



The Roth TSP Advantage

Welcome

- » Our audience today
- » Q&A – the ProFeds Support Team standing by
- » Handouts – available for download
- » Recorded – how to get the replay
- » Stay until the end!

The Roth TSP Advantage

Your ProFeds Presenter



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- » ProFeds Founder
- » Developer of the FedImpact Retirement Workshop
- » Host of the FedImpact Podcast



Support Team

- » Standing by for your questions

The Roth TSP Advantage

The Roth TSP Advantage

**How to pay taxes ONCE –
and never again!**

The Roth TSP Advantage

Agenda

- » The 3 tax buckets
- » The concept of tax diversification
- » Overview of the Roth IRA in the private sector
- » Overview of the Traditional and Roth TSP
- » Top 10 Questions we get on the Roth TSP
- » What the lawyers want me to say...

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A real life image of most people
planning for taxes in retirement!



WARNING:
This strategy
does NOT help
and has many
undesirable
side effects!

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Won't I be in a LOWER tax
bracket when I retire?

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**THE 3 TAX BUCKETS &
THE CONCEPT OF TAX
DIVERSIFICATION**

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The 3 Tax Buckets for How Growth is Taxed



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The 3 Tax Buckets for How Growth is Taxed



- » Accounts like:
 - Savings, Checking, Money Market
 - CDs, Bonds, Mutual Funds
- » How do you know their status?
 - Funded with after-tax money
 - You get a 1099 each year that you must claim with your taxes

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The 3 Tax Buckets for How Growth is Taxed



- » Accounts like:
 - Traditional: IRA, 401(k), 403(b), TSP
- » How do you know their status?
 - Funded with pre-tax money
 - You get an immediate tax advantage "now" by not claiming the contribution as income yet

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The 3 Tax Buckets for How Growth is Taxed



- » Accounts like:
 - Roth: IRA, 401(k), 403(b), TSP
 - Coverdell ESA and 529 Plans, Municipal Bonds, Life Insurance
- » How do you know their status?
 - Funded with after-tax money
 - No immediate tax advantage and must claim the contribution as income

Tax Diversification

» Concept:

- Have different buckets of money to choose from that are taxed differently in retirement
- Choose when and how to take money from each bucket based on tax environment
 - When taxes are high, take \$\$\$ from tax-free account
 - When taxes are low, take \$\$\$ from taxable account
- Allow each bucket to be independently invested

What does a “Roth” account look like in the private sector?

Roth IRA in the Private Sector

- » To fully-qualify for a Roth IRA, your Modified Adjusted Gross income must be:
 - Under \$140,000 (single)
 - Under \$198,000 (married filing joint)
- » You can contribute (must be “earned income”):
 - up to \$6,000/year, plus
 - an additional \$1,000/year in the year in which you turn age 50+

Roth IRA in the Private Sector

- » Withdrawals from a Roth IRA
 - Federal & state: income tax-free as long as:
 - you have reached age 59 ½, AND
 - at least 5 years have passed since any Roth IRA you own was first funded
- » “Required Minimum Distributions” are never required which allows your funds to grow tax-free
- » Roth IRAs pass along tax-free to beneficiaries

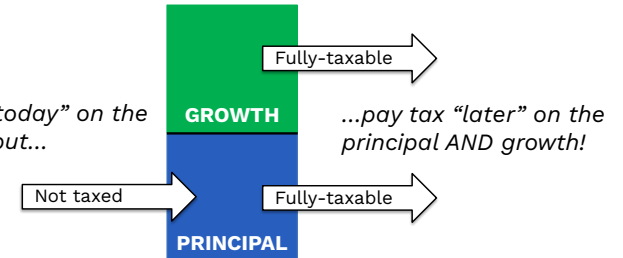
HOW DOES THE TSP ALLOW YOU TO HAVE “TAX DIVERSITY”?

Tax-Advantaged Options in TSP (TRADITIONAL)

When \$\$\$ goes in

When \$\$\$ comes out

Save tax “today” on the principal, but...

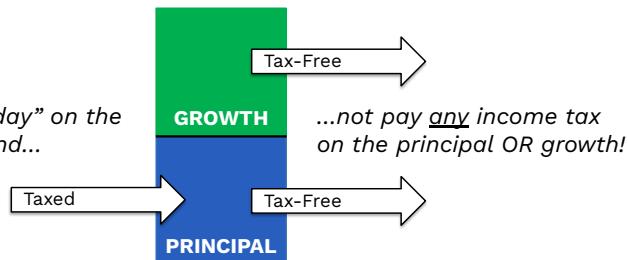


Tax-Advantaged Options in TSP (ROTH)

When \$\$\$ goes in

When \$\$\$ comes out

Pay tax “today” on the principal, and...



TOP 10 QUESTIONS WE GET ON ROTH TSP

Q:

Do I have to contribute to the Traditional TSP to be able to contribute to the Roth TSP?

A:

No – You may choose to put all (or some) of your new contributions to the Roth TSP if you wish. There is no requirement to contribute to the Traditional TSP.

Remember that Roth TSP contributions are made with after-tax dollars (affecting your net pay)!

Q:

Do I get matched on contributions I make to the Roth TSP?

A:

Yes (as long as you're FERS)! If you contribute at least 5% of your salary to TSP (Roth and/or Traditional) over all pay periods throughout the year, you will receive your full match.

The 5% agency match is always deposited in the Traditional side of TSP.

Q:

Can I invest my Traditional and Roth TSPs differently (like have Traditional in the G fund and Roth in the C fund)?

A:

No. Your decisions about which funds to invest in within the TSP are standard across the whole account. The Traditional and Roth “tag” simply determines how the money is taxed. Another way to state this is that these accounts do not operate independently.

Q:

For money I already have in the Traditional TSP account, can I move it Roth TSP?

A:

No. You are NOT allowed to convert Traditional TSP money to make it Roth TSP within the plan itself.

Only “new” money can go into the Roth TSP.

This “conversion” is possible in the private sector once you are retired/separated or at least 59 ½.

Q: *When I take money out of the TSP, can I choose to take from the Traditional or Roth side?*

A: Yes! You are now permitted to choose which side of the TSP account (Traditional or Roth) you take a withdrawal from.

Q: *If I leave my money in TSP when I retire, does the “5-year & 59 ½” rule for Roth IRAs apply to Roth TSP?*

A: Yes – with a twist.
If you leave your money in TSP in retirement, you must have had that Roth TSP open for 5 years (and be 59 ½+) to get tax-free withdrawals.

Q: *If I move my money OUT of TSP when I retire, does the “5-year & 59 ½” rule still apply?*

A: Yes – with a different twist.
If you move your Roth TSP money out of TSP (to Roth IRA) in retirement, the 5-year clock starts from the first Roth IRA that you own was first funded (and you must be at 59 ½+) to get tax-free withdrawals.

Q: *If I transfer my Roth TSP to a Roth IRA, do I owe taxes on that money? How about Traditional?*

A: No. You won't pay tax on any Roth TSP to Roth IRA transfers.
For transfers of Traditional TSP to Traditional IRA, there isn't any tax at the time of the transfer (you're not taxed until the money comes out of your account).

Q: *Are Required Minimum Distributions (RMDs) required on my Roth TSP?*

A: Yes. This is bizarre and contradictory to the Roth IRA rules in the private sector. RMDs are required on your entire account balance (Trad and Roth) once you have reached age 72. You can choose to take it out of the Traditional or Roth side of your account.

Q: *How do I know if contributing to the Roth TSP is right for me?*

A: It depends. There is no right or wrong answer, but an informed choice is better than a guess. However, having all of your money in taxable or tax-deferred vehicles (like Traditional TSP) means you don't have any CHOICES to minimize tax obligations or other undesirable consequences.



Did we get your attention?

Be proactive in your tax strategy in retirement!

The Roth TSP Advantage

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