, can those contributions be converted into pretax contributions?

A: No. Any Roth contributions you make cannot be converted into pretax contributions. The reverse is also true: pretax contributions cannot be converted into after-tax Roth contributions. However, you can change the type of future contributions you are making as often as your plan allows.

Q: If I choose to make Roth contributions, can these contributions go into my current pretax account?

A: Yes. To add the Roth savings option to your account, you only need to complete a new salary reduction agreement. If you do not have an existing account, you will also need to complete a TIAA-CREF annuity 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 from your Roth balance once you reach age 59½ and at least five years after you make your first contribution. The availability of withdrawals may also depend on your employer's plan rules.

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

A: The five-year period begins on the first day of the year in which you make your first contribution to your Roth account. Also, if you roll over your savings to another employer's 403(b), you keep your original start date.

In 2008, the combined pretax and Roth contribution limit is \$15,500. If you are age 50 or older, you can contribute an additional \$5,000.

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

A: Yes. If you participate in a 403(b) plan—including plans offering the Roth 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 403(b) plan 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 403(b) balances into a new Roth IRA, your five-year time frame for the Roth IRA begins on the date you roll over the Roth 403(b) account. Your five-year period from your Roth 403(b) account 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 403(b) 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 to another 403(b) 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.

WHY THE ROTH OPTION MAY BE RIGHT FOR YOU

YOU WANT TO MAKE HIGHER AFTER-TAX CONTRIBUTIONS

You can maximize your after-tax savings by contributing up to \$15,500 in 2008 — and an additional \$5,000 if you are age 50 or older — for a total \$20,500 Roth contribution in one year.

Then, if you meet the income limits discussed below, you may also contribute to a Roth IRA, which is \$5,000 in 2008 —plus another \$1,000 if you're age 50 or older—for an additional \$6,000.

Having both allows you to contribute—in one year—a maximum of \$20,500 if you're younger than age 50, and a maximum of \$26,500 if you're age 50 or older.

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, then you may want to choose 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 in 2008— up to \$101,000 for a full contribution, and between \$101,000 and \$116,000 for a partial contribution if you're a single filer, or up to \$159,000 for a full contribution, and between \$159,000 and \$169,000 for a partial contribution for joint filers—you might want to consider making Roth contributions to your 403(b) 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 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.

TAKE THE NEXT STEP

Contact us today for more information, advice or help opening an account. It's easy to reach us:

BY PHONE

Call us at **800 TIAA-CREF (800 842-2273)** to speak with one of our experienced consultants. They are available Monday to Friday from 8 a.m. to 10 p.m. and Saturday from 9 a.m. to 6 p.m. (ET).

ONLINE

Visit us at www.tiaa-cref.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 homepage.

IN PERSON

You can arrange a one-on-one meeting with a TIAA-CREF consultant if your employer's plan offers this as an option. Just log on to www.tiaa-cref.org/moc or call **800 TIAA-CREF (800 842-2273)** to schedule an appointment at the TIAA-CREF office nearest you. You can also check with your employer's human resources department to find out when a TIAA-CREF consultant will be visiting your workplace.

You should consider the investment objectives, risks, charges and expenses carefully before investing. Please call 877 518-9161, or go to tiaa-cref.org for a current prospectus that contains this and other information. Read the prospectus carefully before investing.

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