

AMERICAN ALTERNATIVE ASSETS

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The **2026** TSP Diversification Guide

New Thrift Savings Plan rules, rollover options, and diversification strategies for federal employees, retirees, and uniformed service members.

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Everything Federal Employees, Retirees, and Military Personnel Need to Know About the New Thrift Savings Plan Rules — and the Rollover Options Available When You're Ready to Diversify

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In a hurry? Here's the 60-second summary:

1. **Three big TSP rule changes hit on January 1, 2026:** new mandatory Roth catch-up for high earners, in-plan Roth conversions, and higher contribution limits.
2. **The TSP still only offers 5 core funds (G, F, C, S, I) and the L lifecycle funds** — no commodities, no real estate, no precious metals.
3. **Rollovers are how you diversify.** Once you separate from service (or hit 59½), you can roll some or all of your TSP into a self-directed IRA that holds physical gold, silver, platinum, or palladium.
4. **The biggest mistake federal employees make:** indirect rollovers. 60-day clock, 20% withholding, and lost combat-zone tax-exempt status if the receiving plan can't accept it.
5. **Read the full guide before you do anything.** This is not a transaction to do by feel.

1. What Changed for TSP in 2026

The Federal Retirement Thrift Investment Board (FRTIB) and the IRS implemented three substantive rule changes that took effect on January 1, 2026. If you participate in the TSP — whether you're an active federal employee, a uniformed service member, a retiree, or a separated former employee — these affect you.

1.1 Mandatory Roth catch-up for high earners

If you are age 50 or older AND your prior-year (2025) Medicare wages from your federal employer were more than **\$150,000**, your catch-up contributions in 2026 **must** be made as Roth (after-tax) contributions. You cannot make them pre-tax.

This rule is part of the SECURE 2.0 Act of 2022. It does not affect everyone — only high-earning catch-up participants. But for those it does affect, the tax planning implications are significant.

Your Situation in 2026	Catch-Up Treatment
Age 50+, 2025 Medicare wages \leq \$150,000	Pre-tax OR Roth — your choice
Age 50+, 2025 Medicare wages $>$ \$150,000	Must be Roth
Under 50	No catch-up available

The \$150,000 threshold is indexed for inflation in future years.

1.2 In-plan Roth conversions

Starting January 2026, TSP participants can convert traditional (pre-tax) balances to Roth balances **directly inside the TSP**, without first rolling money out to a private IRA and converting it there.

This is a meaningful simplification. Previously, federal employees who wanted to do Roth conversion strategies (paying taxes now to enjoy tax-free growth and tax-free withdrawals later) had to either:

1. Wait until they could roll the TSP to a private IRA, or
2. Use a more complicated multi-step process.

Now you can do it inside the plan. **Caveat:** conversions are taxable events in the year they occur. Get a tax professional involved before you click the button.

1.3 Higher contribution limits

Limit	2025	2026
Annual elective deferral	\$23,500	\$24,500
Age 50+ catch-up	\$7,500	\$8,000
"Super catch-up" (ages 60–63)	\$11,250	\$11,250 (unchanged)
Total possible (age 60–63)	\$34,750	\$35,750

The super catch-up is a SECURE 2.0 provision that gives near-retirees three extra years of supersized contributions. If you're going to be 60, 61, 62, or 63 at any point in 2026, you can contribute up to \$35,750 — almost \$11,000 more than a 50-year-old.

2. Why the TSP Alone Isn't a Complete Retirement Plan

The Thrift Savings Plan is, by most objective measures, one of the best-administered retirement plans in the country. Expense ratios are low, the administrator is conservative, and the plan provides government matching for FERS employees. We have no quarrel with the TSP.

But the plan was designed for a specific purpose: low-cost, broadly-diversified accumulation for federal workers. It was **not** designed to be the only retirement vehicle a federal employee uses.

The TSP offers exactly five core investment options:

Fund	What It Holds	Risk Profile
G Fund	Short-term U.S. Treasury securities	Lowest
F Fund	Fixed-income index (U.S. bonds)	Low
C Fund	Large-cap U.S. stock index (S&P 500)	Moderate
S Fund	Small/mid-cap U.S. stock index	Moderate-High
I Fund	International (developed market) stock index	Moderate-High

The L (Lifecycle) funds are pre-built mixes of those five.

What the TSP does **not** offer:

- ❌ Physical commodities (gold, silver, platinum, palladium)
- ❌ Real estate
- ❌ Private equity or private credit
- ❌ Cryptocurrency
- ❌ Individual stocks
- ❌ Active management
- ❌ Any inflation-hedge asset class other than TIPS (which are inside the F Fund in limited form)

For federal employees who want exposure to physical precious metals — historically one of the most reliable inflation hedges — the only path is to roll some or all of an eligible TSP balance into a **self-directed IRA** that permits IRS-approved precious metals.

3. Your Five Eligible Rollover Destinations

When you roll over TSP funds, you generally have five options for where the money can go. Each has different rules, tax treatment, and investment menus.

Destination	Holds Pre-Tax?	Holds Roth?	Holds Precious Metals?	Tax Impact on Rollover
Traditional IRA	✓	✗	✗ (paper assets only)	None if direct
Roth IRA	⚠ Taxable conversion	✓	✗ (paper assets only)	Taxable to convert pre-tax → Roth
Self-Directed Traditional IRA	✓	✗	✓	None if direct
Self-Directed Roth IRA	⚠ Taxable conversion	✓	✓	Taxable to convert pre-tax → Roth
New Employer's 401(k)/ Eligible Plan	✓ (if plan accepts)	✓ (if plan accepts)	✗	None if direct

Key insight: Only self-directed IRAs can hold physical precious metals. A "regular" IRA at a brokerage can hold gold ETFs or mining stocks — but not physical bullion. If physical ownership matters to you, the self-directed IRA path is the only one that works.

4. The Four TSP Forms You Need to Know

When you initiate a TSP rollover, you'll encounter several forms. Here are the four most common ones:

TSP-70: Request for Full Withdrawal

Used when you want to move your **entire** TSP balance to an IRA or another eligible plan. Generally used by separated employees or retirees.

TSP-77: Request for Partial Withdrawal

Used when you want to move **part** of your TSP balance and leave the rest in the plan. Useful when you want to test diversification with a portion of your balance.

TSP-75: Age-Based In-Service Withdrawal

Used by active federal employees age 59½ or older who want to make an in-service withdrawal **without** separating from federal service. This is the form that unlocks diversification for federal employees who don't want to retire yet.

TSP-99: Withdrawal Request for Separated and Beneficiary Participants

A consolidated withdrawal form used by some separated participants and beneficiaries. Check with TSP.gov for the most current version applicable to your situation.

Don't guess. Submit the wrong form or check the wrong box and the IRS may treat your rollover as a taxable distribution. Always verify your specific form requirements with TSP.gov or your rollover specialist before signing.

5. Direct Rollover vs. Indirect Rollover — and the 60-Day Trap

This is the single most important section of this guide. Get this wrong and you can owe tens of thousands in unnecessary taxes.

Direct Rollover (Recommended)

In a direct rollover, the TSP sends your funds **directly to your new IRA custodian**. The money never touches your bank account. There is no 20% mandatory withholding. There is no 60-day clock. The IRS treats it as a non-taxable transfer.

This is the only kind of rollover most people should use.

Indirect Rollover (Avoid Unless Absolutely Necessary)

In an indirect rollover, the TSP sends you a check made out to *you*. You then have **60 days** to deposit the full amount into your new IRA. Several traps:

1. **20% mandatory withholding.** The TSP must withhold 20% for federal taxes. If you want to roll over the full balance, you have to come up with that 20% from your own pocket and deposit it within 60 days. Otherwise, the IRS treats the withheld amount as a taxable distribution.
2. **60-day clock.** Miss the deadline and the entire withdrawal becomes a taxable distribution — plus a 10% early withdrawal penalty if you're under 59½.
3. **One-rollover-per-year rule.** For indirect rollovers, you're limited to one per 12-month period across all your IRAs.

4. **Combat zone tax-exempt funds may be ineligible.** If your TSP balance includes tax-exempt combat zone contributions, and the receiving plan can't accept them, those funds get sent directly to you — and your protection clock starts ticking.

Bottom line: Always request a direct rollover unless you have a specific reason and a tax professional confirming it's the right move.

6. Combat Zone Tax-Exempt Contributions: A Special Rule for Uniformed Service Members

If you served in a designated combat zone and contributed pay earned during that service to the TSP, those contributions are **tax-exempt under IRC Section 112**. They were never taxed going in, and they should never be taxed coming out.

But there's a catch: at distribution, your TSP pays out your taxable and tax-exempt amounts **proportionally**, not separately. And not every receiving plan can accept tax-exempt funds.

The clean way to preserve combat zone tax-exempt status during a rollover:

1. Confirm with your receiving custodian that they accept tax-exempt funds.
2. Use a direct rollover (trustee-to-trustee).
3. Get written confirmation in advance.

If the receiving plan can't accept the tax-exempt portion, it gets sent to you directly. From there:

- You have 60 days to deposit it into a Roth IRA (which can preserve the tax-free status).
- Or you can keep it personally — but then earnings on it lose their tax-advantaged status going forward.

This is the single biggest mistake military retirees make with TSP rollovers. Get this one right.

7. Required Minimum Distributions (RMDs) After Rollover

Once you reach RMD age (currently 73 under SECURE 2.0, increasing to 75 in 2033), you're required to take a minimum amount out of your tax-advantaged retirement accounts each year.

A few important points:

- **TSP RMDs and IRA RMDs are calculated separately.** You can't aggregate them. If you have both, you must take both.

- **Roth TSP balances are no longer subject to RMDs** as of 2024 (a SECURE 2.0 change). Roth IRA balances have never been subject to RMDs.
- **Direct rollover after age 73:** Your TSP must satisfy that year's RMD before rolling the rest. You can't roll RMD-required dollars into another tax-advantaged account.

This is one of the most-missed coordination issues in retirement planning. Get a tax professional involved if you're at or near RMD age.

8. Comparison Tables: TSP vs. Traditional IRA vs. Roth IRA vs. Precious Metals IRA

Investment Options

	TSP	Traditional IRA	Roth IRA	Precious Metals IRA (Self-Directed)
Index funds	✓	✓	✓	✓ (paper)
Individual stocks	✗	✓	✓	Limited
Bonds	✓	✓	✓	Limited
Mutual funds	Limited	✓	✓	Limited
Physical gold/silver	✗	✗	✗	✓
Real estate	✗	✗	✗	✓ (specific products)

Tax Treatment

	TSP (Traditional)	TSP (Roth)	Traditional IRA	Roth IRA	Precious Metals IRA
Contributions	Pre-tax	After-tax	Pre-tax	After-tax	Pre-tax OR after-tax
Growth	Tax-deferred	Tax-free	Tax-deferred	Tax-free	Tax-deferred OR tax-free
Withdrawals	Taxable	Tax-free (qualified)	Taxable	Tax-free (qualified)	Same as IRA type
RMDs at 73	✓	✗ (after 2024)	✓	✗	Same as IRA type

Fees

	TSP	Brokerage IRA	Precious Metals IRA
Expense ratio	~0.05%	Variable (0.03%+)	N/A (different structure)
Annual admin fee	\$0	\$0–\$100 typical	\$75–\$300 typical
Storage fee	N/A	N/A	\$100–\$300 typical
Trading commissions	\$0	\$0 typical for ETFs	Dealer spread on bullion

The TSP wins on cost, hands down. The trade-off is the limited investment universe. For most federal employees, the right answer isn't TSP-or-IRA — it's **using both**, in whatever combination matches your goals.

9. Pre-Rollover Checklist

Before you sign anything:

- Confirm your eligibility (separated, age 59½, in-service withdrawal qualifying event)
- Determine what portion of your TSP you actually want to roll over
- Choose your destination account type (Traditional IRA, Roth IRA, Self-Directed IRA)
- Choose a qualified custodian (verify IRS approval for self-directed IRAs)
- If precious metals: choose an IRS-approved depository
- Choose **direct rollover**, not indirect
- Confirm receiving plan accepts tax-exempt combat zone funds (if applicable)
- Verify any required minimum distributions are satisfied first (if 73+)
- Get a written fee schedule from the receiving custodian
- Get tax-professional sign-off on your specific plan
- Identify the correct TSP form (TSP-70, TSP-75, TSP-77, TSP-99)
- Complete the form carefully — including financial institution info
- Submit and track confirmation

10. FAQ

Can I roll over my TSP if I'm still working for the federal government? Generally only if you're 59½ or older (use Form TSP-75 for in-service withdrawal) or qualify for a hardship withdrawal. Otherwise, you must wait until you separate from service.

Do I have to roll over my whole TSP at once? No. Form TSP-77 allows partial withdrawals.

Can I roll my TSP into a Roth IRA directly? Yes, but the pre-tax portion becomes taxable in the year of conversion. Plan ahead with a tax professional.

Are precious metals really allowed in an IRA? Yes, under the Taxpayer Relief Act of 1997, IRS-approved gold, silver, platinum, and palladium (meeting purity standards) can be held in a self-directed IRA. They must be stored at an IRS-approved depository — never at home.

What if I store IRA gold at home? Don't. The U.S. Tax Court ruled in *McNulty v. Commissioner* (2021) that home storage of IRA precious metals is a prohibited transaction — the couple in that case faced approximately \$320,000 in taxes and penalties on a \$730,000 IRA.

How much should I roll over into precious metals? That depends entirely on your individual situation, risk tolerance, and goals. Financial educators commonly cite 5–15% of a portfolio as a reasonable diversification range, but this is not investment advice. Consult your own advisor.

Does American Alternative Assets manage my IRA? No. American Alternative Assets is a precious metals dealer. Your IRA is held by an independent, IRS-approved custodian, and the physical metals are held at an independent, IRS-approved depository. You own the metals.

11. About American Alternative Assets

American Alternative Assets is a BBB A+ rated precious metals dealer headquartered in Woodland Hills, California, helping federal employees, retirees, and military families diversify retirement savings with IRS-approved physical gold, silver, platinum, and palladium. We work exclusively with approved custodians and IRS-approved depositories.

We are not investment advisors. We do not provide tax advice. We are a precious metals dealer that takes seriously the responsibility of helping Americans understand their options.

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Disclaimer

This guide is for informational purposes only and does not constitute investment, legal, or tax advice. Past performance does not guarantee future results. Investing in precious metals involves risk. Federal employees considering a TSP rollover should consult their own financial, tax, or retirement professional before making any decisions. All rules and limits cited are accurate as of the publication date and are subject to change by the IRS and the Federal Retirement Thrift Investment Board.

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Ready to Talk?

The 2026 TSP changes are significant. If you're considering a rollover or exploring how physical precious metals fit into your retirement strategy, a Senior Precious Metals Specialist is available to walk you through your options — at no cost and with no pressure.

1-800-590-8279

americanalternativeassets.com

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