TIAA: A Fossil Fuel Divestor's Guide

Personal primer to getting your retirement funds out of TIAA

By Kathy Hipple, Financial Analyst

As a financial analyst, I have written extensively about the financial case for fossil fuel divestment. Oil and gas stocks have underperformed the market for a decade. As a declining industry, the long-term financial prospects for the sector is bleak. Last year alone, the oil and gas sector declined by 37%, compared to the 16% *increase* in the S&P 500.

As a third-generation educator, I, like most teachers and professors, had a retirement account at TIAA, an institution heavily invested in fossil fuels. And my TIAA mutual fund, despite being called "social choice," included global oil and gas companies (Chevron), pipeline owners (Kinder Morgan, Williams), frackers (EQT, Gulfport), LNG producers (Cheniere) and coal-fired utilities (Southern).

My retirement assets and my investment thesis—along with my personal values around owning fossil fuel companies—were in conflict. I decided to divest from TIAA.

I spent years working at Merrill Lynch. Even so, divestment wasn't simple. But it was important. The following, based on my personal process, may offer a how-to guide to move retirement funds from TIAA. I am not a registered investment advisor or an accountant, and the following is neither investment, nor tax advice. Each reader should consult with their own financial advisors.

1. **Determine *if* you can move your retirement assets out of TIAA**. If you are a teacher or faculty member who has spent your entire career at a single institution, for example, you may have a retirement plan through your employer that does not allow you to divest your TIAA retirement assets in that plan. You may have limited opportunities to select different TIAA funds within your employer's retirement plan, but no ability to move funds out of TIAA while you are employed at the same educational institution. If

you cannot personally divest from TIAA, the site TIAA Divest may offer other options for involvement.

If, however, you have moved from one school to another, or if you have retired, you are eligible to withdraw your funds from TIAA.

2. ***Decide* to move your retirement funds to a non-TIAA retirement account**. It sounds simple, but this is probably the *hardest* part. Once you've made the decision, set a date to begin the process. Hold yourself accountable to follow-through on your decision.

3. **Don't move your retirement funds out of TIAA without a plan.** While the funds in your TIAA retirement account belong to you, it is probably unwise to ask TIAA to simply mail you a check. There are tax consequences to taking your retirement funds out in a lump sum unless they are moved into a qualified retirement fund within a certain time period. For most people, it is better to move funds directly from TIAA into a qualified retirement fund at another financial institution. This is called a roll-over.

4. **Select a financial institution that is worthy of managing your retirement funds**. Most financial institutions offer retirement accounts. But some, like JP Morgan, Wells Fargo, Bank of America, Citibank, are large global financiers of fossil fuel projects. Such financial firms may not be the right choice for you -- especially if your goal is to divest from fossil fuels.

   Some "green" banks and credit unions are certified B corps, which means they are "businesses that meet the highest standards of verified social and environmental performance, public transparency, and legal accountability to balance profit and purpose." Most banks and credit unions offer qualified retirement accounts. This list of "environmentally friendly" B Corp banks and credit unions might be a good place to start your search.

5. **Make sure the financial institution you select offers investment options that meet your personal investment criteria.** Many of the world's largest financial institutions, such as Vanguard and Fidelity, do not offer fossil-free mutual funds or fossil-free ETFs, even if the funds have names such as "sustainable," "social" or "ESG." Some such funds may not meet your personal definition of sustainable, and may even include investments in oil and gas companies, for example.

6. **Use free online tools to learn whether mutual funds or investments offered by your prospective financial firm are truly fossil-free.** *As You Sow* has a free tool, fossilfreefunds.org, that allows you to search for mutual funds that are truly fossil free, such as Parnassus Core Equity Investor or Change Finance US Large Cap Fossil Free ETF

7. **Find an institution that values your business.** This financial firm should charge you minimal, or no, fees to open and maintain your retirement account. Sadly, not all financial institutions are eager to have clients whose net worth is modest. They may have minimum balance requirements. Other institutions may charge large fees for individuals to open or maintain a retirement account. Happily, many financial institutions offer free retirement accounts for individuals.

8. **Make sure trading fees to buy and sell funds or individual stocks are low.** Fees to buy and sell mutual funds, ETFs and individual stocks should be extremely low at your chosen firm. Some full-service brokerage firms may offer you a free retirement account with no annual maintenance fee, but charge high fees to buy and sell investments. Over the past few years, trading/broker fees have declined sharply, with many firms offering free trading. You no longer need to pay high fees.

9. **Open a retirement account at your chosen financial institution.** This can be done in person or online. There are basically two types of individual retirement accounts (IRAs): a traditional IRA and a Roth IRA. (Without over-complicating it, in a traditional IRA, you pay taxes when you withdraw your money -- presumably after you reach retirement

age. With a Roth IRA, you pay taxes on money going into your retirement account, but withdrawals – presumably after you reach retirement age – are tax-free.)

Moving money from a retirement fund set up by your employer to a personal IRA is called a rollover. You can move, or roll over, your TIAA retirement into a traditional IRA or a Roth IRA. If you don't want to pay taxes now, open a traditional IRA. You'll only have to pay taxes when you withdraw the money. Conversely, if you want to pay taxes now, instead of when you withdraw your funds, open a Roth IRA.

(Like death, taxes are certain – it's only a question of whether you want to pay taxes now, when you move your funds out of TIAA into your new account, or later, when you withdraw the funds. This is a personal decision you should make with advice from your accountant.)

10. **Call TIAA (800 842-2252) and tell them you want to move your funds.** You will be asked to provide information about where the funds should be moved, which should be easy now that you've opened your new account. TIAA may need to sell (also called liquidate) specific assets, such as TIAA mutual funds, before the funds can be transferred. Assuming the funds are transferred into a qualified traditional retirement account, there will be no tax issues based on TIAA's sale and transfer of your retirement assets. If you opt to transfer your TIAA retirement assets into a Roth IRA, you must pay taxes on the amount transferred into the account. After a few days, make sure to follow up with both TIAA and your new financial firm to make sure the process has been completed.

    The actual transfer of your money out of TIAA into your new financial institution is normally handled between financial firms. It should take only a few days.

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