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The ROTH IRA Switch! TSP Thoughts, & The 2008 Election

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The Roth IRA Switch!

Retirees may discover that shifting some or all of their THRIFT savings or traditional IRAs into a ROTH will save them taxes on investment earnings and growth long term. A good idea in many cases. Roth IRAs provide tax-free earnings on your contributions however you **MUST** pay taxes on your initial ROTH contributions. The amount that you transfer into a ROTH is fully taxed at current tax rates. Since you already paid taxes on your contributions you can withdraw them from a Roth IRA at any time tax-free.

Generally, if your account has been open for at least 5 years, your earnings are tax-free when you withdraw them. Usually, you must be 59½ or older in order to avoid paying a 10% early withdrawal penalty tax on your earnings. Other exceptions to the withdrawal penalty tax may also apply. [IRS publication 590](#) provides detailed guidance.

Roth IRAs do not require minimum distributions for participants starting at age 70½ like traditional IRAs require and beneficiaries pay **NO INCOME TAXES** for inherited accounts open at least five years. ROTH IRAs are one of the few investment vehicles that we have, other than municipal bonds, that earn tax free income.

The 2008 income limits are \$116,000 for an individual and \$169,000 for a married couple filing jointly. These income limits are eliminated in the year 2010. At that time anyone, regardless of income, can convert their THRIFT and IRAs to a ROTH. Thanks to the 2006 Pension Protection Act, if you convert to a ROTH in 2010 you are permitted to pay the taxes over a two year period, half in 2011 and the remaining half in 2012, a great deal for all. Uncle Sam receives a windfall in 401K taxes that they wouldn't normally receive for decades and those who convert will earn tax free gains on their investments and get to defer the tax burden over a three year period, 2010 through 2012.

Retirees that are working and earning income under the limits, most federal retirees, can open and contribute to a ROTH. Contributions limits for 2008 are the lessor of \$5,000 or

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your taxable compensation for the year. If you are over 50 the limit increases to \$6,000.

Additional Resources:

ROTH Conversion Questions & Answers - <http://federaljobs.net/retire/benefits.htm> You will also find links to informative articles on this subject following the Q&As.

TSP Web Site - <http://tsp.gov>

IRS Publication 590 - <http://www.irs.gov/pub/irs-pdf/p590.pdf>

TSP Thoughts - Annual Statement & Gains

I received my annual TSP statement several months ago. Since I retired three years ago and stopped contributing my TSP account has increased by just under 20%. Even with the down market I'm holding my own. The funds gains for the past 12 months are revealing:

	G-Fund	F-Fund	C-Fund	S-Fund	I-Fund
Year-to-date	1.14%	2.10%	(5.01%)	(4.70%)	(3.92%)
12 Months	4.37%	7.12%	(4.61%)	(5.70%)	(0.88%)
	L-Fund	L-2010	L-2020	L-2030	L-2040
Year-to-date	0.22%	(0.71%)	(2.10%)	(2.81%)	(3.40%)
12 Month	3.21%	2.13%	0.06%	(0.94%)	(1.78%)

It would be tempting to switch to 100% G Fund at times like these, however you would more than likely loose out when the market recovers. If you go back to 1997, 98 and 99 the C fund advanced a total of 82% during that three year period, hard to believe when you are in a down market. The flip side of the coin is that had you invested just in the G Fund for the past 10 years the total gain would have been 5.12% opposed to the just 5.88% total C Fund return and you may have slept a lot better during the down times. If we could only time the market we would all be millionaires.

One significant factor is revealed in the table for the Life Cycle funds. As you get closer to retirement the life cycle fund are doing what they were designed to do and they become more conservative. The chart shows that when you reach your target, even in a down market you still earn a decent return and at the out years, the L 2040 fund didn't do that bad at all. All in all my TSP return on my total contributions over the years, is now at 220%. I've always been fairly conservative with my TSP account.

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Commentary - The 2008 Election

The election is almost upon us and I'm sure this will be a gut wrenching contest as is now measures up. My concerns revolve around the direction the country needs to take to continue our path of prosperity and growth. There are many critical issues to consider that both parties are side stepping to avoid stepping on anyone's toes. This is unfortunate for all of us. We need to regain energy self sufficiency and encourage oil exploration until we can develop viable energy options. We must stop the flood of illegal immigrants that come to this country expecting full social services and health care when our working middle class and poor can't afford the same. Illegal immigrants are bankrupting border states. The money we spend on the border, etc could go to infrastructure and other needs. We don't have to build a fence to keep illegal immigrants out. All we have to do is pass laws denying them free medical care, food stamps and social services, stop granting automatic citizenship to their

newborns, fine employers who ignore our laws and employ them and the problem will resolve itself, without huge costs.

When it comes to energy self sufficiency, Congress has repeatedly rejected drilling in Anwar and off shore. Had they approved this 20 years ago when it was first proposed we wouldn't be paying \$4.00 a gallon for gas and looking at \$5 to \$7 a gallon in the near future. Sure we must fund research for renewable energy options but we can't place all of our bets on a maybe. We have the oil reserves NOW but Congress fails to act. It is almost as if they, our representatives, want American's to suffer and loose our international competitive edge.

This election is too important to stand on the sidelines. I encourage everyone to get involved, write your Congressman, and vote your conscience.

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<http://healthcarejobs.org> (Health Care Career & Jobs Center)

<http://postofficejobs.info> (Postal Career Center)

<http://ehsjobs.org> (Environmental Health & Safety Job Center)

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