



Thrift Savings Plan BULLETIN for Agency TSP Representatives

Subject: 2011 Thrift Savings Plan Annual Participant Statements with Roth Introductory Information Enclosed

Date: February 8, 2012

The Thrift Savings Plan Enhancement Act of 2009, signed June 22, 2009, provided for the Thrift Savings Plan (TSP) Roth feature. This bulletin contains copies of and information about the inserts the Federal Retirement Thrift Investment Board (Agency) will enclose with 2011 annual participant statements to begin to educate participants about the new Roth feature. The statement mailing will begin the second week of February 2012.

Participant statements provide participants with information about their TSP accounts. The statements contain cumulative account balance information for the annual period and provide personal data currently on file with the TSP. Participants are encouraged to review the statements for accuracy and to retain them for their records. If participants believe any information on their statements is not correct, they should report any discrepancies to their Human Resources or service offices. Human Resources and service representatives should work with participants and their payroll offices to make any needed corrections.

Included with this bulletin are copies of the inserts that will accompany the statements; the leaflet “Roth: A New TSP Element,” the January/February 2012 TSP *Highlights*, and a letter from the Agency’s Executive Director, Greg Long.

A. “Roth: A New TSP Element” leaflet

In preparation for implementation of Roth TSP in the second quarter of 2012, the leaflet “Roth: A New TSP Element” is being mailed to provide both active Federal employees and members of the uniformed services with information to consider whether Roth contributions vs. traditional (tax-deferred) contributions are beneficial to them.

The Roth leaflet also includes information on how participants elect to make Roth contributions and contains a QR (Quick Response) code that can be scanned to view a video about the upcoming TSP Roth feature. For participants who do not have access to technology to use the QR code, the video will be available for viewing on the TSP website at www.tsp.gov (www.tsp.gov/roth/index.shtml).

(continued on next page)

Inquiries: Questions concerning this bulletin should be directed to the Federal Retirement Thrift Investment Board at **202-942-1460**.

Chapter: This bulletin may be filed in Chapter 3, Eligibility.

B. January/February 2012 TSP Highlights

The TSP *Highlights* contains information about the new Roth TSP feature and details to help participants decide the question “Is Roth for You?” It also includes TSP 2011 monthly and 2002-2011 annual rates of return. 2011 TSP expense ratio information is also included in the *Highlights*.

C. Letter from the Executive Director of the Thrift Savings Plan, Greg Long

The Executive Director’s annual letter reviews some of the accomplishments of the TSP during the first 25 years. The letter also includes Roth TSP information and directions for obtaining the results of the 2011 participant survey.

Although TSP has not announced the official date for Roth implementation in the second quarter of 2012, agency representatives will be provided with a bulletin along with a guide to Roth implementation for agency representatives once the announcement of the official date is made. Agencies may wish to refer to Bulletin 10-13, Implementation of Roth Thrift Savings Plan Contributions, for Roth TSP program features and requirements.



Director
Office of Participant Services

Attachments: Leaflet: “Roth: A New TSP Element”
January/February 2012 TSP *Highlights*
Letter from the Executive Director

- You will be able to take loans, in-service withdrawals, and partial withdrawals from your account as before. They will come out of your account on a pro rata basis—with a proportional amount from your traditional and Roth balances.
- When you withdraw your account, you will be able to separately transfer any portion of your Roth and traditional balances to IRAs or other eligible employer plans.

How will you sign up?

You will elect to make Roth contributions in the same way as you have always elected traditional contributions—using either the electronic system of your agency or service, or Form TSP-1, Election Form (TSP-U-1 for uniformed services).

If you are eligible for catch-up contributions, you will use your agency or service electronic system or Form TSP-1-C (TSP-U-1-C for uniformed services).

Check with your agency or service to find out whether your TSP elections should be made electronically or by using a TSP form.

You may want to consult a qualified tax or financial advisor to help you decide if Roth is for you. You should reassess your decision anytime your tax or income situation changes.



Scan above or visit the TSP website for more information about the TSP Roth feature.

www.tsp.gov/roth/index.shtml

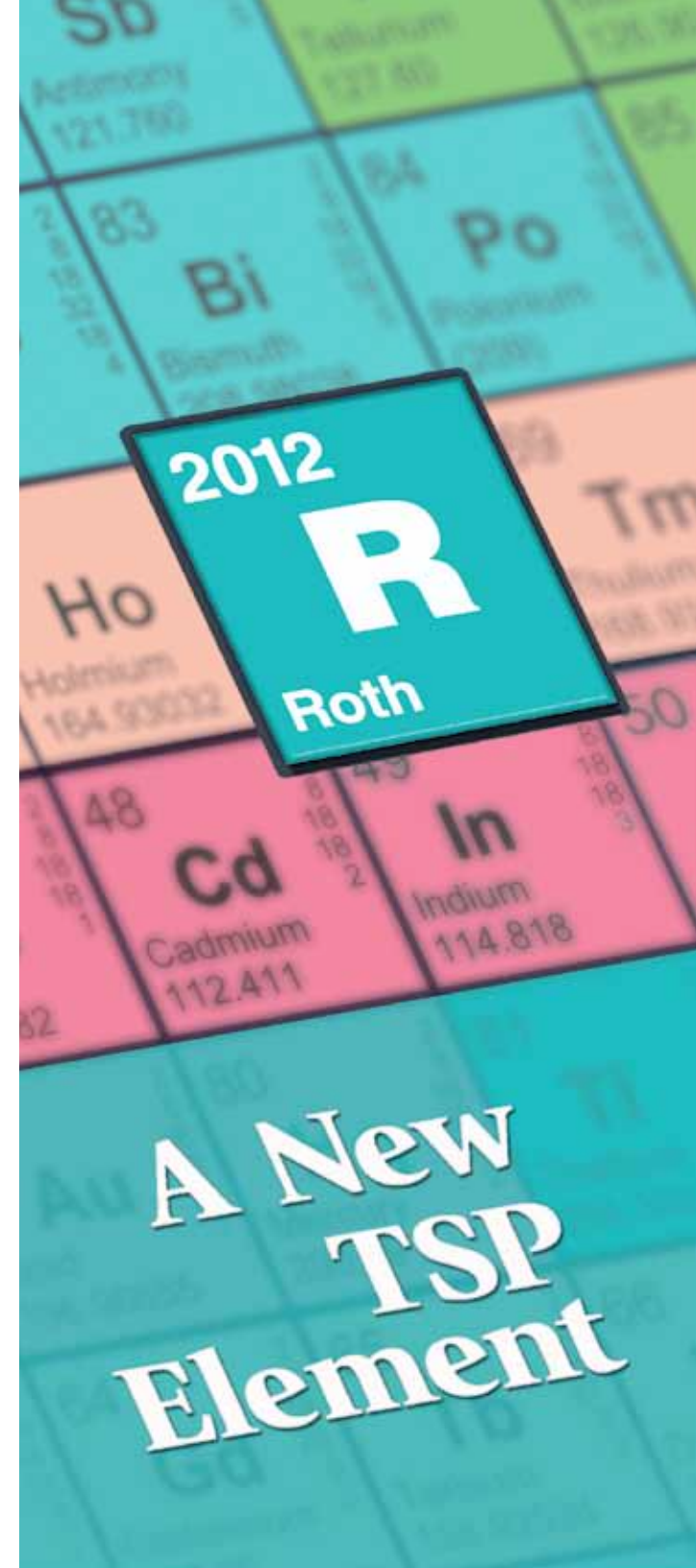
Right before the Roth feature is introduced, the TSP will provide more information on the website about the new Roth feature.

Watch the TSP website for announcements about Roth in the coming months.



www.tsp.gov

TSPLF30 (1/2012)



More Tax Flexibility in the TSP

The TSP will soon begin offering all active Federal employees and members of the uniformed services the option to designate some or all of their contributions as Roth contributions. The TSP Roth feature will give participants flexibility in the tax treatment of their contributions now and in the future.

How does Roth TSP compare to Traditional TSP?

Roth contributions are taken out of your paycheck after your income is taxed. When you withdraw funds from your Roth balance, you will receive your Roth contributions tax-free since you have already paid taxes on the contributions. You also won't pay taxes on any earnings, as long as you're at least age 59½ (or disabled) *and* your withdrawal is made at least 5 years after the beginning of the year in which you made your first Roth contribution.

Traditional (pre-tax) contributions, which lower your current taxable income, give you a tax break today. They grow in your account tax-deferred, but when you withdraw your money, you pay taxes on both the contributions and their earnings.

Electing Roth contributions is not an all-or-nothing decision. You can contribute to both your Roth and traditional balances. Roth gives you the opportunity to diversify the tax treatment of the money in your account.

Can Roth benefit you?

Everyone's situation is different. Whether you would be better off making traditional or Roth contributions depends on your income tax rate now and in the future. For example, you might benefit from making Roth TSP contributions if:

- You are in a low tax bracket now, but think your tax rate may be higher in retirement. With Roth, your contributions are taxed at your current lower rate, and you avoid paying taxes at the expected higher rate in the future.
- You are not in a low tax bracket now, but anticipate that your marginal Federal tax rate will increase in the coming years.
- You are a uniformed services member making contributions from tax-exempt pay earned in a combat zone. If you elect Roth contributions, you will not pay taxes on either your Roth contributions or their earnings (as long as you satisfy the age and 5-year holding requirements mentioned earlier).*
- You want tax diversification and see an advantage in making after-tax contributions so that you can have tax-free withdrawals in retirement.

* Tax-exempt contributions that go into your traditional and Roth balances are subject to the Internal Revenue Code 415(c) limit (\$50,000 in 2012). However, only tax-exempt contributions that go into your Roth balance are subject to the elective deferral limit (\$17,000 in 2012).

- You are age 50 or older and deployed to a combat zone while making catch-up contributions. You will be able to continue these contributions if they are Roth contributions. (You can't make catch-up contributions to your traditional TSP balance from tax-exempt pay.)

How does Roth TSP work?

- Money already in your account when you begin making Roth contributions will remain part of your traditional balance. You will not be able to convert it to Roth.
- The combined total of your Roth and tax-deferred traditional contributions in 2012 cannot exceed the elective deferral limit of \$17,000, or the catch-up contribution limit of \$5,500.
- Agency contributions will always be part of your traditional (non-Roth) balance.
- Any contribution allocation or interfund transfer will apply to the investment of both your Roth and traditional contributions or balances.
- You will be able to transfer Roth 401(k), Roth 403(b), and Roth 457(b) (**but not Roth IRA**) money into the Roth balance in your TSP account. Pre-tax transfers will continue to be placed in your traditional balance.

Roth TSP is similar to a Roth 401(k), not a Roth IRA. There are no income limits for Roth TSP contributions.



Thrift Savings Plan HIGHLIGHTS

January/February 2012

2011 TSP Expense Ratio

The expense ratio is the amount by which each TSP account is reduced to cover administrative expenses. Following are the expense ratios for 2011:

- G Fund:** .025%
- F Fund:** .024%
- C Fund:** .025%
- S Fund:** .025%
- I Fund:** .025%
- L Funds:** .025%

.025% is equivalent to 2.5 basis points, or 25¢ for every \$1,000 in your account.

This pays for:

- management fees;
- operating and maintaining the TSP's record keeping system;
- providing participant services; and
- printing and mailing notices, statements, and publications.

Expenses are offset by the forfeitures of Agency Automatic (1%) Contributions of FERS employees who leave Federal service before they are vested, other forfeitures, and loan fees.



Is Roth for You?

The TSP will introduce a feature later this year that will allow active participants to make Roth contributions to their TSP accounts. This new feature will allow you to contribute some or all of your contributions to the Roth TSP. With Roth contributions, you pay taxes now. However, when you withdraw these contributions and their earnings, you will not have to pay taxes on them as long as you are 59½ or older and you have had Roth contributions for five years or more when you receive your distribution.

As we get closer to the date when you can start making Roth contributions, you'll learn more about this new feature on the TSP website. In the meantime, you may want to start thinking about whether Roth contributions could be to your advantage.

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

The Treatment of . . .	Traditional TSP	Roth TSP
Contributions	<i>Pre-tax</i>	<i>After-tax</i> ¹
Your Paycheck	<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.
Transfers In	<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
Transfers Out	<i>Transfers</i> allowed to eligible employer plans, traditional IRAs, and Roth IRAs ²	<i>Transfers</i> allowed to Roth 401(k)s, Roth 403(b)s, Roth 457(b)s, and Roth IRAs ³
Withdrawals	<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

¹ 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).

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


³ 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 \$17,000 (plus \$5,500 if you are 50 or older) to your Roth TSP,* while you can only contribute \$5,000 (\$6,000 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 IRA contribution limits.)

The decision is yours. The Roth decision is an individual one. Later in the year, the TSP will provide more information on the TSP website to help you decide whether making Roth contributions could be beneficial for you. You may also wish to consult a qualified financial or tax advisor. 

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

Rates of Return										
	L 2050	L 2040	L 2030	L 2020	L Income	G Fund	F Fund	C Fund	S Fund	I Fund
Monthly 2011										
Jan	-	1.75%	1.57%	1.35%	0.63%	0.24%	0.13%	2.37%	1.23%	2.41%
Feb	3.28	2.95	2.60	2.15	0.90	0.22	0.26	3.42	4.52	3.33
Mar	-0.15	-0.08	-0.05	-0.03	0.17	0.26	0.06	0.04	2.06	-2.23
Apr	3.57	3.20	2.83	2.37	1.01	0.25	1.28	2.96	2.94	6.03
May	-1.39	-1.15	-0.97	-0.74	-0.05	0.25	1.31	-1.13	-1.27	-2.90
June	-1.48	-1.30	-1.10	-0.84	-0.18	0.21	-0.30	-1.67	-2.35	-1.16
July	-1.75	-1.49	-1.25	-0.94	-0.14	0.22	1.59	-2.04	-3.14	-1.60
Aug	-6.16	-5.37	-4.63	-3.69	-1.10	0.19	1.45	-5.44	-8.12	-9.03
Sept	-7.80	-6.85	-5.92	-4.73	-1.51	0.16	0.73	-7.03	-10.73	-10.55
Oct	9.92	8.83	7.68	6.18	2.31	0.14	0.11	10.93	14.09	9.48
Nov	-0.78	-0.62	-0.49	-0.34	0.02	0.14	0.01	-0.21	-0.51	-2.46
Dec	-0.01	0.07	0.09	0.11	0.20	0.15	1.01	1.04	-0.04	-2.03
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
<p>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.</p> <p>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.</p> <p>† 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</p>										



Thrift Savings Plan

P.O. Box 385021
Birmingham, AL 35238

February 2012

Dear TSP Participant,

The TSP is turning 25!

Established by the Federal Employees' Retirement System Act of 1986, the TSP opened its doors to investors in April 1987. In those early years, Federal employees had to wait six months to a year to sign up for the TSP. There was only one investment fund, the G Fund, and contributions were strictly limited. Participants could adjust the amount of their contributions only during semiannual open seasons, and when we introduced the C and F Funds, only FERS participants who had contributed their own money could make an interfund transfer—once each open season by way of a mailed form. There was no website and no automated ThriftLine. Looking back on it, the TSP was a “bare-bones” operation.

We've come a long way since then. Today, the TSP is widely recognized as one of the finest, most elegantly simple, and popular retirement plans of its kind. With over 4.5 million civilian and uniformed services participants and assets of nearly \$300 billion, it is certainly the largest defined contribution retirement plan in the world. Since 1987, we've introduced four new funds (C, F, S, and I Funds) and five Lifecycle (L) Funds. We have a new website and a toll-free ThriftLine to help you manage your account. There is now daily valuation, automatic enrollment, immediate contributions, Web-based interfund transfers and other transactions, beneficiary participant accounts, loans, hardship withdrawals, partial withdrawals, and many more features. And we provide all of this with an extraordinarily low expense ratio of 25¢ per \$1,000 account balance in 2011.

In the past year, we have been focusing a great deal of our time and efforts to bring you a Roth TSP option. If you are an active (contributing) participant, the Roth feature will give you the opportunity to make after-tax contributions that will grow in your account tax-deferred. When you withdraw your Roth balance, you will pay no further taxes on your contributions and, provided you satisfy certain Internal Revenue Code requirements, no taxes at all on your earnings. Participants have been asking for a Roth option, and we are very pleased to be on the threshold of making this a reality. Enclosed in this mailing with your 2011 annual statement, we are providing a leaflet summarizing the features of the Roth option and its benefits. The enclosed TSP *Highlights* provides additional information to help you consider whether Roth contributions could be to your advantage. What better way to celebrate our 25th year than by introducing such an important feature?

Other highlights of 2011 were the retirement of the L 2010 Fund and the subsequent opening of the L 2050 Fund, designed for participants who will begin to withdraw their money after 2045. We introduced new forms that collapse civilian and uniformed service versions into one, and we continue to work on eliminating dual versions for other forms. In the fall, we randomly selected over 57,000 of you to participate in our 2011 participant survey. You can be sure that we are paying close attention to the information we have collected in this survey. To view the survey's summary results, visit www.tsp.gov and click on the link from the home page bulletin board.

Federal employees and the TSP have come a long way together. Your participation has made the TSP what it is today—a great home for your retirement savings. The five presidentially appointed Board members and I are required by law to manage the TSP prudently and solely in the interest of you and your beneficiaries. We are, and will remain, committed to making the TSP a safe and cost effective plan for growing and maintaining your retirement income.

Sincerely,

A handwritten signature in black ink, appearing to read 'GTL', is positioned above the printed name and title.

Greg T. Long
Executive Director