

More Tax Flexibility in the TSP

The TSP will soon begin offering all active Federal employees and members of the uniformed services the option to designate some or all of their contributions as Roth contributions. The TSP Roth feature will give participants flexibility in the tax treatment of their contributions now and in the future.

How does Roth TSP compare to Traditional TSP?

Roth contributions are taken out of your paycheck after your income is taxed. When you withdraw funds from your Roth balance, you will receive your Roth contributions tax-free since you have already paid taxes on the contributions. You also 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 5 years after the beginning of the year in which you made your first Roth contribution.

Traditional (pre-tax) contributions, which lower your current taxable income, give you a tax break today. They grow in your account tax-deferred, but when you withdraw your money, you pay taxes on both the contributions and their earnings.

Electing Roth contributions is not an all-or-nothing decision. You can contribute to both your Roth and traditional balances. Roth gives you the opportunity to diversify the tax treatment of the money in your account.

Can Roth benefit you?

Everyone's situation is different. Whether you would be better off making traditional or Roth contributions depends on your income tax rate now and in the future. For example, you might benefit from making Roth TSP contributions if:

- You are in a low tax bracket now, but think your tax rate may be higher in retirement. With Roth, your contributions are taxed at your current lower rate, and you avoid paying taxes at the expected higher rate in the future.
- You are not in a low tax bracket now, but anticipate that your marginal Federal tax rate will increase in the coming years.
- You are a uniformed services member making contributions from tax-exempt pay earned in a combat zone. If you elect Roth contributions, you will not pay taxes on either your Roth contributions or their earnings (as long as you satisfy the age and 5-year holding requirements mentioned earlier).*
- You want tax diversification and see an advantage in making after-tax contributions so that you can have tax-free withdrawals in retirement.

* Tax-exempt contributions that go into your traditional and Roth balances are subject to the Internal Revenue Code 415(c) limit (\$50,000 in 2012). However, only tax-exempt contributions that go into your Roth balance are subject to the elective deferral limit (\$17,000 in 2012).

- You are age 50 or older and deployed to a combat zone while making catch-up contributions. You will be able to continue these contributions if they are Roth contributions. (You can't make catch-up contributions to your traditional TSP balance from tax-exempt pay.)

How does Roth TSP work?

- Money already in your account when you begin making Roth contributions will remain part of your traditional balance. You will not be able to convert it to Roth.
- The combined total of your Roth and tax-deferred traditional contributions in 2012 cannot exceed the elective deferral limit of \$17,000, or the catch-up contribution limit of \$5,500.
- Agency contributions will always be part of your traditional (non-Roth) balance.
- Any contribution allocation or interfund transfer will apply to the investment of both your Roth and traditional contributions or balances.
- You will be able to transfer Roth 401(k), Roth 403(b), and Roth 457(b) (**but not Roth IRA**) money into the Roth balance in your TSP account. Pre-tax transfers will continue to be placed in your traditional balance.

Roth TSP is similar to a Roth 401(k), not a Roth IRA. There are no income limits for Roth TSP contributions.

- You will be able to take loans, in-service withdrawals, and partial withdrawals from your account as before. They will come out of your account on a pro rata basis—with a proportional amount from your traditional and Roth balances.
- When you withdraw your account, you will be able to separately transfer any portion of your Roth and traditional balances to IRAs or other eligible employer plans.

How will you sign up?

You will elect to make Roth contributions in the same way as you have always elected traditional contributions—using either the electronic system of your agency or service, or Form TSP-1, Election Form (TSP-U-1 for uniformed services).

If you are eligible for catch-up contributions, you will use your agency or service electronic system or Form TSP-1-C (TSP-U-1-C for uniformed services).

Check with your agency or service to find out whether your TSP elections should be made electronically or by using a TSP form.

You may want to consult a qualified tax or financial advisor to help you decide if Roth is for you. You should reassess your decision anytime your tax or income situation changes.



Scan above or visit the TSP website for more information about the TSP Roth feature.

www.tsp.gov/roth/index.shtml

Right before the Roth feature is introduced, the TSP will provide more information on the website about the new Roth feature.

Watch the TSP website for announcements about Roth in the coming months.



www.tsp.gov

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