

# Is Roth for You?

For most Federal employees, the Roth 401(k) option will be available May 7, 2012. Roth 401(k) contributions are taxed before you invest them; when you make withdrawals from the Roth 401(k) you will not have to pay taxes on any part of your account as long as you're age 59½ or older and you have had Roth 401(k) contributions for 5 years or more at time of the distribution.

## Comparison of Traditional (Pre-tax) and Roth (After-tax) Contributions

The Treatment of...	Traditional TSP	Roth TSP
<b>Contributions</b>	<b>Pre-Tax</b>	<b>After-tax<sup>1</sup></b>
<b>Your Paycheck</b>	<i>Taxes are deferred</i> , so less money is taken out of your paycheck.	<i>Taxes are paid up front</i> , so more money comes out of your paycheck.
<b>Transfers In</b>	<i>Transfers</i> allowed from eligible employer plans and traditional IRAs.	<i>Transfers</i> allowed from Roth 401(k)s, Roth 403(b)s, and Roth 457(b)s.
<b>Transfers Out</b>	<i>Transfers</i> allowed to eligible employer plans, traditional IRAs, and Roth IRAs <sup>2</sup> .	<i>Transfers</i> allowed to Roth 401(k)s, Roth 403(b)s, Roth 457(b)s, and Roth IRAs <sup>3</sup> .
<b>Withdrawals</b>	<i>Taxable</i> when withdrawn.	<i>Tax-free</i> earnings if five years have passed since January 1 of the year you made your first Roth contribution, AND you are age 59½ or older, permanently disabled, or deceased.

<sup>1</sup> Roth contributions are subject to Federal (and, where applicable, state and local) income taxes, while traditional contributions are not taxed until withdrawn. However, both Roth contributions and traditional contributions are included in the amount of wages used to calculate payroll taxes (e.g. Social Security taxes).

<sup>2</sup> You would have to pay taxes on any pre-tax amount transferred to a Roth IRA.

<sup>3</sup> Transfers to a Roth IRA from a Roth TSP are not subject to the income restrictions that apply to Roth IRA contributions.

**How should you decide?** It all comes down to whether you would be better off paying your taxes now or later (i.e., your marginal tax rate now versus your rate at retirement). Your personal situation will determine whether it is better to have the tax savings of traditional TSP now or the tax-free earnings of Roth TSP later. As you make your Roth decision, think about your income level and tax rate now and what you expect they will be when you retire.

**Future tax rates play into the Roth decision.** Tax rates are a constantly moving target. It's hard to guess what your future earnings and tax rate will be, or even what the U.S. income tax structure will be in the future. Having a mix of traditional and Roth savings is one way to avoid betting on just one tax scenario. The TSP will provide you the flexibility to make traditional pre-tax and Roth contributions to your account simultaneously or at different times. You should reassess your decision whenever your tax or income situation changes.

**Roth TSP is not a Roth IRA.** Unlike a Roth IRA, there are no income restrictions on contributions to the Roth TSP feature. Any participant who is eligible to contribute to the TSP can make Roth contributions. Also, Roth TSP contributions are subject to different contribution limits than Roth IRAs. In 2012, you can contribute up to \$17,500 (plus \$5,500 if you are 50 or older) to your Roth TSP, \* while you can only contribute \$5,500 (\$6,500 if you are 50 or older) to a Roth IRA. (If you are eligible to contribute to a Roth IRA, making Roth contributions to your TSP account will not affect your Roth contribution limits.)

\* The combined total of Roth and traditional contributions cannot exceed these limits.