



Thrift Savings Plan HIGHLIGHTS

April 2012



Scan above or visit the TSP website to view a short video about the TSP Roth feature.

www.tsp.gov/roth/index.shtml

Considering Roth? It's a tax decision.

It is not easy to decide if Roth TSP is right for you. Generally, Roth TSP might be a good fit for those who expect their tax rate to be higher in retirement than it is now. But it is not that simple.

When you make Roth contributions, there is no reduction in your adjusted gross income (as there is when you make traditional pre-tax contributions), and this is an important factor in establishing your tax bracket and the tax deductions and credits that you can take.

You should consider these factors as you decide on making Roth contributions. If you are in doubt, consult a qualified financial or tax advisor to be sure that you consider all the complexities of the tax law as they apply to your own situation.



Your Roth Questions Answered

By now you have probably heard that the TSP is adding a Roth TSP feature in the coming months. When you make Roth contributions, you will pay taxes on them as they go into your TSP account. This is very different from traditional pre-tax TSP contributions, which come out of your pay before your income taxes, but which are taxed (along with their earnings) at withdrawal. Roth contributions, when withdrawn, will be tax-free. The earnings on Roth contributions will also be tax-free, as long as you meet certain IRS requirements.*

On the TSP website, we've created a special Roth section. You'll find it linked from the banner at the top of the home page and from the What's New page, accessed by choosing any link on the home page Bulletin Board. All the information published to date can be found at this location, and more information is on the way to the website to help you decide whether Roth TSP will be to your advantage. The new Roth TSP feature is also being discussed in the press, and participants are starting to ask for clarification.

How will you get Roth money into your account? There are only two ways:

- **From your future pay**—you'll notify your agency or service that you want to **make Roth contributions**, or
- **Transfer Roth money into your account directly from eligible plans** (Roth 401(k)s, Roth 403(b)s, or Roth 457(b)s only).

You will not be able to transfer money into the TSP from Roth IRAs. Also, you will **not** be able to convert money that is already in your TSP account into Roth money. Along the same lines, agency automatic and matching contributions will always be traditional, tax-deferred contributions, even if your own contributions are only Roth. **You will not be able to convert any agency traditional contributions into Roth contributions.**

Who is eligible to take advantage of Roth TSP? Check for your eligibility below:

Participant Group	New Roth Contributions?	Roth Transfers into TSP from eligible plans?
Active employees		
FERS	Yes	Yes
CSRS	Yes	Yes
Uniformed Services	Yes	Yes
Separated employees	No	Yes
Retirees	No	Yes
Beneficiary participants**	No	No

* Roth earnings will be tax-free if 5 years have passed since January 1 of the year you made your first Roth contribution AND you are age 59½, permanently disabled, or deceased.

** Beneficiary participants may not add new Roth contributions to their accounts, but their accounts may contain Roth contributions made by the deceased spouse.

How will TSP transactions work with Roth money? If you make Roth contributions or transfer Roth money into your account, you will have a Roth “balance” in your account, in addition to any traditional “balance.” Traditional and Roth money must be kept separate in your account for tax purposes, but the two “pots” of money together make one TSP account balance. Any transactions you make —such as interfund transfers, contribution allocations, loans, beneficiary designations, and withdrawals—will apply in equal proportions to the Roth and traditional balances.

For example, you would not be able to make an interfund transfer and put all your Roth money in the G Fund and all your traditional money in the C Fund. To demonstrate: Suppose you have a \$100,000 TSP account balance and 10% of your account is Roth (\$10,000) and 90% is traditional (\$90,000). If you do an interfund transfer to put 10% of your account in the G Fund and 90% in the C Fund, here’s how it will be done:

Interfund Transfer: 10% G Fund, 90% C Fund			
\$10,000 Roth Balance		\$90,000 Traditional Balance	
\$1,000 ➤ G Fund	\$9,000 ➤ C Fund	\$9,000 ➤ G Fund	\$81,000 ➤ C Fund

Roth TSP and Required Minimum Distributions (RMDs). The year after you turn age 70½, the IRS requires you to begin receiving a minimum amount of money from your account (unless you are still working). This is your RMD, and it is calculated based on your account balance and IRS life expectancy tables. IRS requirements for RMDs apply to employer-sponsored retirement plans like the TSP with no exceptions; therefore, **RMDs will apply to Roth money in your TSP account**, even though they do not apply to Roth IRAs.

Roth TSP and Roth IRAs. Roth TSP contributions do not count toward the limits on Roth IRA contributions. This just means that if you are eligible to contribute to a Roth IRA, making Roth TSP contributions won’t lessen the amount that you can contribute to a Roth IRA. On the other hand, it’s possible that making Roth TSP contributions may make you ineligible for a Roth IRA. That’s because your Roth contributions are counted as part of your adjusted gross income (AGI), while your traditional pre-tax contributions are not. Your AGI will be higher if you make Roth contributions than it would be if you made traditional contributions of the same amount. This is just one of the factors you will need to keep in mind as you evaluate Roth TSP. 🧠

Rates of Return										
	L 2050	L 2040	L 2030	L 2020	L Income	G Fund	F Fund	C Fund	S Fund	I Fund
Monthly 2012										
Jan	4.87%	4.34%	3.77%	3.03%	1.18%	0.13%	0.88%	4.50%	7.59%	5.36%
Feb	3.99	3.54	3.10	2.53	0.98	0.12	0.05	4.34	3.99	5.14
Annual 2002 – 2011										
2002	–	–	–	–	–	5.00%	10.27%	–22.05%	–18.14%	–15.98%
2003	–	–	–	–	–	4.11	4.11	28.54	42.92	37.94
2004	–	–	–	–	–	4.30	4.30	10.82	18.03	20.00
2005	–	–	–	–	–	4.49	2.40	4.96	10.45	13.63
2006	–	16.53	15.00	13.72	7.59	4.93	4.40	15.79	15.30	26.32
2007	–	7.36	7.14	6.87	5.56	4.87	7.09	5.54	5.49	11.43
2008	–	–31.53	–27.50	–22.77	–5.09	3.75	5.45	–36.99	–38.32	–42.43
2009	–	25.19	22.48	19.14	8.57	2.97	5.99	26.68	34.85	30.04
2010	–	13.89	12.48	10.59	5.74	2.81	6.71	15.06	29.06	7.94
2011	–	–0.96	–0.31	0.41	2.23	2.45	7.89	2.11	–3.38	–11.81

The returns for the TSP funds represent net earnings after deduction of administrative expenses and, in the cases of the F, C, S, I, and L Funds, after deduction of trading costs and investment management fees. Additional information about the TSP funds, the related indexes, and their respective 1-, 3-, 5-, and 10-year returns can be found in the TSP Fund Information sheets on the TSP website.

The Lifecycle funds, which are invested in the individual TSP funds (G, F, C, S, and I)*, were implemented on August 1, 2005; therefore, the first annual returns are for 2006.

* The Government Securities Investment (G) Fund; the Fixed Income Index Investment (F) Fund; the Common Stock Index Investment (C) Fund; the Small Capitalization Stock Index (S) Fund; the International Stock Index Investment (I) Fund