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*Managing money for people  
with other things to think about.<sup>SM</sup>*



# THE TAX ACT OF 2001

More Savings – More Choices



Understanding the Economic Growth and  
Tax Relief Reconciliation Act of 2001

## Summary of Rules Applying to Distributions from Tax-Favored Products

Under the Internal Revenue Code, distributions from employer-sponsored retirement plans and tax-deferred annuities (TDAs) before age 59½ are available only if you separate from service, become disabled or die, or encounter “hardship” as defined by the IRS. Under retirement plans, TDAs, Roth IRAs, Classic IRAs, and after-tax annuities, pre-59½ withdrawals are subject to an additional 10% tax unless the funds are for unreimbursed medical expenses over 7½% of your adjusted gross income, or in the event of your death or disability. You are also exempt from the 10% penalty if you separate from service and begin lifetime income, or you reach age 55 in that calendar year. Certain IRAs grant additional exceptions for qualified home purchases and higher education costs. Married people may need spousal consent to elect certain beneficiaries and payout options.

TIAA-CREF Individual and Institutional Services, Inc. and Teachers Personal Investors Services, Inc. distribute securities products. TIAA and TIAA-CREF Life Insurance Company, NY, NY, issue our insurance products. Investment products are not FDIC insured, may lose value, and are not bank guaranteed. Returns on any variable annuity, mutual fund or tuition savings product will fluctuate and are not guaranteed. For more complete information on our securities products, including charges and expenses, please call 1 800 842-2733, ext. 5509, for prospectuses and program.

## TIAA-CREF Eligibility Rules

TIAA-CREF IRAs offering our fixed and variable annuity accounts are available if:

- You are employed by an eligible institution, including a college, university, public or private K-12 school, teaching hospital, cultural institution, library, or other nonprofit institution primarily engaged in education or research. Also eligible are trustees (directors) of eligible institutions and retirees age 55 or older who have had at least five years of service with an eligible institution.
- You have a contract with TIAA or CREF for a pension, annuity or individual insurance product, unless the contract was issued by a subsidiary of TIAA-CREF, such as the TIAA-CREF Life Insurance Company or TIAA-CREF Mutual Funds. (Call us at 800 842-2776 if you're not sure.)
- You are the spouse or widow(er) of a person meeting either of the above criteria.

These rules also apply to TIAA-CREF SRAs and employer-sponsored retirement plans. Check with your employer for availability.

# The Economic Growth and Tax Relief Reconciliation Act of 2001

## An Overview of Key Provisions for 2002/2003

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### For More Information

**800 842-2776** (Monday to Friday, 8 am to 11 pm ET, weekends, 9-6) to speak with a TIAA-CREF Consultant.

**[www.tiaa-cref.org](http://www.tiaa-cref.org)**

Click on "Siteline" for articles on the new tax legislation.

## More Savings – More Choices

2001's tax legislation is good news for anyone who wants to build assets for the future. In addition to lowering income taxes across the board and phasing out estate taxes, the new law enhances many tax-deferred retirement and education savings options. Now you can save more money and shelter more from taxes in a wide range of plans, from IRAs and tax-deferred annuities to 529 college savings programs.

With the exception of reduced federal income tax rates for 2001, the provisions described below take effect beginning in 2002. This summary focuses mainly on provisions that apply to the next few years rather than the full 10-year scope of the legislation. For a more complete picture, visit us at [www.tiaa-cref.org](http://www.tiaa-cref.org), where you'll find "Siteline" articles on various aspects of the new law. You can also call us at 800 842-2776 and speak with a TIAA-CREF Consultant to consider additional savings options or assess the law's impact on what you already have. Since taxes can get complicated, you should review any major decisions with an accountant or tax advisor.



## Lower Federal Income Taxes

Effective July 1, 2001, tax rates for the 28% bracket and above decrease by 1%, with two additional 1% reductions scheduled for 2004 and 2006 (i.e., the new 27% rate will drop to 26%, then 25%). The bottom rate drops in 2002 from 15% to 10%. Here's a look at the cuts for **2002/03**:

Single*	Married*	2002/03 Tax Rates
\$0-\$6,000	\$0-\$12,000	10% (new)
\$6,000-\$27,050	\$12,000-\$45,200	15%
\$27,050-\$65,550	\$45,200-\$109,250	27% (from 28%)
\$65,550-\$136,750	\$109,250-\$166,500	30% (from 31%)
\$136,750-\$297,350	\$166,500-\$297,350	35% (from 36%)
Over \$297,350	Over \$297,350	38.6% (from 39.6%)

\* These brackets do not reflect the inflation-adjusted tax tables for 2002-2003 that the IRS releases toward the end of the preceding year. Tax rates are subject to change.

For people filing jointly, the upper income level for the 15% bracket will increase over time, and the standard deduction will gradually rise until, in 2009, it reaches twice the limit for single filers. Benefits related to child credits, alternative minimum taxes, itemized deductions, personal exemptions, and a number of other provisions have also been enhanced.



## Higher Retirement Plan Contribution Limits

### “415” Defined-Contribution Plan Limits

The new law increases the total amount of annual contributions you can make or receive under defined contribution plans, including both employer-sponsored pensions and voluntary tax-deferred plans. As of 2002, this limit will be the lesser of:

- **\$40,000** or
- **100% of your salary.**

The 415 limits for 401(a) (“qualified”) retirement plans and 401(k) plans are calculated separately from 403(b) plans like tax-deferred annuities. (also called tax-sheltered annuities).

If your salary is over \$40,000 and you think your total retirement plan contributions may exceed your \$40,000 415 limit, you can call TIAA-CREF at 800 842-4833 (8 am to 11 pm weekdays) for a calculation. You should also call us if you make less than \$40,000 and you think your contributions may total 100% of your salary.

### Voluntary Tax-Deferred Retirement Savings Plans

Annual limits for voluntary contributions to 403(b) plans (tax-deferred annuities), 401(k) plans, and public 457(b) plans will increase in **2002** to:

- **\$11,000** for those under age 50
- **\$12,000** for those age 50 and over

The 11,000 limit for people under 50 will then go up \$1,000 each year until, in 2006, it reaches \$15,000. “Catch-up” limits for people age 50 and over will also increase over time until they reach \$20,000 in 2006. If you have worked for your employer for 15 or more years, you may be eligible to make additional contributions of up to \$3000 per year.

Beginning January 1, 2002, the new law eliminates the Maximum Exclusion Allowance (MEA) calculations on contributions to 403(b) plans. The limits shown above apply to everyone and are based on your “elective”

403(b) contributions — those which you choose to make each year — as opposed to contributions your employer makes on your behalf or contributions you are required to make in order to participate in your employer's retirement plan. As a result, most people can now figure out how much they want to contribute on their own (assuming they're within the 415 defined-contribution plan limits described above). If you are considering contributions at or near the new maximums, you can call us at 800 842-4833 (8 am to 11 pm weekdays) and we'll check your totals. We can also send you our brochure, *Your Guide to Tax-Deferred Annuities: How Much Can You Contribute?*

### Roth and Traditional IRAs

The new law substantially increases annual IRA contributions:

	Under Age 50	Age 50+
2002-2004	<b>\$3,000</b>	<b>\$3,500</b>

Levels will continue to rise in stages until, in 2008, the limits reach \$5,000 for people under 50 and \$6,000 for people age 50 and older.

The new limits apply to the total you can contribute to Roth and traditional IRAs as well as to the amount that can be deducted from federal income taxes under traditional IRAs.

## Rollovers Among Tax-Deferred Retirement Savings Plans

Beginning in 2002, the new law enables you to roll over assets among three commonly used tax-deferred retirement savings plans:

- **403(b)s** (Tax-Deferred Annuities)
- **401(k)s**
- **Public 457(b)s**

To make a direct rollover, you must first satisfy your current plan's withdrawal rules in order to gain access to the assets you wish to move. For 403(b) and 401(k) plans, withdrawals before age 59½ are generally available only after you leave the employer providing the plan, or meet another "triggering event" such as becoming disabled. Assuming you can access your funds, you can make the direct rollover at any age without being subject to income tax or or early withdrawal penalties at that time. Income taxes will be due when you withdraw your money, and if you are under age 59½, you may also be subject to a 10% early withdrawal penalty on assets resulting from 401(k) or 403(b) contributions. Before making a rollover, make sure the receiving plan will accept rollover money and, since some investment companies have "back-end loads," make sure there are no unexpected costs.



## Other Enhancements to Retirement Plans

### Shortened Retirement Plan Vesting Periods

Starting in 2002, employer matching contributions to retirement plans that require employee contributions must fully vest after three years under “cliff” vesting schedules, or after six years if the contributions vest gradually. (Previously a five- or seven-year vesting limit was required.) “Vesting” is the right to eventually receive benefits resulting from employer contributions, even if the employee leaves the employer before retirement.

### Retirement Savings Tax Credits

From 2002 to 2006, a single filer or married person filing separately whose adjusted gross income (AGI) is less than \$25,000 will qualify for a tax credit on up to \$2,000 in retirement plan contributions. The \$2,000 credit is also available to joint filers with AGIs under \$50,000.

## Education IRAs Reborn as Coverdell

### Education Savings Accounts

Education Savings Accounts are funded with after-tax contributions, but withdrawals for qualified expenses are free from federal taxes. Effective in 2002, the new law enhances Education IRAs, now called Coverdell Education Savings Accounts, in the following ways:

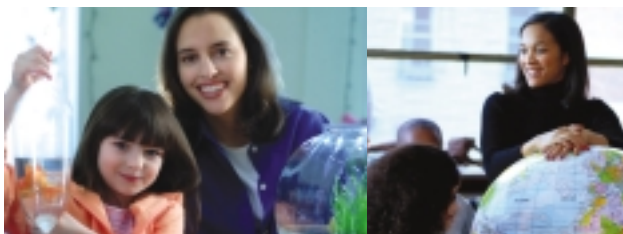
- Contribution limits increase from \$500 to **\$2,000 a year** for each beneficiary.
- Education Savings Accounts, 529 programs, and Hope and Lifetime scholarship credits can be used in the same year.
- Funds can be used for qualified public, private, or religious K-12 school expenses, as well as for higher education.
- The income limit for a \$2,000 contribution for people filing jointly has increased to an AGI of \$190,000. (Phased down contributions to \$220,000.)
- Corporations and tax-exempt organizations can contribute.

## 529 College Savings Programs Enhanced

529 college savings programs are offered through state governments and offer federal and sometimes state tax breaks on higher education savings. The new law adds a range of new benefits to these plans beginning in 2002:

- Qualified **withdrawals are now free of federal taxes**, and in many cases, state taxes as well.
- 529 programs, Education Savings Accounts and Lifetime and Hope scholarship credits can be used in the same year.
- Limits on the use of benefits for room and board have increased.
- Accumulations can be transferred federal income tax-free to the account of beneficiaries' first cousins as well as siblings.
- Accounts can be moved from one program to another for the same beneficiary once every 12 months.
- Account holders can transfer among a program's investment options once per year.

TIAA-CREF Tuition Financing, Inc. serves as investment manager for more states than any other company. (For information, call 888 381-8283.)



## Estate Taxes Phased Out

One of the most significant changes brought about by the new law is the gradual elimination of estate taxes — what a beneficiary owes on an inheritance over a set amount. Here are some of the major federal tax provisions:

- The amount you can inherit before estate taxes apply (“unified credit”) gradually increases over the next 10 years until estate taxes are phased out altogether in 2010.
- The top estate tax rate will gradually decrease to 45% in 2007 (from 55%).
- Estate assets that have increased in value since they were purchased may result in capital gains upon a sale or disposition by the beneficiary and thus could be subject to capital gains taxes. The new law contains provisions for excluding a limited amount of assets from the tax or for transferring assets to a surviving spouse that will help heirs reduce the impact of these taxes.
- The new law gradually reduces gift taxes and creates a \$1 million lifetime gift tax exclusion for gifts over the \$10,000 (single) or \$20,000 (married) annual exclusion.

Estate taxes are inherently complicated and the “sunset provision” described opposite makes them even more so. If you are interested in estate planning or if you anticipate receiving an inheritance, you should definitely consult with a tax attorney or other qualified professional. You should also keep in mind that life insurance and trusts will continue to play a major role in the new estate planning environment.

## Sunset Provision

The law contains one potentially unsettling provision.

Unless Congress votes to continue the Economic Growth and Tax Relief Reconciliation Act, it will expire after 2010.

At that time, tax rates, contribution limits, and other provisions outlined above will revert to the rules in place at the beginning of 2001 unless legislation is passed before 2010 to continue the 2001 Act or to modify it. For example, federal estate taxes, which wouldn't exist at all in 2010, may be due in 2011 on amounts over \$1 million, and the former 55% highest estate tax rate may once more be in place.

The adage “make hay while the sun shines” is probably the best approach to dealing with the uncertainty as to what Congress will do. Put the tax breaks to work on your future now. Look for newly enhanced products to boost your savings, or contribute more to what you already have. Over the next few years, many investment companies may approach you with a similar message, so it's important to keep in mind that the new tax advantages are universal. In considering any changes to your financial plans, make sure you're getting superior investment management, low expenses and objective planning support — in addition to tax advantages.



## TIAA-CREF Can Help

### **800-842-2776**

(Weekdays 8 am to 11 pm ET, Sat/Sun 9-6)

For guidance on choosing among the products offered by the TIAA-CREF companies

### **800 223-1200**

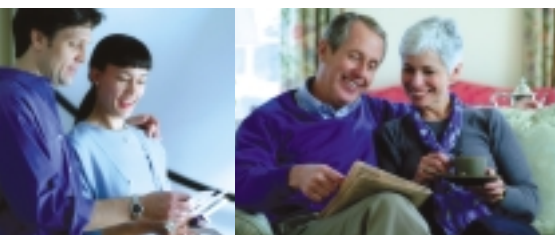
(Weekdays 8 am to 8 pm ET)

For information about Mutual Funds, After-Tax Annuities, Coverdell Education Savings Accounts, and Insurance

### **888 381-8283**

(Weekdays 8 am to 6 pm ET)

For information about 529 College Savings Programs



## Selecting the Right TIAA-CREF Product for Your Goal

On the following pages you will find a chart summarizing key TIAA-CREF product features. Here are some steps you can take to identify the right products for your needs:

- Determine which products you can use. (See “Who is Eligible” sections on chart.)
- Identify the products that offer tax benefits for your goal. Make sure you can get the money when you need it and that early withdrawal penalties won’t offset the benefits.
- Make sure the product enables you to save enough each year to reach your goal — or use a combination of products.
- Compare the appropriate products’ features in light of your financial situation, goals, time frame and preferences. Look at their tax advantages, investment choices, penalties on funds not used for your original goal, and other key features.

PRODUCT	APPROPRIATE FOR
<b>Tax-Deferred Annuities or Tax-Sheltered Annuities (TIAA-CREF SRAs)</b>	Retirement and other goals after age 59½
<b>Classic (Traditional) IRAs</b>	Retirement, education, and first home purchase
<b>Roth IRAs</b>	Retirement, first home and estate building
<b>After-Tax Annuities (TIAA-CREF Personal Annuity Select)</b>	Retirement and other goals after age 59½
<b>Mutual Funds</b>	Any savings goal, particularly short- and medium-term goals
<b>State-Sponsored College Savings (529) Programs</b>	Higher education tuition and expenses
<b>Coverdell Education Savings Accounts (formerly Education IRAs)</b>	K-12 and higher education tuition and expenses

† IRAs offering TIAA-CREF Mutual Funds are open to everyone. You can open an IRA offering TIAA-CREF fixed and variable annuity accounts if you meet the TIAA-CREF eligibility requirements on the reverse side.

# Summary of TIAA-CREF Savings a

WHO IS ELIGIBLE	CONTRIBUTIONS
<p>People whose employers make SRAs or other tax-sheltered annuities available to them</p>	<p>Employer sets aside your contributions directly from salary before taxes. In 2002, the limit for elective contributions to 403(b) plans, including TDAs, is \$11,000 (\$12,000 for people age 50+). The limits increase by \$1,000 in 2003. (See also the 415 limits on page 3.)</p>
<p>Nondeductible and Rollover IRAs are available to everyone.<sup>†</sup> See "Contributions" (opposite) for who can deduct annual contributions from taxes.</p>	<p>\$3,000 a year maximum/\$3,500 age 50+ (for 2002).<sup>*</sup> For people in employer retirement plans, contribution is fully deductible only if AGI<sup>**</sup> in 2002 is \$34,000 or less (\$54,000 or less for joint filers). Reduced deductible contributions from \$34,000-\$44,000 (single) and \$54,000-\$64,000 (joint). No limit on Rollover IRAs. Contributions are deductible for people not in employer retirement plans, although special rules may apply if spouse is in a plan.</p>
<p>People with earned income whose AGI<sup>**</sup> is more than \$2,000 and less than \$110,000 (\$160,000 for joint filers).<sup>†</sup> You can convert Classic IRAs to Roth IRAs if your AGI<sup>**</sup> is less than \$100,000.</p>	<p>Contributions are nondeductible and maximums for 2002/03 are \$3,000 (\$3,500 age 50+).<sup>*</sup> The full amount is available for single filers with AGIs below \$95,000, married people filing singly with AGIs of \$10,000 or less, and joint filers with AGIs below \$150,000. Maximum contributions are gradually reduced for people with AGIs over \$95,000/ \$150,000 until \$110,000/\$160,000 eligibility threshold is reached.</p>
<p>Anyone in U.S.</p>	<p>You can make after-tax investments of any amount you wish.</p>
<p>Anyone in U.S.</p>	<p>You can make after-tax investments of any amount you wish.</p>
<p>Varies by state, although there are no federal income (AGI) restrictions. Many plans allow people from other states to join.</p>	<p>Contributions made after taxes and are not deductible from federal taxes, although they may be deductible for purposes of state income taxes. No annual contribution limit. Lifetime contribution limits range by state from \$100,000 to \$235,000 per beneficiary.</p>
<p>Single filer with AGI<sup>*</sup> of \$110,000 or less, or joint filers with AGI<sup>**</sup> of \$220,000 or less.</p>	<p>\$2,000 a year from after-tax money. Full contributions available to single filer with AGI<sup>**</sup> of \$95,000 or less and joint filers with AGI<sup>**</sup> of \$190,000 or less. Phased down contributions available from \$95,000-\$110,000 (single) or \$190,000-\$220,000 (joint).</p>

\* The most people under 50 can contribute to Roth and Classic IRAs combined is \$3,000 a year, e.g., a \$1,000 Roth contribution reduces what you can contribute to a Classic IRA to \$2,000. The same principle applies to 50+ limits.

# and Investment Products: 2002-2003

## EARNING AND WITHDRAWALS

SRAs offer fixed and variable annuities. Earnings are tax-deferred, with federal income taxes on contributions and earnings applied at withdrawal. Federal restrictions and penalties apply to withdrawals before age 59½ unless exceptions are met. (See note on reverse side.) Many tax-sheltered annuities offer loans.

Earnings are tax deferred, but are subject to income tax upon withdrawal, as are tax-deductible contributions. Although federal penalties generally apply to withdrawals before age 59½, you can take a penalty-free withdrawal at any age to purchase a first home (\$10,000 maximum), or to meet qualified higher education expenses. (For other exceptions to the 10% penalty, see note on reverse side.) State taxes vary.

Since you pay taxes on Roth contributions up front, you can withdraw your original contributions at any age, free of taxes. Provided the Roth IRA is in place for at least five years, you can also withdraw your earnings free of federal taxes after age 59½, or at any age to buy a first home (subject to a \$10,000 maximum). No federal minimum distribution requirements apply.

Your original contributions are available any time. Earnings are tax-deferred. Upon withdrawal, you will owe income taxes on earnings only. Federal penalties apply to earnings withdrawn before age 59½ unless certain exceptions are met. (See note on reverse side.)

In most cases, you pay taxes on Mutual Fund income and investment earnings each year at either income tax or capital gains rates, depending on the source of the proceeds and the duration of the investment. Withdrawals are available at any time for any reason and are subject to taxes in the year they are received. Opening a mutual fund in a child's name (i.e. an UGMA account) may reduce taxes.

Earnings grow tax free. Withdrawals used for qualified higher education costs of the designated beneficiary are free of federal taxes, and in some cases, state taxes as well.

Earnings grow tax free, and withdrawals used for qualified higher education and K-12 education costs are free of federal taxes. (Student must be under thirty.) State tax benefits vary.

\*\* Adjusted gross income (AGI) is the figure on your 1040 tax form used to compute your federal income tax, as modified by the statute governing the particular retirement account or savings plan.

## BEST FOR PEOPLE WHO

- Believe they may be in the same or a lower tax bracket in retirement than now
- Are not eligible for Roth IRAs or deductible Classic IRAs, or want to exceed IRA contribution limits
- Want the convenience of automatic contributions through employer
- May want to borrow against retirement savings (if available)

- Can deduct contributions
- Believe they may be in the same or a lower tax bracket in retirement than now
- May need to draw from retirement savings for education or a first home
- Want to consolidate retirement assets using a Rollover IRA

- Believe they may be in a higher tax bracket when they withdraw the money than now
- May want to access their original contributions before retirement
- May need to draw from retirement savings for a first home
- May want to use their retirement savings for estate building

- Are not eligible for tax-sheltered annuities
- May want to access their original contributions before retirement
- Want to contribute more than the IRA or TSA limit

- Want to save for goals other than retirement and education
- Want to access funds without concern for age limits and IRS penalties
- Want to save in a child's name through an UGMA account
- Prefer the investment portfolios available through mutual funds

- Are fairly certain the savings will be used only for qualified higher education expenses
- Need to save more than \$2,000 a year to meet education goals
- Are not eligible for Coverdell Education Savings Accounts
- Receive state tax benefits by investing in their own state's plan
- Want professional investment managers to set portfolio allocations for them

- Are fairly certain the savings will be used only for qualified education expenses
- Want an education savings plan where they control investment allocations
- Want to save for K-12 education costs as well as college
- Find the \$2,000 adequate, or can use a second savings product