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Taxation of investment earnings can significantly reduce your retirement nest egg. If you are a federal employee who falls under the Civil Service Retirement System ("CSRS"), you have a unique way to potentially reduce taxation.

STEP ONE: Contribute up to 10% of your lifetime earnings from your federal job to a Voluntary Contributions Account. For example, if you've made $1,000,000 over all your years with the federal government, you can contribute up to $100,000.

STEP TWO: Once the money has been contributed to the Voluntary Contributions Account, transfer it into an Individual Retirement Account ("IRA").

STEP THREE: Convert your IRA to a ROTH IRA.[1] Because your contributions were made with after-tax dollars, your contribution transfers without any additional taxes due; however, any earnings in the account would be subject to ordinary income tax upon conversion. Growth inside a ROTH IRA is not subject to taxation. It's also not subject to required minimum distributions like your TSP or traditional IRAs.[2]

STEP FOUR: Call the CERTIFIED FINANCIAL PLANNER™ practitioners at CovingtonAlsina for more information, or to schedule a complimentary consultation to see if this strategy fits into your overall financial objectives.

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1 IRA account owners should consider the tax ramifications, age and income restrictions in regards to executing a conversion from a Traditional IRA to a Roth IRA.

2 Withdrawals from the account may be tax free, as long as they are considered qualified. Withdrawals prior to age 59 ½ may result in a 10% IRS penalty tax. Future tax laws can change at any time and may impact the benefits of Roth IRAs. Their tax treatment may change. Consult with your tax professional regarding your specific circumstances.

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