

MILITARY VETERANS | PRESERVATION PROTOCOL

The TSP Legacy Protection Plan

Preventing the SECURE Act's 10-year liquidation rule from consuming decades of disciplined military savings.

BOTTOM LINE UP FRONT

New laws require children to empty an inherited TSP within 10 years, potentially triggering a six-figure tax bill. Your children could lose decades of growth and up to 37% of the total balance to the IRS in a very short window.

The Problem: The 10-Year Rule

The SECURE Act of 2019 eliminated the "stretch IRA" strategy that allowed non-spouse beneficiaries to spread inherited retirement account distributions over their own lifetime. Under the new rules, most non-spouse beneficiaries -- including adult children -- must completely liquidate inherited accounts within 10 years of the original owner's death.

For a veteran with a \$500,000 TSP balance, this means their children must withdraw at least \$50,000 per year (more in later years due to growth). These withdrawals are taxed as ordinary income, stacking on top of the beneficiary's own earnings. A child in their peak earning years could face a combined federal and state rate of 35-40% on these forced distributions.

The total tax cost: potentially \$150,000-\$200,000 of a \$500,000 inheritance consumed by taxes that could have been avoided with proper planning.

The Solution: Roth Conversion Ladder

We shift portions of the TSP into a structure that provides a completely tax-free inheritance. The primary tool is a systematic Roth conversion strategy executed during the veteran's lifetime.

Phase 1: TSP Rollover to IRA

After separation from service, we roll the TSP balance into a Traditional IRA. This preserves the tax-deferred status while gaining access to the full universe of Roth conversion strategies that the TSP's limited options do not support.

Phase 2: Annual Roth Conversions

We convert portions of the Traditional IRA to a Roth IRA each year, carefully calibrated to stay within efficient tax brackets. The conversion amount is optimized against the veteran's other income sources -- including military pension, VA disability, and any civilian employment.

Phase 3: Tax-Free Inheritance

Roth IRAs inherited by children are still subject to the 10-year rule -- but all distributions are completely tax-free. The same \$500,000 inheritance that would have cost \$150,000-\$200,000 in taxes from a Traditional account passes with zero tax liability from a Roth account.

The Goal

To ensure your children keep the actual money you worked decades to save, rather than an uncertain tax liability. The earlier this strategy begins, the more tax-efficient the total conversion -- each year of conversion at a low rate eliminates a year of forced high-rate distribution for your beneficiaries.

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