

**A PRACTICAL GUIDE TO ROTH IRA CONVERSIONS**

**BASICS**

I. HISTORY OF IRAs

- First introduced now known as “Traditional”
- Change in 1997 to add a second type known as “Roth”

II. ABILITY TO “CONTRIBUTE” DIRECTLY TO EITHER TYPE

- Earned Income – See Bold Print in the first paragraph of Page 2.
- AGI Income Limitation
  - a. Traditional – No Limitation but deductibility may be impacted
  - b. Roth – Direct Investment Limited, Indirect Investment via Transfer From a Traditional IRA.
- Aggregation Rules

III. ROLLOVER/TRANSFER TO A ROTH

- Unlimited amount but there may be a tax cost
- Know your traditional IRA “basis”  
See IRA Form 8606
- Voluntary Contribution Opportunity  
Tammy’s GovExec Article on Voluntary Contributions

IV. WHY ARE YOU CONSIDERING THIS?

Tax Free Income to you or family

Estate Planning

V. LISTEN TO OUR JULY 11, 2011 RADIO SHOW – See Website Below

- [http://www.nitpinc.com/roth\\_show.html](http://www.nitpinc.com/roth_show.html)

VI. KNOW THE BASICS AND SEEK PROFESSIONAL GUIDANCE

IRA OPPORTUNITIES  
Part One of a Two Part Series  
By: Bob Leins, CPA

[January, 2010]

The following is a brief history of the IRA:

1975

The Individual Retirement Arrangement (IRA) was introduced for calendar year 1975. Initially, an IRA was designed to allow a taxpayer an income tax savings opportunity that at the same time created an investment opportunity. The only requirement then as well as now is that an individual has “earned income” in the year in which an IRA contribution is desired. **Earned income includes salary, wage, small business profit or alimony income. Spouses are also eligible to contribute to their own IRA even if they had no earned income as long as their spouse had earned income.** The earnings that the IRA generated are not subject to income tax until withdrawn. The original investment was also subject to income tax when withdrawn.

1987

Beginning in calendar year 1987 the tax deductibility of the IRA investment was denied if one’s income exceeded a certain amount and that person was included in a retirement plan of the employer. As a result of this change, many felt that if the tax benefit for investing funds into an IRA were taken away, the opportunity was not worthy of the investment and participation dropped. These feelings some had may or may not have been accurate.

1997

Congress introduced a new version of the IRA that allowed the earnings after meeting very simple tests, to forever be non-taxable. The new version is called a “Roth” IRA. An IRA that is not a Roth IRA is called a “Traditional” IRA. Either a Roth or Traditional IRA are currently available for one’s 2010 tax return and for a 2009 tax return generally if made by April 15, 2010.

Where and what can an IRA be invested in

IRAs can be purchased in banks, credit unions, brokerage houses, investment companies and other financial institutions. Qualified investment choices include savings accounts, Certificate of Deposits, bonds, stocks, mutual funds, real estate and other qualified investments.

Current Opportunities

Roth IRAs are attractive to many individuals, however income ceilings in the past as well as now preclude some from directly investing in a Roth IRA (See T-24). On the other hand, there is no income ceiling for participating in a traditional IRA. Earned income (see above) remains a prerequisite.

Effective January 1, 2010, generally an individual can transfer funds from a Traditional IRA to a Roth IRA without concern for the size of one’s income. This opportunity opens a wide range of options that include transferring Traditional IRA funds to a Roth IRA, transferring the taxable portion of a Traditional IRA to the TSP and transferring the remaining non-taxable portion of the Traditional IRA tax free to a Roth IRA.

IRA OPPORTUNITIES  
PART TWO OF A TWO PART SERIES  
BY: BOB LEINS, CPA  
[January 2010]

This article will discuss opportunities that became available January 1, 2010.

### **Roth IRA opportunity available to all regardless of income.**

Prior to 1-1-2010, one's "Adjusted Gross Income" aka **AGI** restricted direct Roth contributions. As well, a transfer from a traditional IRA to a Roth IRA were limited by AGI. Please note that AGI restrictions remain on direct investment in a Roth. However "AGI" will no longer be a restriction to move tradition IRA funds to a Roth IRA.

**This provision allows anyone without regard to income to invest in a traditional IRA and then transfer to a Roth.** At first glance, this appears too good to be true. While the opportunity is available be very careful to define what prior traditional IRAs exist and what their collective "basis" is (See IRS Form 8606 Lines 1, 2 and 3).

### **Roth IRA Benefits**

- After meeting certain tests tax free earnings
- No mandatory distributions upon reaching the age of 70 ½
- Tax free income to future generations
- No age limit on contribution to a Roth IRA
- Outstanding opportunity regarding to utilize the Voluntary Contribution program to fund a Roth

### **Roth IRA Caution**

- Tax cost, if any, to transfer a traditional IRA to a Roth IRA
- Where will the funds come from to pay the tax
- Drop in market value of assets transfer to Roth (this problem could be alleviated by a "recharacterization")
- Potential lower income tax bracket in retirement
- There currently is no mention, whisper or rumor that Roth IRAs would ever become taxable. However, be aware that Social Security income was once in a similar protected environment

### **Summary**

Much has been written, debated and discussed regarding Roth IRAs, traditional IRAs, the Voluntary Contribution plan and the impact the year 2010 has on these opportunities. While the opportunities are many there are pitfalls to be avoided. Please either full understand the ramifications yourself or seek professional guidance.

For a further detailed discussion of these opportunities, please listen to our July 11, 2011 Radio Show, **ForYourBenefit**, archived on [www.nitpinc.com](http://www.nitpinc.com).

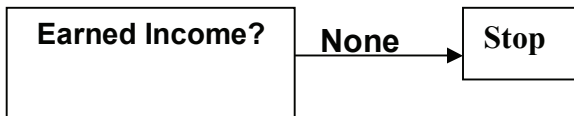
## 2011 AGI (Modified) Phase-Out Amounts/Ranges

Filing Status	Traditional IRA Deduction <sup>1</sup>	Roth IRA Contribution
MFJ & QW	\$90,000 - \$110,000	\$169,000 - \$179,000
Single	\$56,000 - \$66,000	\$107,000 - \$122,000
HOH	\$56,000 - \$66,000	\$107,000 - \$122,000
MFS	\$ 0 - \$10,000	\$ 0 - \$10,000

IRA

**Roth** ←
? →
**Traditional**

↑  
**Yes- Continue**



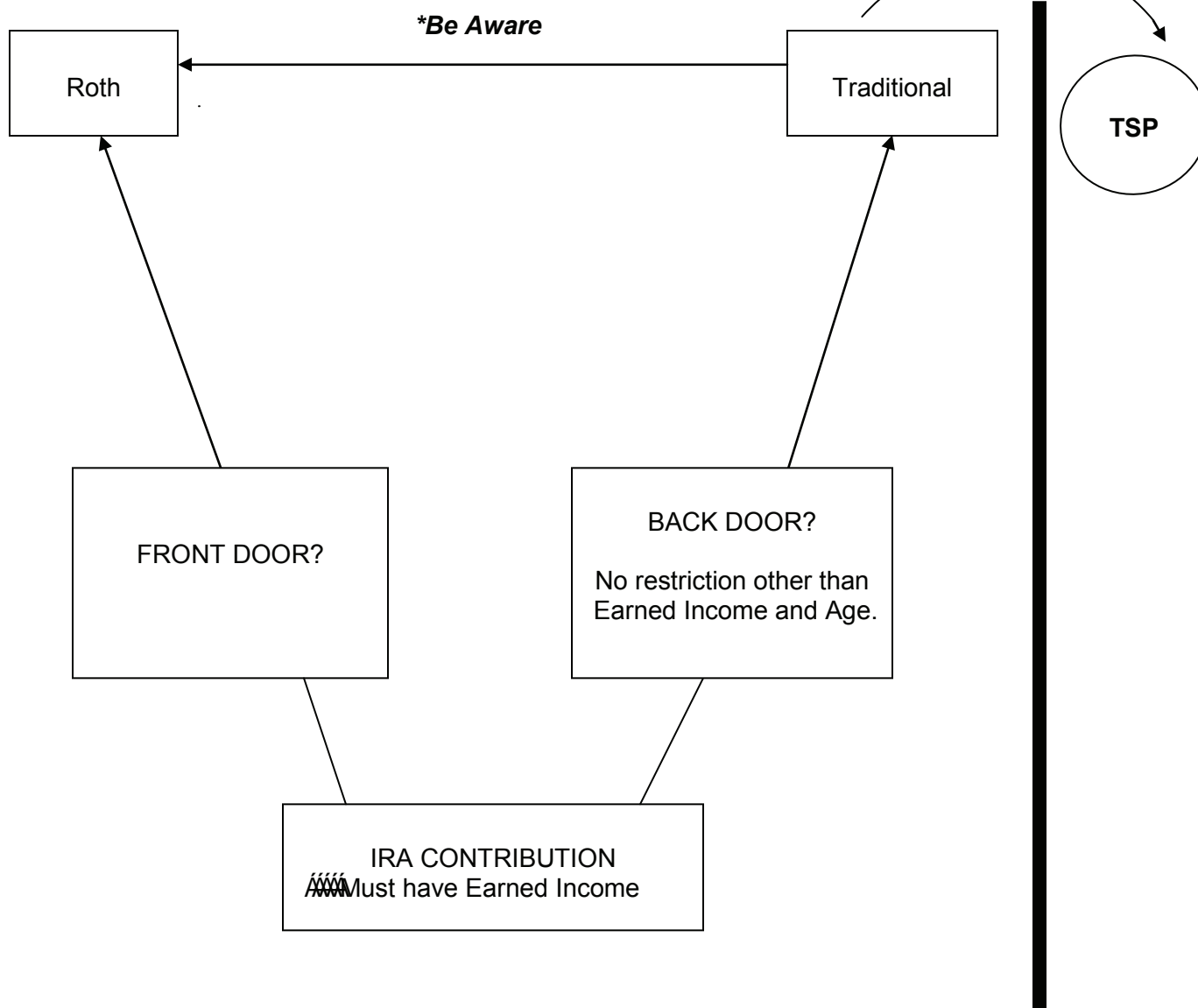
↑  
**2011 Contribution (Available Through April 17, 2012)**

---

<sup>1</sup> Based on coverage in a Retirement Plan provided by your Employer

## DESTINATION ROTH IRA

(See TSP Form 60 Page I)



**\*Be aware that a transfer will create a new five year holding period. Also be aware of Recharacterization Opportunity and seek professional guidance!**

**For CSRS and CSRS-Offset: Pay special attention regarding a voluntary contribution (VC) transfer to Roth IRA.** Detailed consideration should be given to those transferring a VC. See Pages FFA@ ~ \* @FI for a discussion of the VC program. Also be certain to understand the potential impact of IRS Notices 2009-68 and 2009-75. **seek professional guidance!**

## TRADITIONAL IRA – AGGREGATION RULE

- I. Number of IRAs and value at December 31 of any year

<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="padding: 2px 10px;">IRA 1</td> <td style="padding: 2px 10px;">IRA 2</td> </tr> <tr> <td style="padding: 2px 10px;">IRA 3</td> <td style="padding: 2px 10px;">IRA 4</td> </tr> </table>	IRA 1	IRA 2	IRA 3	IRA 4	= \$50,000	Total Traditional IRAs
IRA 1	IRA 2					
IRA 3	IRA 4					

Total Non Deductible IRAs Included in the \$50,000	\$10,000	Total
---	----------	-------

Aggregation Rules	\$10,000	÷ 50,000 = 80 % Taxable!
-------------------	----------	--------------------------

- II. Transfer Taxable Portion (\$40,000) to TSP via form TSP-60 (Úæ ^Å) to continue deferral of Income Tax
- III. After transfer of taxable portion total taxable traditional IRAs are zero. This then allows the \$10,000 of non-taxable IRAs to be transferred to a Roth IRA tax free. See Úæ ^Å



# THRIFT SAVINGS PLAN REQUEST FOR A TRANSFER INTO THE TSP

# TSP-60

Use this form to request a transfer or to complete a rollover from an eligible retirement plan into your Thrift Savings Plan (TSP) account. Funds received by the TSP will not be invested until a properly completed Form TSP-60 has been received. To transfer funds into the TSP, **you must have an open TSP account.** (If you are receiving monthly payments, you **can** transfer money into your account.) **A check should accompany this form.** To properly identify your account, the check, or accompanying documentation, **must** show your name and TSP account number or Social Security number. Once funds are posted to your TSP account, they are allocated according to the most current contribution allocation on file. **Give this entire form with cover page to the trustee (or custodian) of your traditional IRA or SIMPLE IRA, or to the administrator of your eligible employer plan.**

## I. INFORMATION ABOUT YOU

1. Name \_\_\_\_\_  
Last First Middle
2. \_\_\_\_\_ 3. \_\_\_\_\_ / \_\_\_\_\_ / \_\_\_\_\_ 4. (\_\_\_\_\_) \_\_\_\_\_ - \_\_\_\_\_  
TSP Account Number Date of Birth (mm/dd/yyyy) Daytime Phone (Area Code and Number)
5. Address \_\_\_\_\_  
Street address or box number
6. City \_\_\_\_\_ 7. \_\_\_\_\_ 8. \_\_\_\_\_  
State/Country Zip Code

## II. INFORMATION ABOUT YOUR FUNDS

*(See Section II instructions on back of form.)*

9. This is a:  Transfer  Rollover (For complete definitions, see General Information on page 2. **Note:** If this is a **direct rollover**, check "Transfer.")
10. Amount being submitted \$ \_\_\_\_\_
11. If this is a rollover, the date you received the distribution \_\_\_\_\_  
mm dd yyyy
12. This distribution is from my:  
 Eligible Employer Plan  Traditional IRA  SIMPLE IRA

## III. YOUR CERTIFICATION

I, \_\_\_\_\_, certify to the best of my knowledge that the distribution I am transferring or rolling over into the TSP meets the requirements for a distribution from an IRA or an eligible employer plan (whichever is applicable) that are described on page 2 of this form.

I further certify that I have read this form (and instructions) in its entirety and that the information I have provided is true and complete to the best of my knowledge. **Warning:** Any intentional false statement in this request or willful misrepresentation concerning it is a violation of law that is punishable by a fine or imprisonment for as long as 5 years, or both (18 U.S.C. §1001).

13. \_\_\_\_\_ 14. \_\_\_\_\_  
Participant's Signature Date Signed

## IV. CERTIFICATION BY TRADITIONAL IRA OR ELIGIBLE EMPLOYER PLAN ADMINISTRATOR

This section **must** be completed by the trustee (or custodian) of the IRA or by the administrator of the eligible employer plan from which the distribution is being (or was) distributed. **Do not send funds if this form is not completed in its entirety or if the appropriate documentation is not provided.** The participant's TSP account number or Social Security number **must** be included on the check **or** with accompanying documentation. If the distribution is from a SIMPLE IRA, the check or accompanying documentation must show the dates of participation in the IRA.

15. Gross amount of distribution (see back of form). \$ \_\_\_\_\_

I certify that the funds are being or have been distributed from an eligible retirement plan as defined in I.R.C. § 402(c)(8)(B).

16. \_\_\_\_\_  
Typed or printed name of Financial Institution Representative or Plan Administrator
17. \_\_\_\_\_ 18. \_\_\_\_\_  
Signature of Financial Institution Representative or Plan Administrator Date Signed
19. \_\_\_\_\_ 20. (\_\_\_\_\_) \_\_\_\_\_ - \_\_\_\_\_  
Name of Institution Contact Phone Number
21. \_\_\_\_\_  
Address



**Nondeductible IRAs**

Department of the Treasury  
Internal Revenue Service (99)

▶ See separate instructions.  
▶ Attach to Form 1040, Form 1040A, or Form 1040NR.

**2010**  
Attachment  
Sequence No. **48**

Name. If married, file a separate form for each spouse required to file Form 8606. See instructions.

Your social security number

**Fill in Your Address Only  
If You Are Filing This  
Form by Itself and Not  
With Your Tax Return**

Home address (number and street, or P.O. box if mail is not delivered to your home)

Apt. no.

City, town or post office, state, and ZIP code

**Part I Nondeductible Contributions to Traditional IRAs and Distributions From Traditional, SEP, and SIMPLE IRAs**

Complete this part only if one or more of the following apply.

- You made nondeductible contributions to a traditional IRA for 2010.
- You took distributions from a traditional, SEP, or SIMPLE IRA in 2010 **and** you made nondeductible contributions to a traditional IRA in 2010 or an earlier year. For this purpose, a distribution does not include a rollover, one-time distribution to fund an HSA, conversion, recharacterization, or return of certain contributions.
- You converted part, but not all, of your traditional, SEP, and SIMPLE IRAs to Roth IRAs in 2010 (excluding any portion you recharacterized) **and** you made nondeductible contributions to a traditional IRA in 2010 or an earlier year.

→ 1	Enter your nondeductible contributions to traditional IRAs for 2010, including those made for 2010 from January 1, 2011, through April 18, 2011 (see instructions)				<b>1</b>		
→ 2	Enter your total basis in traditional IRAs (see instructions) See Page 10				<b>2</b>		
→ 3	Add lines 1 and 2				<b>3</b>		
	<b>In 2010, did you take a distribution from traditional, SEP, or SIMPLE IRAs, or make a Roth IRA conversion?</b>	<b>No</b> →	Enter the amount from line 3 on line 14. Do not complete the rest of Part I.				
		<b>Yes</b> →	Go to line 4.				
4	Enter those contributions included on line 1 that were made from January 1, 2011, through April 18, 2011				<b>4</b>		
5	Subtract line 4 from line 3				<b>5</b>		
6	Enter the value of <b>all</b> your traditional, SEP, and SIMPLE IRAs as of December 31, 2010, plus any outstanding rollovers (see instructions)	<b>6</b>					
7	Enter your distributions from traditional, SEP, and SIMPLE IRAs in 2010. <b>Do not</b> include rollovers, a one-time distribution to fund an HSA, conversions to a Roth IRA, certain returned contributions, or recharacterizations of traditional IRA contributions (see instructions)	<b>7</b>					
8	Enter the net amount you converted from traditional, SEP, and SIMPLE IRAs to Roth IRAs in 2010. <b>Do not</b> include amounts converted that you later recharacterized (see instructions). Also enter this amount on line 16	<b>8</b>					
9	Add lines 6, 7, and 8	<b>9</b>					
10	Divide line 5 by line 9. Enter the result as a decimal rounded to at least 3 places. If the result is 1.000 or more, enter "1.000"	<b>10</b>	×				
11	Multiply line 8 by line 10. This is the nontaxable portion of the amount you converted to Roth IRAs. Also enter this amount on line 17	<b>11</b>					
12	Multiply line 7 by line 10. This is the nontaxable portion of your distributions that you did not convert to a Roth IRA	<b>12</b>					
13	Add lines 11 and 12. This is the nontaxable portion of all your distributions	<b>13</b>					
14	Subtract line 13 from line 3. This is <b>your total basis in traditional IRAs for 2010 and earlier years</b>	<b>14</b>					
15	<b>Taxable amount.</b> Subtract line 12 from line 7. If more than zero, also include this amount on Form 1040, line 15b; Form 1040A, line 11b; or Form 1040NR, line 16b	<b>15</b>					

**Note:** You may be subject to an additional 10% tax on the amount on line 15 if you were under age 59½ at the time of the distribution (see instructions).

**Part II 2010 Conversions From Traditional, SEP, or SIMPLE IRAs to Roth IRAs**

Complete this part if you converted part or all of your traditional, SEP, and SIMPLE IRAs to a Roth IRA in 2010 (excluding any portion you recharacterized).

16	If you completed Part I, enter the amount from line 8. Otherwise, enter the net amount you converted from traditional, SEP, and SIMPLE IRAs to Roth IRAs in 2010. <b>Do not</b> include amounts you later recharacterized back to traditional, SEP, or SIMPLE IRAs in 2010 or 2011 (see instructions)	<b>16</b>				
17	If you completed Part I, enter the amount from line 11. Otherwise, enter your basis in the amount on line 16 (see instructions)	<b>17</b>				

**Part II 2010 Conversions From Traditional, SEP, or SIMPLE IRAs to Roth IRAs (Continued)**

<b>18</b>	<b>Taxable amount.</b> Subtract line 17 from line 16. . . . .	<b>18</b>		
<b>19</b>	<b>Amount subject to tax in 2010.</b> Check the box if you elect to report the entire taxable amount in 2010 rather than reporting 1/2 of it in 2011 and 1/2 in 2012. Generally, you must check this box if you check the box on line 24 (see instructions). . . . . <input type="checkbox"/> If you checked the box, enter the amount from line 18 on this line and include this amount on Form 1040, line 15b, Form 1040A, line 11b, or Form 1040NR, line 16b. If you did not check the box, skip line 19 and go to line 20a.	<b>19</b>		
<b>20a</b>	<b>Amount subject to tax in 2011.</b> If you did not check the box on line 19, multiply the amount on line 18 by 50% (.50) and enter it here. Include this amount on the applicable line of your 2011 tax return . . . . .	<b>20a</b>		
<b>b</b>	<b>Amount subject to tax in 2012.</b> Subtract line 20a from line 18. Include this amount on the applicable line of your 2012 tax return . . . . .	<b>20b</b>		

**Part III 2010 Rollovers From Qualified Retirement Plans to Roth IRAs and In-plan Rollovers to Designated Roth Accounts**

Complete this part if you rolled over part or all of your qualified retirement plan to a Roth IRA (excluding recharacterizations), or rolled over an amount to a designated Roth account within the same plan, in 2010.

<b>21</b>	Enter the amount you rolled over from qualified retirement plans to Roth IRAs and any in-plan rollovers to designated Roth accounts, in 2010. <b>Do not</b> include amounts you later recharacterized to traditional IRAs in 2010 or 2011 (see instructions) . . . . .	<b>21</b>		
<b>22</b>	Enter your basis in the amount on line 21 . . . . .	<b>22</b>		
<b>23</b>	<b>Taxable amount.</b> Subtract line 22 from line 21. . . . .	<b>23</b>		
<b>24</b>	<b>Amount subject to tax in 2010.</b> Check the box if you elect to report the entire taxable amount in 2010 rather than reporting 1/2 of it in 2011 and 1/2 of it in 2012. Generally, you must check this box if you checked the box on line 19 (see instructions) . . . . . <input type="checkbox"/> If you checked the box, enter the amount from line 23 on this line and include this amount on Form 1040, line 16b, Form 1040A, line 12b, or Form 1040NR, line 17b . . . . . If you did not check the box, skip line 24 and go to line 25a.	<b>24</b>		
<b>25a</b>	<b>Amount subject to tax in 2011.</b> If you did not check the box on line 24, multiply the amount on line 23 by 50% (.50) and enter it here. Include this amount on the applicable line of your 2011 tax return . . . . .	<b>25a</b>		
<b>b</b>	<b>Amount subject to tax in 2012.</b> Subtract line 25a from line 23. Include this amount on the applicable line of your 2012 tax return . . . . .	<b>25b</b>		

**Part IV Distributions From Roth IRAs (and Certain Distributions from Designated Roth Accounts) (see instructions)**

Complete this part only if you took a distribution from a Roth IRA, and for certain distributions from a designated Roth account, in 2010. For this purpose, a distribution does not include a rollover, a one-time distribution to fund an HSA, recharacterization, or return of certain contributions (see instructions).

<b>26</b>	Enter your total nonqualified distributions from a Roth IRA in 2010, including any qualified first-time homebuyer distributions, and certain qualified distributions (see instructions) . . . . .	<b>26</b>		
<b>27</b>	Qualified first-time homebuyer distributions (see instructions). Do not enter more than \$10,000 . . . . .	<b>27</b>		
<b>28</b>	Subtract line 27 from line 26. If zero or less, enter -0- and stop here. . . . .	<b>28</b>		
<b>29</b>	Enter your basis in Roth IRA contributions (see instructions) . . . . .	<b>29</b>		
<b>30</b>	Subtract line 29 from line 28. If zero or less, enter -0- and stop here. If the amount is more than zero, you may be subject to an additional tax (see instructions) . . . . .	<b>30</b>		
<b>31</b>	Enter your basis in conversions from traditional, SEP, and SIMPLE IRAs and rollovers from qualified retirement plans to a Roth IRA (see instructions) . . . . .	<b>31</b>		
<b>32</b>	Subtract line 31 from line 30. If zero or less, enter -0- and do not complete the rest of Part IV . . . . . <b>Note.</b> If you completed lines 20a and 20b, or 25a and 25b, go to line 33. Otherwise, enter the amount from line 32 on line 35 and go to line 36.	<b>32</b>		
<b>33</b>	Enter the smaller of line 32 or the total of lines 20a, 20b, 25a, and 25b . . . . .	<b>33</b>		
<b>34</b>	Subtract line 33 from line 32. If zero, enter -0- and skip line 35 and go to line 36 . . . . .	<b>34</b>		
<b>35</b>	Subtract the total of lines 17 and 22 from line 34. If zero or less, enter -0- . . . . .	<b>35</b>		
<b>36</b>	<b>Taxable amount.</b> Add lines 33 and 35. If more than zero, also include this amount on Form 1040, line 15b, Form 1040A, line 11b, or Form 1040NR, line 16b. For distributions from designated Roth accounts, see instructions . . . . .	<b>36</b>		

**Sign Here Only If You Are Filing This Form by Itself and Not With Your Tax Return** Under penalties of perjury, I declare that I have examined this form, including accompanying attachments, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.

Your signature \_\_\_\_\_  Date \_\_\_\_\_

<b>Paid Preparer Use Only</b>	Print/Type preparer's name	Preparer's signature	Date	Check <input type="checkbox"/> if self-employed	PTIN
	Firm's name ▶				Firm's EIN ▶
	Firm's address ▶				Phone no.

Maximum IRA Contributions and Deduction Phase-out Ranges by Year

Years	<u>Maximum Contribution (Dollars)</u>			<sup>a</sup> Maximum Catch-up Contribution (Dollars)	<u>Deduction Phaseout Range (Thousands of Dollars)</u>			
	<u>Worker</u>		Nonworking Spouse		<u>Married Filing Jointly</u>			
	Covered	Not Covered			Unmarried	Spouse Covered	Spouse not covered	Married Filing Separately
1975 to 1981	0	1,500	0	0	n.a.	n.a.	n.a.	n.a.
1982 to 1986	2,000	2,000	250	0	n.a.	n.a.	n.a.	n.a.
1987 to 1996	2,000	2,000	250	0	25 to 35	40 to 50	40 to 50	0 to 10
1997	2,000	2,000	2,000	0	25 to 35	40 to 50	40 to 50	0 to 10
1998	2,000	2,000	2,000	0	30 to 40	50 to 60	150 to 160	0 to 10
1999	2,000	2,000	2,000	0	31 to 41	51 to 61	150 to 160	0 to 10
2000	2,000	2,000	2,000	0	32 to 42	52 to 62	150 to 160	0 to 10
2001	2,000	2,000	2,000	0	33 to 43	53 to 63	150 to 160	0 to 10
2002	3,000	3,000	3,000	500	34 to 44	54 to 64	150 to 160	0 to 10
2003	3,000	3,000	3,000	500	40 to 50	60 to 70	150 to 160	0 to 10
2004	3,000	3,000	3,000	500	45 to 55	65 to 75	150 to 160	0 to 10
2005	4,000	4,000	4,000	500	50 to 60	70 to 80	150 to 160	0 to 10
2006	4,000	4,000	4,000	1,000	50 to 60	75 to 80	150 to 160	0 to 10
2007	4,000	4,000	4,000	1,000	50 to 60	80 to 100	150 to 160	0 to 10
2008 to 2010	5,000 *	5,000 *	5,000 *	1,000 *	50 to 60	80 to 100	150 to 160	0 to 10

Source: Congressional Budget Office

Note: \* Indexed for inflation after 2008; n.a. = not applicable

a. Applies to people ages 50 and older

### **Golden Opportunity**

By Tammy Flanagan *National Institute of Transition Planning* October 15, 2010

I need to apologize upfront to my Federal Employees Retirement System readers this week. I know about 80 percent of government workers now are covered under FERS, but I didn't want to miss an opportunity to share a golden opportunity with my Civil Service Retirement System readers. Both FERS and CSRS employees can save pre-tax dollars in the Thrift Savings Plan, but CSRS employees also have access to another program for saving after-tax dollars called Voluntary Contributions.

I've written about Voluntary Contributions in the past (the [last time](#) was in May 2009), but I wanted to devote one more week to this subject since there have been some recent clarifications that I want to bring to your attention.

#### **What It Is**

Let's start with a definition: Voluntary Contributions is a savings program open to current employees (and recently retired employees who are awaiting the final processing of their retirement request) covered by CSRS and CSRS Offset. Employees can contribute up to 10 percent of their lifetime federal salaries to this account during their careers. These contributions can be made on a regular basis, sporadically, or all at once. Contributions must be made in multiples of \$25.

Putting money into Voluntary Contributions is very similar to making a deposit to a bank account. The money is safe (it is protected by the full faith and credit of the federal government) and earns interest. The 2010 interest rate is 3.125 percent -- the same as in the Civil Service Trust Fund. The interest credited to voluntary contributions accounts is compounded annually on Dec. 31. While you're contributing after-tax dollars, the interest grows tax-deferred and your investment is safe.

#### **Getting Started**

To set up a Voluntary Contributions account, you will need an [SF 2804](#) form. You can fill it out online, but the form itself must be printed on paper and submitted to a retirement specialist in your human resources office. The specialist will complete the agency certification section and submit the form to the Office of Personnel Management for you.

If you are planning to retire within the next three to four months, you can include the completed SF 2804 with your retirement application package. If you already have left federal service and are waiting for your retirement to be approved, then you can send your application directly to OPM's Retirement Operations Center at P.O. Box 45, Boyers, Pa., 16017-0045. No agency certification is necessary at this point. If your retirement claim already has been finalized, then you are not eligible to make Voluntary Contributions deposits.

One caveat: If you owe money to the retirement fund for nondeduction service (service that was not subject to civil service retirement withholding, such as temporary service), or refunded civil service retirement contributions, you won't be permitted to participate in Voluntary Contributions unless you pay your deposit, or redeposit the refunded contributions.

## Withdrawal Options

You are permitted only one withdrawal from Voluntary Contributions, and it must be for the full amount of the account. The withdrawal is made using form [RI 38-124](#). The form was revised in July to clarify your withdrawal options. Those options are:

- **A lump-sum refund either at retirement, or as soon as possible.**(Remember, once you make a withdrawal you will no longer be able to contribute unless you have a break in service and are rehired.)
- **A rollover option.** The interest portion can be paid to you with a 20 percent income tax withholding, or it can be paid directly to your individual retirement account. If the money is going to a Roth IRA, you can choose to have taxes withheld from the interest portion. The interest portion also can be transferred directly to the TSP (which requires form [TSP 60](#)). The contributions portion can be paid in a lump sum to you, or sent directly to your IRA. You cannot choose to have some of the funds paid to you and some to your IRA.
- **An additional CSRS annuity.** If you select this option, then the additional annuity will not include any cost-of-living adjustments. Upon your death, any balance that was not paid to you will be paid in a lump sum to the beneficiary of your CSRS contributions according to your CSRS Beneficiary Designation form [SF 2808](#), or according to the standard federal order of precedence, if no valid beneficiary form has been filed. If you retire at age 55 or younger and do not choose a survivor annuity benefit, then for every \$100 in Voluntary Contributions, you will receive an additional \$7 per year in retirement benefits. The annuity is payable for the rest of your life. It increases by 20 cents for every year you are older than 55 at retirement.

## Why Is This So Cool?

- The interest rate (3.125 percent) is higher than any bank that I know of is paying right now.
- The 10 percent of lifetime salary that can be contributed could add up to more than six figures for some feds. Compare that to an IRA: If you're younger than 50, then your 2010 contributions to a traditional IRA or a Roth IRA are limited to \$5,000, or the total of your taxable compensation, whichever is smaller. If you're 50 or older before the end of the year, then you're allowed to contribute up to an additional \$1,000.
- There are no income limits for participating in Voluntary Contributions. The amount you can contribute to a Roth IRA depends on your income. To make the full contribution, your modified adjusted gross income must be less than \$105,000 if you're single, or \$167,000 as a married couple filing jointly. If you earn slightly above those amounts, you might be able to make smaller contributions, which phase out after \$120,000 and \$177,000, respectively.
- You can transfer your entire Voluntary Contributions account to an IRA and you are not subject to the \$5,000 limit, or by your income.

OPM offers a [fact sheet](#) on Voluntary Contributions, and provides more detailed guidance in [Chapter 31](#) of the CSRS and FERS Handbook.

Earlier this week, Bob Leins and I discussed Roth conversion opportunities and the Voluntary Contributions plan on "For Your Benefit" at Federal News Radio. You can listen to an [archived version](#) of the show and download an extensive handout accompanying the program.

Federal News Radio columnist and radio personality Mike Causey also gave me the opportunity to discuss this subject on his show earlier this week. You also can listen to the [archived version](#) of that show.

**Tammy Flanagan** is the senior benefits director for the [National Institute of Transition Planning Inc.](#), which conducts federal retirement planning workshops and seminars. She has spent 25 years helping federal employees take charge of their retirement by understanding their benefits.



# APPLICATION TO MAKE VOLUNTARY CONTRIBUTIONS

## Civil Service Retirement System

(1) Type or print in ink.  
(2) Answer all the questions.

1. Name <i>(Last, first, middle)</i>		2. Date of birth <i>(mm/dd/yyyy)</i>		3. Social Security Number	
4. Address <i>(Number, street, city, state, and ZIP code)</i>				5. List all other names you have used <i>(Include maiden name, if applicable.)</i>	
6a. Do you have any civilian government service during which no Civil Service Retirement deductions were taken from your salary?		<input type="checkbox"/> Yes → <input type="checkbox"/> No	6b. Have you made a deposit to the Civil Service Retirement and Disability Fund to cover this non-deduction service?		<input type="checkbox"/> Yes <input type="checkbox"/> No
7a. Do you have any service during which Civil Service Retirement deductions were taken from your salary and later refunded to you?		<input type="checkbox"/> Yes → <input type="checkbox"/> No	7b. Have you made a redeposit to the Civil Service Retirement and Disability Fund of the amount refunded to you?		<input type="checkbox"/> Yes <input type="checkbox"/> No
8a. Have you ever made voluntary contributions and later received a refund of them?		<input type="checkbox"/> Yes → <input type="checkbox"/> No	8b. Have you since been separated from the government service for a period of more than 3 calendar days?		<input type="checkbox"/> Yes <input type="checkbox"/> No

**If your answer to question 6b, 7b, or 8b is "No", do not file this application. See the attached information.**

**Agency Certification**  
I certify that the applicant is an employee of the agency shown below, is in a position subject to the Civil Service Retirement System, and has answered question 6a correctly.

I hereby apply to make voluntary contributions to the Civil Service Retirement and Disability Fund. I am employed in a position subject to the Civil Service Retirement System or I am an applicant for retirement under the Civil Service Retirement System. I have read the information on the attached page.

Agency address	Signature
	Official title

Applicant's signature <i>(Do not print)</i>	Date	Telephone number (     )	Date
---	------	-----------------------------	------

**Privacy Act Statement**

Title 5, U.S. Code, Chapter 83, Civil Service Retirement authorizes the solicitation of this information. The data you furnish will be used to identify records properly associated with this application, to obtain additional information if necessary, and to determine if you are eligible to make voluntary contributions to the Civil Service Retirement and Disability Fund. This information may be shared and is subject to verification, via paper, electronic media, or through the use of computer matching programs, with national, state, local or other charitable or social security administrative agencies to determine and issue benefits under their programs or to report income for tax purposes. It may also be shared and verified, as noted above, with law enforcement agencies when they are investigating a violation or potential violation of civil or criminal law. Executive Order 9397 (November 22, 1943) authorizes use of the Social Security Number. Failure to supply all of the requested information may delay or prevent approval of your application.

You need to read the attached information so that you understand the effect of making voluntary contributions. Ask your personnel office if you are employed and need more information. If a personnel office is not available, contact the Office of Personnel Management at the address given or call 1-888-767-6738 (TDD: 1-800-878-5707).

## Voluntary Contributions Election

Before you make your election, please read all of the information about refunds of voluntary contributions in the Voluntary Contributions Notice, RI 38-125, and the Special Tax Notice Regarding Rollovers, RI 37-22. For more information about voluntary contributions or this election, call 1-888-828-9451.

**Please print clearly when you provide the following information:**

Your name ( <i>last, first, middle</i> )	Date of birth ( <i>mm/dd/yyyy</i> )
Your address	Daytime telephone number ( <i>including area code</i> )
Your Voluntary Contributions Account Number <b>VC</b>	Your Social Security Number

Date of Retirement or Separation (*if applicable*) \_\_\_\_\_

Give us your election by selecting item 1, 2, or 3.

To receive a refund by selecting item 3, please send this form to the Office of Personnel Management, Retirement Operations Center, PO Box 45, Boyers, PA 16017-0045, Attn: Refund Section. If you are retiring, send this form at least 60 days before your separation date. If you are making voluntary contribution payments via Pre-Authorized Debit (PAD), you must contact OPM, P.O. Box 979062, St. Louis, MO 63197-9000, in writing or call 888-828-9451 to have the debits discontinued. To purchase additional annuity by selecting item 1, return this form to your personnel office with your application for retirement.

### 1. Additional Annuity

I want to use my voluntary contributions (VC), plus interest, to purchase additional annuity.

Please check (✓) one of the following options.

I do not want to provide a VC survivor annuity.       I want to provide a VC survivor annuity for the person named below.

Name of person ( <i>last, first, middle</i> )	His/Her date of birth ( <i>mm/dd/yyyy</i> )
His/Her address	
His/Her Social Security Number	His/Her relationship to you, if any

**Warning:** Any intentionally false or willfully misleading response you provide in this election is a violation of the law and punishable by a fine of not more than \$10,000 or imprisonment of not more than 5 years or both. (18 USC 1001)

Signature	Date ( <i>mm/dd/yyyy</i> )
-----------	----------------------------

### 2. Send Me Additional Information After I Retire

I do not want to make an election at this time. I want the Office of Personnel Management (OPM) to send me information that is specific to my case. I understand this information will be sent after OPM receives my application for retirement.

Signature	Date ( <i>mm/dd/yyyy</i> )
-----------	----------------------------

(continued on Page 2)

### 3. Lump Sum Refund of Voluntary Contributions (VC)

Use this form to elect how you want your lump sum paid. Please carefully read all of the information provided with this form before you make your election. A mistake in completing this form could prevent the Office of Personnel Management (OPM) from paying as you wish or could cause delay in processing your payment.

#### → Payment options — (Please check one option.)

- Pay my VC refund on the date I separate for retirement.
- Pay my VC refund as soon as possible.

#### Rollover Options — (Please tell us how to pay your contributions and interest by checking the blocks below.)

If your VC refund is less than \$200, we cannot roll it over. We will pay it directly to you. Indicate below how you wish to have your VC refund paid if it is \$200 or more. If you elect to roll over less than 100% of your VC refund, the total amount you roll over to any one IRA or eligible employer plan must be at least \$500. If any choice you make below results in a rollover amount of less than \$500, we will not perform the rollover. Instead, we will make the payment to you. To avoid this situation, you may check the last block and ask for additional information. (Make one choice in each section below, unless you need additional information. If you need additional information before making this election, check the block in the last section.)

If my total refund is \$200 or greater --

#### Interest Portion (taxable portion) of my VC refund --

- Pay ALL by check made payable to me, with 20% Federal income tax withholding.
- Pay ALL by check made payable to my Individual Retirement Arrangement (IRA) or Eligible Employer Plan. (Your financial institution or employer plan must complete the financial institution certification on page 3.)

Name of the financial institution or employer plan \_\_\_\_\_

→ Are you putting this in a Roth IRA?  No  Yes

Do you elect to have 20% Federal income tax withheld from your Roth IRA rollover?  No  Yes

Mail check to  to the above institution or plan.  
 to me. I will deliver the check to the above institution or plan.

- Pay ALL to my Thrift Savings Plan Account.  
(You must sign and submit form TSP-60, Request for a Transfer Into the TSP, to OPM. Form TSP-60 is available on the internet at <http://www.tsp.gov>.)

#### Contribution Portion (after tax portion) of my VC refund -- (The Thrift Savings Plan will not accept this portion of your VC refund.)

- Pay ALL by check made payable to me.
- Pay ALL by check made payable to my Individual Retirement Arrangement (IRA) or Eligible Employer Plan. (Your financial institution or employer plan must complete the financial institution certification on page 3.)

Name of the financial institution or employer plan \_\_\_\_\_

Mail check to  to the above institution or plan.  
 to me. I will deliver the check to the above institution or plan.

#### I need additional information before I decide.

- I elect to have my VC refund computed and a rollover package with all my options sent to me before I decide how it should be paid.  
(Electing this option delays payment for at least an additional 30 days.)

My signature below certifies that I have made the election shown above and that I understand that distributions from the plan to which rollover is made may be subject to different restrictions and tax consequences than those that apply to distributions from OPM. I also understand that if I roll over non-taxable funds into an IRA, I am responsible to account separately for the taxable and non-taxable portions of the amount rolled over.

Signature (If you elect a rollover, Part 4 must be completed.)

Date (mm/dd/yyyy)

Daytime Telephone Number (including area code)

#### 4. Certification from Financial Institutions or Eligible Employer Plans

Name of institution or eligible employer plan	Address of institution or plan	
IRA account number or plan identification		
<p><b>Certification:</b> My signature below confirms the account number for the individual named on page 1. As a representative of the financial institution or plan name above, I certify that this institution or plan agrees to accept the funds described above as a direct trustee-to-trustee transfer from the Office of Personnel Management, to deposit them in an eligible IRA or eligible employer plan as defined in the Internal Revenue Code, and to account for these monies in compliance with the Internal Revenue Code. I understand that my signature below authorizes the transfer of taxable and/or non-taxable funds as indicated on page 2.</p>		
Typed or printed name of certifying representative	Telephone number (including area code)	
Signature of certifying representative	Date of certification (mm/dd/yyyy)	

Name of institution or eligible employer plan	Address of institution or plan	
IRA account number or plan identification		
<p><b>Certification:</b> My signature below confirms the account number for the individual named on page 1. As a representative of the financial institution or plan name above, I certify that this institution or plan agrees to accept the funds described above as a direct trustee-to-trustee transfer from the Office of Personnel Management, to deposit them in an eligible IRA or eligible employer plan as defined in the Internal Revenue Code, and to account for these monies in compliance with the Internal Revenue Code. I understand that my signature below authorizes the transfer of taxable and/or non-taxable funds as indicated on page 2.</p>		
Typed or printed name of certifying representative	Telephone number (including area code)	
Signature of certifying representative	Date of certification (mm/dd/yyyy)	

#### Instructions for Rollover to the Federal Retirement Thrift Savings Plan

The Thrift Savings Plan (TSP) will not accept non-taxable (post-tax) monies. You must have an open TSP account. Before the Office of Personnel Management (OPM) can complete a rollover to your TSP account, you must sign and submit Form TSP-60, *Request for a Transfer into the TSP*, to OPM. Submit both the TSP-60 and this form at the same time. OPM will complete its portion of the TSP-60 and fax it to the Thrift Savings office for processing. The form must be approved by the Federal Retirement Thrift Investment Board and the Board must notify OPM to transfer the funds. This process can take two to three weeks. Form TSP-60 is available on the internet at <http://www.tsp.gov/forms>.