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Thinking About Rolling Over Funds From Your Thrift Savings Plan? Consider This.

Saving for retirement is a top financial concern for Americans, and many are confused about their retirement savings options. You've likely seen ads or heard messages encouraging you to move money from your Thrift Savings Plan (TSP) account to an individual retirement account (IRA). But the decision to move your retirement nest egg or stay put is an important one. In many cases, you don't have to act immediately upon switching jobs or retiring.

Take the time to assess your options—including to stay in the TSP or to transfer money from another retirement account into your TSP. Ask questions and do your own research, using unbiased resources, to determine what's best for you. These 10 tips can help you get started.

1. **Evaluate your transfer options.**
   You can keep some or all your savings in your TSP, transfer assets to your new employer's plan if allowed (check with a new employer's benefits or human resources office), roll over your plan assets into an IRA, or cash out your balance. There are pros and cons to each, but cashing out your account is rarely a good idea for younger individuals. If you're under age 59½, the IRS generally will consider your payout an early distribution, meaning you could owe a 10 percent early withdrawal penalty on top of applicable federal, state and local taxes.

2. **Consider rolling to a similar account type.**
   If you decide to roll over your TSP assets to an IRA, you can choose either a traditional IRA or Roth IRA. No taxes are due if you roll over assets from a traditional TSP account to a traditional IRA, or from a Roth TSP account to a Roth IRA. But if you move from a traditional plan to a Roth IRA, you'll have to pay taxes on the rollover amount you convert. It's a good idea to consult with your plan administrator, as well as financial and tax professionals, about the tax implications of each option.

3. **Think twice before making an indirect rollover.**
   With a direct rollover, you instruct the TSP to send your assets directly to your new employer's plan or to an IRA—you never have to handle the money yourself. With an indirect rollover, you start by requesting a lump-sum distribution from TSP and then take responsibility for completing the transfer. You won't get the full amount because the plan is required to withhold 20 percent to ensure that taxes will be paid if the rollover isn't completed. So if you want to roll over the full amount, you'll have to add funds from another source. You must deposit the funds in an IRA within 60 days to avoid taxes on pre-tax contributions and earnings—and the potential of an additional 10 percent tax penalty if you're younger than 59½. You get back the 20 percent that was withheld if you properly complete the rollover.

4. **Be wary of "Free" or "No Fee" claims.**
   Competition among financial firms for IRA business is strong, and advertising about rollovers and IRA-related services is common. In some cases, the advertising can be misleading. FINRA has observed overly broad language in advertisements and other sales material that implies there are no fees charged to investors who have accounts with the firms. Even if there are no costs associated with a rollover itself, there will almost certainly be costs related to account administration, investment management or both. Don't roll over your retirement funds solely based on the word "free."

5. **Realize that conflicts of interest exist.**
   Financial professionals who recommend an IRA rollover might earn commissions or other fees as a result. In contrast, leaving assets in the TSP or rolling the assets to a plan sponsored by your new employer likely results in little or no compensation for a financial professional. In short, even if the recommendation is sound, any financial professional who recommends that you move money from the TSP into an IRA could likely benefit financially from that move.

6. **Compare investment options and other services.**
   An IRA often enables you to select from a broader range of investment options than an employer plan but might not offer the same low-cost options the TSP does. Whether the IRA options are attractive will depend in part on how satisfied you are with the options offered by the TSP. Some employer plans also provide access to investment advice, planning tools, help lines, educational materials and workshops. Similarly, IRA providers offer different levels of service, which may include full brokerage service, investment advice and distribution planning. If you're considering a self-directed IRA, be mindful of the tradeoffs and the unique risks associated with this particular type of IRA.

7. **Understand fees and expenses.**
Both the TSP and IRAs involve investment-related expenses and plan or account fees. In some cases, employers pay for some or all of the plan's administrative expenses. Before making a rollover decision, know how much you're currently paying for TSP to manage your retirement funds. The expenses for TSP funds are generally among the lowest. Compare those to the fees and expenses of a new plan or IRA. Ask your financial professional to provide you with information about fees and expenses, and read your account agreement and any investment prospectuses.

8. **Consult with your financial or tax professional.**
Don't be shy about raising issues such as tax implications, differences in services, and fees and expenses between retirement savings alternatives. If your financial professional recommends that you sell securities in your plan or purchase securities in a newly opened IRA, ask what makes the recommendation suitable for you. As with any investment, if you don't understand it, don't buy it.

9. **Know that age matters.**
If you leave your job between age 55 and 59½, you may be able to take penalty-free withdrawals from the TSP. In contrast, penalty-free withdrawals generally aren't allowed from an IRA until age 59½. But you can't keep your retirement funds in your account indefinitely. Both traditional employer plans and traditional IRAs require the periodic withdrawal of certain minimum amounts, known as the required minimum distribution (RMD), once you've reached the mandatory age. The RMD rules don't apply to Roth IRAs while the owner is alive. If you're still working, however, you generally aren't required to take RMDs from your current employer's plan.

10. **Be aware that you can transfer funds into the TSP instead of out.**
Many of the messages encouraging IRA rollovers focus on moving money out of the TSP or similar plans. But one choice you have is to roll money in. You can move into your traditional TSP account both transfers and rollovers of tax-deferred money from traditional IRAs, SIMPLE IRAs and eligible employer plans. The TSP will accept into the Roth balance of your TSP transfers from Roth 401(k)s, Roth 403(b)s and Roth 457(b)s—but you can't indirectly roll over Roth funds into your TSP, and you can't move money from a Roth IRA into your TSP account. If you don't already have a Roth balance in your existing TSP account, the transfer will create one.

TIP:

SPECIAL TREATMENT OF EMPLOYER MATCHES IN ROTH PLANS

The IRS requires that any employer match of contributions made to a Roth plan be placed in a pre-tax account and treated like matching assets in a traditional plan.

The match you receive into the TSP might vary based on the type of account you have and your length of service. Future employers might offer matching contributions as well.

To avoid taxes when rolling over a Roth plan that includes matching contributions from your employer, you'll need to request the transfer of your contributions and earnings to a Roth IRA and your employer's matching contributions and earnings to a traditional IRA.

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