



# Thrift Savings Plan BULLETIN for Agency TSP Representatives

**Subject:** Implementation Date for Roth Thrift Savings Plan Contributions

**Date:** April 11, 2012

The Thrift Savings Plan Enhancement Act of 2009, Public Law 111-31, signed into law on June 22, 2009, authorized the Thrift Savings Plan (TSP) to add a Roth feature to the plan. This benefit allows participants to contribute on an after-tax basis to their TSP accounts and receive tax-free earnings when they withdraw the funds (assuming certain criteria are met). The Roth TSP feature is similar to private sector Roth 401(k) plans. (The rules governing Roth 401(k) plans differ from those governing Roth individual retirement arrangements (IRAs).)

This bulletin provides agencies with additional information for the implementation of Roth TSP and a communications strategy for introducing participants to the new Roth feature. It supports two earlier bulletins, which also addressed the implementation of Roth TSP. The first, TSP Bulletin 10-13, Implementation of Roth Thrift Savings Plan Contributions, provides agencies with the information and requirements needed to modify their human resource and payroll systems to accommodate Roth TSP contributions. It targets payroll offices and the agency personnel responsible for the development of the TSP election and contribution submission processes within their agencies. The second, TSP Bulletin, 11-8, Thrift Savings Plan Payroll Office Reports, addresses all of the payroll office reports with specific references to the necessary changes related to Roth TSP.

The implementation date for the Roth TSP feature is May 7, 2012. Agencies should begin offering all TSP-eligible participants the opportunity to elect Roth (after-tax) contributions, in addition to, or in lieu of, traditional (pre-tax or tax-deferred) TSP contributions, on or after the first full pay period in May 2012, or as soon as administratively feasible thereafter. This benefit also applies to catch-up contributions for participants age 50 and older. Participants may not make Roth TSP contributions prior to the first full pay period in May 2012. Agencies that are unable to submit Roth contributions starting the first full pay period in May must not submit late Roth contributions for the period they were unable to process Roth contributions.

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**Inquiries:** Questions concerning this bulletin should be directed to the Federal Retirement Thrift Investment Board at **202-942-1450**.

**Chapter:** This bulletin may be filed in Chapter 2, General Information.

Federal Retirement Thrift Investment Board • 77 K Street, NE, Suite 1000 • Washington, DC 20002

## I. Definitions

- A. **Agency contributions** refer to both Agency Automatic (1%) and Matching Contributions. Agency contributions are always tax-deferred.
- B. **Catch-up contributions** refer to those contributions made by a participant age 50 or older who expects his or her employee contributions to reach the elective deferral limit. Catch-up contributions may be either regular (tax-deferred) or Roth (after-tax); they must be made from basic pay.
- C. **Employee contributions** refer to both traditional (tax-deferred) and Roth (after-tax) employee contributions.
- D. **Traditional contributions** refer to the traditional employee contributions contained in the participant's TSP account.
- E. **Roth contributions** refer to those after-tax employee contributions designated as Roth contributions by the participant; Roth contributions are maintained as a separate balance within the participant's TSP account.
- F. **Redesignation** refers to the process of moving contributions that were erroneously submitted (due to agency error) as traditional to the Roth balance or vice versa. The process includes the movement of the associated earnings.
- G. **Qualified distributions.** For purposes of this bulletin, this term refers to the two requirements for tax-free withdrawals of Roth earnings. That is, in order for the earnings component of a Roth distribution to be tax-free, the withdrawal must be made (1) after the end of the 5 year non-exclusion period (which generally starts on January 1 of the calendar year in which the first Roth contribution was made to the account), AND (2) after attainment of age 59½, death, or disability. Internal Revenue Code (IRC) § 402A(d)(2). The TSP maintains the start date for the period and determines whether a withdrawal is a qualified distribution.

## II. Agency Responsibilities

- A. With regard to TSP withdrawals, participants who want to transfer both traditional and Roth balances will be required to elect transfer options for each type of balance. As a result, all the TSP withdrawal forms will be superseded and the current versions obsolete beginning in May 2012. The Federal Retirement Thrift Investment Board (Board) will publish bulletins for both in-service withdrawal forms and post-service withdrawal forms that will provide the dates the current forms become obsolete and new forms will be required. Agencies are asked to destroy (recycle) the obsolete TSP forms on the supersede date as the TSP record keeper will not process the obsolete forms even if the participant only has a traditional balance.
- B. Because the Roth feature affects almost every aspect of the TSP, beginning in May, the TSP will start replacing many of its publications to include Roth information. Agency representatives are advised to check for announcements in the Informa-

tion for Agency/Service Representatives section on the TSP website for updates. Authorized agency representatives may order copies of updated booklets/publications by following the Board's procedures for ordering TSP materials as outlined in "Ordering Thrift Savings Plan Forms and Publications through the Pro-Mail® System."

- C. All participants received the Roth leaflet "A New TSP Element" and the January TSP *Highlights* with their 2011 annual participant statements. Additionally, agency representatives can direct participants to the TSP website for information. Participants may want to consult a qualified tax or financial advisor to help decide if Roth is the right choice for them.

### III. Roth TSP General Rules

#### A. Roth Contribution Rules

##### (1) Roth contributions:

- (a) Are made on an after-tax basis from basic pay;
- (b) May be made in addition to or in lieu of regular (i.e., traditional) contributions; and
- (c) Are subject to the elective deferral limit and must be combined with any traditional contributions to determine if this limit has been met.

- (2) Participants age 50 or over may elect to make Roth catch-up contributions. All traditional catch-up contributions and Roth catch-up contributions are contributed from basic pay; the total must not exceed the catch-up contribution limit.

##### (3) Agency Automatic (1%) and Agency Matching Contributions:

- (a) Are always traditional (tax-deferred) as are their earnings. There is no differentiation between matching contributions associated with traditional contributions and those associated with Roth contributions.

- (b) Agency Automatic (1%) Contributions are not affected by a participant's election to make Roth contributions.

- (c) Roth contributions are added to traditional contributions when determining the percentage of pay being contributed for purposes of the Agency Matching Contribution formula. Thus, the total amount of employee contributions (whether traditional or Roth) is used in the formula.

- (4) The TSP processing rules for Roth contributions **are the same as for traditional contributions**. The same is true for catch-up contributions. The one new function allows payroll offices to redesignate Roth contributions to traditional contributions or traditional contributions to Roth contributions when (due to agency error) contributions are designated incorrectly. Agencies are reminded that only in the case of agency error can a contribution be redesignated. Participants **cannot** request to have a contribution redesignated for any other reason.

B. Deferral Limit Rules

(1) Elective deferral limit

(a) Like traditional contributions, Roth contributions are considered elective deferrals and are subject to the IRC § 402(g) elective deferral limit.

(b) Thus, all employee contributions, whether traditional or Roth, are added together to determine if the elective deferral has been reached.

(2) Catch-up contribution limit (IRC § 414(v)). All catch-up contributions, whether traditional or Roth, are added together to determine if the IRC's catch-up contribution limit has been reached.

(3) The maximum that a participant (who is age 50 or older) can contribute is the sum of the elective deferral and catch-up contribution limits. Thus, for example, since IRC elective deferral limit for 2012 is \$17,000 and the catch-up limit is \$5,500, a TSP participant may contribute:

(a) Up to \$17,000 in combined traditional and Roth contributions;

(b) If age 50 or older, up to \$5,500 in combined traditional and Roth catch-up contributions;

(c) For a combined total of up to \$22,500.

(4) Payroll offices must expand the existing edits for the elective deferral and catch-up contribution limits to include Roth contributions.

C. Election Rules

(1) The same rules apply to Roth contributions as to traditional contribution elections. Thus,

(a) A participant may designate any whole percentage or whole dollar amount of basic pay as Roth contributions. This election may be in addition to, or in lieu of, an election to make traditional contributions.

For example, a participant could elect to contribute 5% of basic pay as a Roth contribution and \$25.00 as a traditional TSP contribution (or vice versa).

(b) A participant who is age 50 or older may elect a whole dollar amount of basic pay as Roth catch-up contributions in addition to or in lieu of traditional catch-up contributions. The participant will continue to be required to certify that he or she expects to reach the elective deferral (402(g)) limit for the year; however, payroll offices should not edit for this condition.

D. For detailed information about the above rules see TSP Bulletin 10-13, Implementation of Roth Thrift Savings Plan Contributions.

#### **IV. Federal Retirement Thrift Investment Board (Board) Responsibilities in Implementing Roth TSP Contributions**

- A. The TSP record keeper will accept Roth contributions beginning the first full pay period in May 2012.
- B. The Board will continue to provide additional guidance on the Roth feature to the agencies. Agencies who wish to test their transmission of Roth records should contact their designated ATS Analyst who will coordinate with the Board to receive and confirm the transmission of data.
- C. In the future, the Board will have a calculator on the TSP website to assist participants in deciding whether to consider Roth or traditional contributions for their individual situations.



Gisile Goethe  
Deputy Director, Education & Agency Liaison  
Office of Communications and Education