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FEDERAL RETIREMENT THRIFT INVESTMENT BOARD

5 CFR Part 1650

RIN 3222-AA00

Roth In-Plan Conversions

AGENCY: Federal Retirement Thrift Investment Board.

ACTION: Proposed rule.

SUMMARY: The Federal Retirement Thrift Investment Board (FRTIB) proposes to amend its regulations to permit participants in the Thrift Savings Plan (TSP) to convert amounts in their traditional TSP account balances to amounts in their Roth TSP account balances, subject to applicable tax consequences.

DATES: Comments must be received on or before [INSERT DATE 30 DAYS AFTER DATE OF PUBLICATION IN THE FEDERAL REGISTER].

ADDRESSES: You may submit comments using one of the following methods:

- Federal eRulemaking Portal: <https://www.regulations.gov>. Follow the instructions for submitting comments.
- Mail: Office of General Counsel, Attn: Dharmesh Vashee, Federal Retirement Thrift Investment Board, 77 K Street NE, Suite 1000, Washington, DC 20002.

Comments will be made available to the public online at <https://www.regulations.gov>. Do not include any personally identifiable or confidential information that you do not want publicly disclosed. Anonymous comments are acceptable.

FOR FURTHER INFORMATION CONTACT: *For press inquiries:* Jim Kaplan at (202) 864-7150. *For information about how to comment on this proposed rule:* Laurissa Stokes at (202) 308-7707.

SUPPLEMENTARY INFORMATION: The FRTIB administers the TSP, which was established by the Federal Employees' Retirement System Act of 1986 (FERSA), Public Law 99-335, 100 Stat. 514. The TSP is a retirement savings plan for Federal civilian employees and members of the uniformed services. It is similar to cash or deferred arrangements established for private-sector employees under section 401(k) of the Internal Revenue Code (26 U.S.C. 401(k)). The provisions of FERSA that govern the TSP are codified, as amended, largely at 5 U.S.C 8351 and 8401-80.

Since the introduction of Roth TSP contributions in 2012, participants have expressed interest in converting traditional balances to Roth balances within the plan. The 2024 TSP Participant Satisfaction Survey asked participants about their interest in a Roth in-plan conversion feature. Thirty-five percent of respondents replied that they are "likely" or "extremely likely" to use an in-plan conversion feature if offered in the TSP.

This proposed rule would permit all TSP participants (active and separated), as well spouse beneficiaries, to convert amounts in their traditional balance to amounts their Roth balance. In accordance with the Internal Revenue Code, the converted amount would be treated as a distribution from the traditional account that is taxable in the year the conversion is done.

Under the proposed rule, in-plan conversion requests would be subject to conditions designed to discourage frequent, small transactions and simplify administrative operations. For example, each conversion must be at least \$500, and the number of conversions per calendar year would be capped by the TSP record keeper.

The FRTIB believes that offering Roth in-plan conversions will improve participant satisfaction and provide valuable retirement planning flexibility while maintaining the TSP's low administrative costs.

Regulatory Flexibility Act

This proposed regulation will not have a significant economic impact on a substantial number of small entities. This regulation will affect Federal employees, members of the uniformed services, and spouse beneficiaries who participate in the TSP.

Paperwork Reduction Act

This proposed regulation does not require additional reporting under the criteria of the Paperwork Reduction Act.

Unfunded Mandates Reform Act of 1995

Pursuant to the Unfunded Mandates Reform Act of 1995, 2 U.S.C. 602, 632, 653, and 1501-1571, the effects of this regulation on State, local, and Tribal governments and the private sector have been assessed. This regulation will not compel the expenditure in any one year of \$100 million or more by State, local, and Tribal governments, in the aggregate, or by the private sector. Therefore, a statement under 2 U.S.C. 1532 is not required.

List of Subjects in

5 CFR Part 1650

Alimony, Claims, Government employees, Pensions, Retirement.

Ravindra Deo,

Executive Director,

Federal Retirement Thrift Investment Board.

The FRTIB proposes to amend 5 CFR chapter VI as follows:

PART 1650-METHODS OF WITHDRAWING FUNDS FROM THE THRIFT SAVINGS PLAN

1. The authority citation for part 1650 continues to read as follows:

Authority: 5 U.S.C. 8351, 8432d, 8433, 8434, 8435, 8474(b)(5) and 8474(c)(1).

2. Amend Part 1650 by revising Subpart F to read as follows:

Subpart F-Roth In-Plan Conversions

§1650.60 Eligibility and general rules for Roth in-plan conversions

- (a) A participant or beneficiary participant may request Roth in-plan conversions, subject to a maximum number of conversion requests per calendar year, as determined by the TSP record keeper.
- (b) To be eligible for a Roth in-plan conversion, the participant or beneficiary participant must have a vested account balance of at least \$500 at the time of the request.
- (c) The total amount of a conversion request must be at least \$500.
- (d) Participants must retain at least \$500 in each of their tax-deferred employee contribution, tax-exempt contribution, agency automatic (1%) contribution, and agency matching contribution balances.
- (e) Amounts invested in the Mutual Fund Window cannot be converted unless those amounts are first transferred back into one or more of the TSP core funds.
- (f) Administrative holds placed pursuant to section 1690.15 will restrict an individual from requesting a Roth in-plan conversion.

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