Thinking about rolling over funds from your Thrift Savings Plan? Consider this.

Did you know that Americans saving for retirement have more money in IRAs than in employer-sponsored retirement plans like the Thrift Savings Plan (TSP)? And the largest source of IRA contributions comes from individuals who move their money from the TSP or similar 401(k) or 403(b) plans when they leave a job, according to the *Employee Benefit Research Institute*.

That's called a rollover—and you've likely seen ads or heard messages encouraging you to roll your TSP account to an IRA. But if you are thinking about rolling over money from your Thrift Savings Plan (TSP) into an IRA, take some time to consider your options—one of which is to stay put in the TSP, or even transfer money from another retirement account into your TSP.

1 Evaluate your transfer options.

You have four choices. You can keep some or all your savings in your TSP. You can transfer assets to your new employer's plan, if allowed (check with a new employer's benefits or human resources office). You can roll over your plan assets into an IRA. Or you can 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 are 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 federal and applicable state and local taxes.

2 Minimize taxes by rolling Roth to Roth and traditional to traditional.

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 if you roll over your contributions and earnings from a Roth TSP account to a Roth IRA. But if you decide to move from a traditional plan to a Roth IRA, you will 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.

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. Military members in the legacy retirement system do not receive an employer match into TSP, but a future employer might offer one. Members in the Blended Retirement System will receive an employer contribution, and may receive an employer match if they contribute to the TSP. To avoid taxes when rolling over a Roth plan that includes matching contributions from your employer, you will 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.

3 Think twice before you do an indirect rollover.

With a direct rollover, you instruct the TSP to send your TSP assets directly to your new employer's plan or to an IRA—and 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. Indirect rollovers have significant tax consequences. You will not get the full amount because the plan is required to withhold 20 percent to ensure that taxes will be paid if the rollover is not completed. You must deposit the funds in an IRA within 60 days to avoid taxes on pretax contributions and earnings—and to avoid the potential of an additional 10 percent tax penalty if you are younger than 59½. If you want to defer taxes on the full amount you cashed out, you will have to add funds from another source equal to the 20 percent withheld by the plan administrator (you get the 20 percent back 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 you move money from the TSP into an IRA could 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 available in 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, telephone 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 are considering a *self-directed IRA*, consider the tradeoffs.

7 Understand fees and expenses.

Both the TSP and IRAs involve investment-related expenses and plan or account fees. Investment-related expenses can include sales loads, commissions, the expenses of any mutual funds in which assets are invested and investment advisory fees. Plan fees can include administrative costs (recordkeeping and compliance fees, for instance) and fees for services, such as access to a customer service representative. In some cases, employers pay for some or all of the plan's administrative expenses. IRA account fees can include administrative, account set-up and custodial fees, among others. Before making a rollover decision, know how much you are currently paying for TSP to manage your retirement funds. The expenses for TSP funds are among the lowest to be found anywhere. Compare those to the fees and expenses of a new plan or IRA. For more information about 401(k) fees, see the Department of Labor's publication, *A Look at 401(k) Plan Fees*. For IRA fees, ask your financial professional to provide you with information about fees and expenses, and read your account agreement and any investment prospectuses.

Saving for retirement is a top financial concern for Americans, and many are confused about their retirement savings options. 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. Ask questions and do your homework to determine what is best for you.

8 Engage in a thoughtful discussion 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 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 are not allowed from an IRA until age 59½. Once you reach age 70½, the rules for both traditional employer plans and traditional IRAs require the periodic withdrawal of certain minimum amounts, known as the required minimum distribution (RMD). The RMD rules also apply to Roth 401(k) accounts. However, the RMD rules do not apply to Roth IRAs while the owner is alive. If you are still working at age 70½, however, you generally are not required to make required minimum distributions from your current employer's plan. This may be advantageous for those who plan to work into their 70s.

10 Be aware that one choice is to 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. Transfers (or direct rollovers) are sent from an employer-sponsored retirement plan to the TSP, while indirect rollovers are made by the plan participant following receipt of a distribution from the plan. 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 rollover Roth funds into your TSP, and 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.

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