# Is the Roth TSP the Appropriate Choice for All Federal Employees?

Federal employees have had the option between contributing to the Roth Thrift Savings Plan (TSP) or traditional TSP, since 2013, but which TSP retirement account is the more appropriate choice for the average federal employee?

**The differences between the traditional and Roth TSP accounts lie in how a participant contributes to and withdraws from each account:**

Contributions to a traditional TSP are deducted from an employee's gross salary, resulting in current-year tax savings for federal income and in many states, state income taxes. Contributions accrue earnings (interest, dividends, or capital gains) in the various funds available in the TSP – C, S, I, F and G funds, and the Life Cycle funds.  With the traditional TSP, the contributions and accrued earnings are not taxed until they are withdrawn in retirement.

With the Roth TSP, contributions are made with after-taxed dollars resulting in no current-year tax savings. The after-taxed contributions will therefore not be taxed when they are withdrawn in retirement. The Roth TSP participant has access to the same funds as a traditional TSP participant. In retirement, the Roth TSP participant will not pay income tax on the withdrawn accrued earnings provided the Roth TSP participant is over age 59.5 when the Roth TSP funds are withdrawn, and it has been at least five years since the Roth TSP participant made their first Roth TSP contribution.

**Some other considerations:**

· **It is not a matter of choosing "either one TSP account or the other TSP account".** *An employee can contribute to both the traditional TSP and to the Roth TSP during 2019*. Total contributions cannot exceed $19,000 for employees younger than 50 during 2019 and $25,000 for employees over age 49 during 2019.

· **When will the TSP funds be needed**? Roth TSP is different from a Roth IRA. Contributions to a Roth IRA (made with after-taxed dollars) can be withdrawn tax-free if needed such as to pay for an emergency, or to use for a house down payment. But Roth TSP contribution withdrawals before age 59.5 often incur taxes or penalties.

· **Do not neglect "tax diversification**". All employees should consider how they can save on taxes both now and in the future. Contributing to the traditional TSP results in current-year tax savings, while contributing to the Roth TSP results in future tax savings.