



# Thrift Savings Plan BULLETIN for Service 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 services with the additional information for the implementation of the Roth TSP and a communications strategy for introducing participants to the new Roth feature. Two earlier bulletins also address the implementation of Roth TSP. The first, TSP Bulletin 11-U-8, Revision to Implementation of Roth Thrift Savings Plan Contributions, provides services with the information and requirements needed to modify their human resource/ personnel office and payroll systems to accommodate Roth TSP contributions; it targets payroll offices and the service personnel responsible for the development of the TSP election and contribution submission processes within their organizations. This bulletin also explains the joint decision by the Federal Retirement Thrift Investment Board (Board) and service payroll offices that Roth contributions made on an after-tax basis and those made from pay subject to the combat zone tax exclusion (CZTE) did not require a distinction between the two contributions. Consequently, a joint decision was made to simplify the process by eliminating the Roth CZTE contribution and associated records. This decision has no impact on the tax treatment of the contribution since all Roth contributions (regardless of the source of pay) are non-taxable upon withdrawal, while the earnings on these contributions are subject to the same Internal Revenue Code (IRC) requirements in order to be qualified for tax-free distributions. In addition, TSP Bulletin 11-U-8 superseded TSP Bulletin 11-U-4, Implementation of Thrift Savings Plan Roth Contributions, and TSP Bulletin 10-U-5, Thrift Savings Plan Error Codes and Messages for Payroll Offices. The second TSP Bulletin 11-U-10, Thrift Savings Plan Payroll Office Reports, addresses all of the payroll office reports with specific references to the necessary changes related to Roth.

The implementation date for the Roth TSP feature is May 7, 2012. Services should begin offering all TSP-eligible members the opportunity to elect Roth TSP contributions, in addition to, or in lieu of, traditional (pre-tax or tax-deferred) TSP contributions, on or after the first

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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.

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full pay period in May 2012, or as soon as administratively feasible thereafter. This benefit also applies to catch-up contributions for members age 50 or older. Members may not make Roth TSP contributions prior to the first full pay period in May 2012. Services 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.

## I. Definitions

- A. **Member contributions** include traditional (tax-deferred and tax-exempt) and Roth contributions.
- B. **Traditional contributions** refer to the tax-deferred and tax-exempt member contributions contained in the member's TSP account. Specific references to tax-deferred and tax-exempt contributions are made as necessary (i.e., if only tax-exempt contributions are being discussed, the reference will be to tax-exempt contributions). Traditional catch-up contributions will always be tax-deferred because traditional catch-up contributions are prohibited to be made from tax-exempt pay.
- C. **CZTE** refers to the combat zone tax exclusion.
- D. **Roth contributions** refer to member contributions designated as Roth and made either on an after-tax basis or from pay subject to the CZTE. Roth contributions are maintained as a separate balance within the member's TSP account. Roth contributions deducted from pay subject to the CZTE are submitted on the same Roth TSP records and, therefore, are combined with Roth contributions deducted on an after-tax basis in the member's Roth balance.
- E. **Tax-exempt contributions** are traditional contributions from pay subject to the CZTE.
- F. **Catch-up contributions** refer to those contributions made by a member age 50 or older who expects his or her employee contributions (to the TSP/or to another eligible employer plan) to reach the elective deferral limit. Catch-up contributions may be either traditional or Roth; they must be made from basic pay.
  - (1) Traditional catch-up contributions **cannot** be made from basic pay subject to the CZTE. Thus, all traditional catch-up contributions are tax-deferred.
  - (2) Roth catch-up contributions can be made either from taxable basic pay or basic pay subject to the CZTE. This is an important difference between traditional and Roth catch-up contributions.
- G. **Matching contributions** refer to those contributions made by the services based on members' contributions and the service matching contributions formula. Matching contributions **are always tax-deferred.**

- H. **Recharacterization** refers to the process used to change the tax characterization of contributions that were erroneously submitted as traditional (tax-deferred) to traditional (tax-exempt) and vice versa. The process does not apply to Roth contributions and will remain unchanged upon implementation of Roth TSP.
- I. **Redesignation** refers to the process of moving contributions which were erroneously submitted (due to service error) as traditional to the Roth balance or vice versa. The process includes the movement of the associated earnings.
- J. **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. Service Responsibilities

- A. With regard to TSP withdrawals, members who want to transfer both traditional and Roth balances will be required to elect payment/transfer options for both balances. As a result, all the TSP withdrawal forms will be superseded and the current versions will be obsolete beginning in May 2012. The 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. Services 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 member only has a traditional balance.
- B. Because the Roth TSP feature affects almost every aspect of the TSP, beginning in May, the TSP will start replacing many of its publications to include the Roth information. Service representatives are advised to check for announcements in the Information for Agency/Service Representatives section on the TSP website for updates. Authorized service 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 uniformed services members received the Roth leaflet "A New TSP Element" and the January TSP *Highlights* with their 2011 annual participant statements. Additionally, service representatives can direct members to the TSP website for information. Members should also consult a qualified tax or financial advisor to help decide if the Roth is the right choice for them.

### III. TSP Roth General Rules

#### A. Roth Contribution Rules

(1) Roth contributions:

- (a) Are made on an after-tax or CZTE basis from basic pay, incentive pay, special pay, and bonus pay. The current rule that the member must elect to contribute from basic pay (whether the election is made as a traditional or Roth contribution) in order to also elect and contribute from the other forms of pay, has not changed;
- (b) May be made in addition to, or in lieu of, traditional contributions; and
- (c) Are subject to the elective deferral limit *even if they are contributed from pay subject to the CZTE*. Thus, all Roth contributions must be combined with any traditional tax-deferred contributions in determining whether this limit has been met. (Tax-exempt contributions are not included in the elective deferral calculation.) Roth contributions must also be combined with traditional tax-deferred and tax-exempt contributions for the purposes of the annual addition (415(c)) limit.

- (2) Members age 50 or over may elect to make Roth catch-up contributions from basic pay. Unlike traditional catch-up contributions, Roth catch-up contributions may be made from taxable basic pay as well as basic pay subject to the CZTE. All traditional catch-up contributions and Roth catch-up contributions count against the catch-up contribution limit. All traditional catch-up contributions and Roth catch-up contributions are contributed from basic pay and the totals must be combined to determine that the catch-up deferral limit is not exceeded.

(3) 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) Roth contributions are added to traditional contributions from basic pay when determining the percentage of pay being contributed for purposes of the Service Matching Contribution formula. Thus, the total amount of member contributions (whether traditional or Roth) is used for 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. There is only one new function. It allows payroll offices to redesignate Roth contributions to traditional contributions or traditional contributions to Roth contributions when (due to service error) contributions are designated incorrectly. Services are reminded that only in the case of service error can a contribution be redesignated. Members **cannot** request to have a contribution redesignated for any other reason.

## B. Deferral Limit Rules

### (1) Elective deferral limit

(a) All Roth contributions are considered elective deferrals and are subject to the IRC § 402(g) elective deferral limit. This includes Roth contributions deducted from pay subject to the CZTE. This is a significant difference between Roth and traditional tax-exempt contributions because the latter are not included in the elective deferral calculation.

(b) Thus, except for traditional tax-exempt contributions, all traditional and Roth member contributions are added together to determine if the elective deferral limit has been reached.

(2) Annual addition limit (IRC § 415(c)). All Roth contributions are subject to the IRC 415(c) limit. Thus, all member contributions, whether traditional (tax-deferred and tax-exempt) or Roth, are added together to determine if the 415(c) limit has been reached. If a member is receiving matching contributions, those amounts also count against the 415(c) limit. Catch-up contributions, however, are not included in the 415(c) limit.

(3) 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. This includes any Roth catch-up contributions deducted from pay subject to the CZTE.

(4) The maximum that a member (who is age 50 or older) can contribute is the sum of the annual addition 415(c) limit and catch-up contribution limit, assuming the member has served in a combat zone. Otherwise, the maximum is the sum of the elective deferral and catch-up contributions. Thus, for example, since the 2012 IRC elective deferral limit is \$17,000, the annual addition limit is \$50,000, 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) Up to \$50,000 in combined traditional (tax-deferred and tax-exempt) contributions, Roth contributions, and matching contributions;

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

(d) For a combined total of up to \$55,500 if the member served in a combat zone and up to \$22,500 if all contributions were from taxable pay.

(5) 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 member may designate any whole percentage of basic, incentive, special, and bonus pay as Roth contributions. This election may be in addition to, or in lieu of, an election to make traditional contributions.

For example, a member could elect to contribute 5% of basic and 20% of bonus pay as a Roth contribution and 15% of special pay as a traditional contribution.

(b) A member who is age 50 or older and who wishes to make catch-up contributions must make the election in whole dollar amounts from basic pay, and may elect Roth catch-up contributions in addition to or in lieu of traditional catch-up contributions. A member who has elected Roth catch-up contributions and who is receiving basic pay subject to the CZTE may continue catch-up contributions from the CZTE pay. Members will continue to be required to self-certify that they expect to reach the elective deferral limit for the year; however, payroll offices should **not** edit for this condition.

(2) If a member elects to contribute a traditional (tax-deferred or tax-exempt) contribution to the TSP, he or she may *not* request that the contribution be changed to a Roth contribution (or vice versa) once the election is properly processed by the service and the contribution is deposited into his or her TSP account. If a service determines, under the TSP error correction regulations, that it incorrectly submitted contributions as Roth that should have been traditional (or vice versa), they may request the “redesignation” of those contributions without removing the contributions from the member’s TSP account.

D. For detailed information about the above rules, see TSP Bulletin 11-U-8, Revision to Implementation of Thrift Savings Plan Roth 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 services. Services who wish to test their transmission of Roth records should contact their designated ATS Analyst who will coordinate with the service to receive and confirm the transmission of data.

- C. In the future, the Board will have a calculator on the TSP website, [www.tsp.gov](http://www.tsp.gov), to assist members in deciding whether to consider Roth or traditional contributions for their individual situations.



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