



## A Unique Roth Opportunity Utilizing the Voluntary Contribution Program

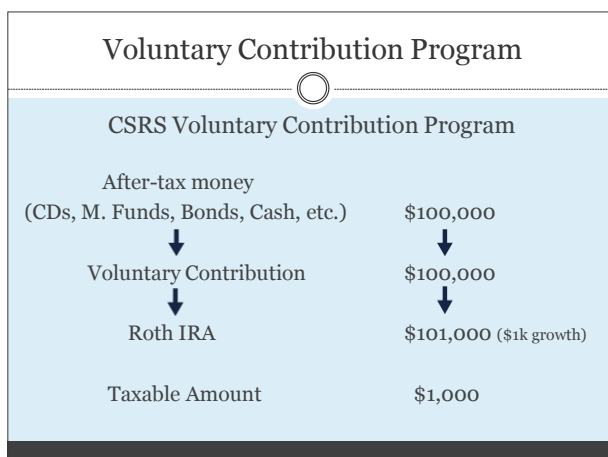
There is but one group of people in the United States that has the opportunity to create a large Roth account at will. Only the CSRS employee, via the seldom-used Voluntary Contributions Program (VC) can instantly produce such an account. Not many Federal employees take advantage of the VC, but, this year, regardless of income, CSRS employees have an amazing chance to use the VC in a process that will create a Roth retirement account with completely tax free earnings. This incredible possibility stems from the Pension Protection Act of 2006 and subsequent amendments that allow for unique distribution options of the VC.

The benefits of a Roth IRA have mainly to do with taxation. Post-tax money invested in a Roth grows tax-free, an enormous long-term benefit which sets the Roth apart from traditional IRAs. Also, unlike traditional IRAs, Roth IRAs do not have required minimum distributions (which begin at age 70.5), making them perfect vehicles for estate planning.

The Voluntary Contributions account was created to supplement an employee's retirement annuity. The money grows at a steady, but modest, interest rate (3.125% in 2010) and enhances the employee's pension after retirement (either by a lump sum withdrawal or by conversion into an annuity at retirement).

The Pension Protection Act of 2006 with amendments allows for section 401(a) plans (which include the VC) to be transferred directly into a Roth IRA. Unlike the average investor who has to use an existing IRA or 401(k) that has no basis, federal employees can use the VC as a vehicle for quickly creating a substantial Roth IRA with very minute tax implications. To accomplish this task, you can make some simple OPM accepted form modifications. This is an absolutely amazing advantage that may or may not continue in future years.

Ten percent of a person's *lifetime* "basic pay" (wages that are susceptible to retirement contributions) can be deposited into the VC account and then converted into a Roth IRA this year. Assume lifetime earnings of at least \$1,000,000:





Your Roth can then grow tax free for as long as you like. Because the money deposited into the VC was after-tax money, the basis in the conversion will not be taxed. This situation is unique to CSRS federal employees, as only they have the ability to open a VC account.

This great opportunity does come with its own degree of difficulty. The process outlined above, though simple in theory, is actually quite complicated and even the smallest mistake may have enormous financial consequences. For example, earnings on the funds while in the VC will be taxable at transfer, unless rolled into the TSP. Also, there can be no outstanding deposits or re-deposits prior to funding a VC. For these reasons (among others), it is advisable that the employee seeks the counsel of a financial planner familiar with the nuances of federal benefits and tax law before attempting this.

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