Director of Retired Members

Roth TSP—Another tool to manage your taxes

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Traditional and Roth Thrift Savings Plan (TSP) accounts both serve the same purpose. They are tax-advantaged retirement accounts. The main difference is how or when they are taxed. Contributions to a traditional TSP are made pre-tax while Roth contributions are made post-tax.

Unlike a traditional TSP, when you go to withdraw your Roth, you don't have to pay taxes on your contributions since the tax was already paid. The money that your contributions earned in a Roth TSP can also be tax free if they are qualified.

Earnings are considered qualified if five years have passed since Jan. 1 of the calendar year when you made your first Roth TSP contribution and you are at least age 59½, permanently disabled or deceased.

The TSP provides an example to demonstrate the difference between the Roth and traditional:

> A contribution to your traditional TSP balance will result in more money in your net paycheck. For example, let's say your gross (pre-tax) income for the year is $50,000 and your tax withholding rate is 20%. If you contribute $1,000 to your Roth TSP balance, there is no effect on your taxable income. However, if you make the same $1,000 contribution to your traditional TSP balance, then your taxable income for the year will be reduced by $1,000, which means your tax withheld for the year will be reduced by $200 (20% x $1,000). That $200 reduction results in a bigger net paycheck.
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> When you take distributions of Roth TSP contributions and qualified earnings on those contributions in retirement, that's tax-free income. Reverse the previous example, keeping the same hypothetical 20% tax rate: If you take a $1,000 distribution of traditional money, you'll only receive $800. If you take $1,000 of Roth TSP contributions and qualified earnings, you get the full $1,000.

A benefit of the Roth is that it isn't subject to required minimum distributions (RMDs) at or after age 73. This means you can keep your money in the TSP as long as you want without being forced to start withdrawals.

Deciding on a traditional or Roth largely depends on predicting the future, which is difficult especially when the tax code is subject to change at any time by Congress. Roth may be advantageous when you're in a very low tax bracket right now, will continue to work when you start making withdrawals from your TSP, and/or will be in a high tax bracket in retirement. Traditional is the opposite, and may be advantageous if you are in a high tax bracket right now but you will be in a low tax bracket when you start taking withdrawals.

Don't worry if you're not sure what's best for you. At the end of the day, if you are contributing at least 5 percent of your base pay (and therefore receiving 5 percent matching from the Postal Service), you are on the right track whether your contributions go into a traditional or a Roth account. You could even hedge your bets and contribute to each.

Matching agency contributions are still made even if you utilize a Roth. However, all agency contributions will go into your traditional TSP regardless of how you designate your contributions.

Contributions to Roth and traditional are combined and counted toward the contribution limits that can change each year based on inflation. For 2026, the elective deferral limit is $24,500, the catch-up contribution limit is $8,000, and the higher catch-up contribution limit for those ages 60 to 63 is $11,250. If you are fortunate enough to max out your contributions, remember to spread it out over the entire year to ensure you receive matching funds from the Postal Service. If you were to reach the limit in November, for example, you wouldn't receive any more agency contributions for the month of December.

A new feature coming to the TSP in 2026 allows Roth in-plan conversions. This means that you can convert funds in your traditional TSP into a Roth TSP. While this feature provides another tool to maximize your tax strategy, it does impose a tax liability when converting. Any money you convert becomes earned income for that year and is taxed appropriately. However, you can't use the funds you convert to pay these taxes. You'll need cash in hand to pay the taxes. Suppose you convert $10,000 from a traditional TSP to a Roth TSP, and you are taxed a flat 20 percent. You would owe $2,000 of taxes for the conversion. This could be a huge problem if you were not aware and aren't ready to pay a $2,000 bill. Learn more about Roth in-plan conversions at tsp.gov.

The TSP strongly recommends that you consult a tax advisor if you're considering a Roth in-plan conversion.