



THRIFT  
SAVINGS  
PLAN

TSP @ A Glance Briefing

As of February 1, 2012

# Agenda

- Contribution rules
- Portability
- Investment considerations
- Outstanding TSP loan
- In-service withdrawal options
- Post-service withdrawal options
- Death benefits

# Contribution Rules - FERS

- Employee Contributions
  - All new and rehired employees auto-enrolled at 3% (opt out option)
  - Elections to start, change, and stop contributions can be made at any time
  - Any whole dollar amount or percentage up to IRS elective deferral limit (\$17,000 for 2012)
  - Always vested
- Agency Contributions (immediate)
  - Agency Automatic (1%) Contributions
    - Subject to vesting
    - Not based on Employee Contributions
  - Agency Matching Contributions
    - Based on first 5% of Employee Contributions
    - 4% maximum
      - \$1/\$1 for 1st 3%
      - 50¢/\$1 for next 2%
    - Always vested

# Maximizing Agency Matching Contributions

- ◆ Ed and Susan earn the same annual salary of \$130,000; bi-weekly \$4,983.22
- ◆ Ed elects 20% and Susan elects \$654.00 to contribute to the TSP
- ◆ Both will contribute \$17,000 this year, however Ed will **not** maximize his agency contributions
- ◆ Ed and Susan will both receive \$1,295.58 in Agency Automatic (1%) Contributions

| <b>ED - \$4,983.22 Basic Pay</b> |                    |                    |
|----------------------------------|--------------------|--------------------|
| Pay                              | <u>20% EC</u>      | <u>4% Matching</u> |
| check #1                         | \$996.64           | \$199.32           |
| PC #2                            | \$996.64           | \$199.32           |
| PC #3                            | \$996.64           | \$199.32           |
| PC #4                            | \$996.64           | \$199.32           |
| .....                            |                    |                    |
| PC #16                           | \$996.64           | \$199.32           |
| PC #17                           | <u>\$996.64</u>    | <u>\$199.32</u>    |
| <i>Total PC #17</i>              | <b>\$16,942.88</b> | <b>\$3,388.44</b>  |
| PC#18                            | <u>\$ 57.12</u>    | <u>\$ 57.12</u>    |
| <i>Total PC #18</i>              | <b>\$17,000.00</b> | <b>\$3,445.56</b>  |

| <b>SUSAN - \$4,983.22 Basic Pay</b> |                    |                    |
|-------------------------------------|--------------------|--------------------|
|                                     | <u>\$654 EC</u>    | <u>4% Matching</u> |
| PC #1                               | \$ 654.00          | \$199.32           |
| PC #2                               | \$ 654.00          | \$199.32           |
| PC #3                               | \$ 654.00          | \$199.32           |
| PC #4                               | \$ 654.00          | \$199.32           |
| .....                               |                    |                    |
| PC #16                              | \$ 654.00          | \$199.32           |
| PC #17                              | <u>\$ 654.00</u>   | <u>\$199.32</u>    |
| <i>Total PC #17</i>                 | <b>\$11,118.00</b> | <b>\$3,388.44</b>  |
| PC #18                              | \$ 654.00          | \$199.32           |
| PC #19                              | \$ 654.00          | \$199.32           |
| .....                               |                    |                    |
| PC #25                              | \$654.00           | \$199.32           |
| PC #26                              | <u>\$650.00</u>    | <u>\$199.32</u>    |
| <i>Total PC #26</i>                 | <b>\$17,000.00</b> | <b>\$5,182.32</b>  |

# TSP Contribution Rules - CSRS

- Employee Contributions
  - All rehired CSRS employees auto-enrolled at 3% (opt out option)
  - Elections to start, change, and stop contributions can be made at any time
  - Any dollar amount or percentage up to IRS elective deferral limit (\$17,000 for 2012)
  - Always vested
- No Agency Contributions

# TSP Contribution Rules

## Uniformed Services

- Contribution Sources
  - Basic Pay
  - Incentive Pay (e.g. submarine, hazardous duty, aviation career incentive or enlisted flyer pay)
  - Special Pay (most other pay not listed as incentive or bonus pay)
  - Bonus Pay

# TSP Contribution Rules

## Uniformed Services

- Member Contributions
  - Up to 100% of basic pay
  - Any percentage from incentive, special, and bonus pay
  - Contributions are subject to the Internal Revenue Code annual limitations
    - section 402(g), elective deferral limit (\$17,000 for 2012)
    - section 415(c), annual additions limit (\$50,000 for 2012)
  - Contributions deducted from Combat Zone Tax Exempt (CZTE) pay are subject section 415(c) limits but not 402(g)

# Catch-Up Contributions

- Participants age 50 or older may make additional tax-deferred contributions to the TSP
  - Must be age 50 or older, or will turn age 50 in the calendar year the contribution is deducted from pay
  - Cannot be in the 6-month termination period because of a TSP financial hardship in-service withdrawal
  - Must self-certify election to make regular contributions up to the maximum amount allowed by the IRC and TSP plan rules
- Maximum contribution for 2012 is \$5,500
- Catch-up contributions are in addition to the regular TSP employee contributions

$$(\$17,000 + \$5,500 = \$22,500)$$

$$(\text{uniform services in a combat zone: } \$50,000 + \$5,500 = \$55,500)$$

# TSP Transfers and Rollovers

- Active or separated participants may transfer or rollover into the TSP money from:
  - Eligible employer plans under the IRC
    - e.g. 401(k), 403(a), 403(b) or 457(b) governmental plans
    - After implementation of Roth TSP, the TSP will accept transfers (direct rollovers) of Roth balances from eligible employer plans; will not accept 60-day (non-direct) rollovers of Roth balances
  - Traditional, SIMPLE, and SEP individual retirement accounts or annuities (IRAs) under section 408(a) or 408(b) of the IRC
    - Does not include Roth, education, or inherited IRAs
    - Transfer from a SIMPLE IRA must be accompanied by documentation showing at least two years of participation
- Submit Form TSP-60/TSP-U-60 available from the TSP website
- The amount transferred or rolled over into the TSP account is allocated according to the current contribution allocation on file
- The amount will be reflected as employee contributions in the account after it has been valued by the TSP



## Free Yourself from high fees

Transfer your retirement  
funds to the TSP.

[Learn More](#)

1 2 3 | Text banner

**MY ACCOUNT**

TSP Account Number

OR

User ID

▶ [Forgot your account number or user ID?](#)

[Log In](#)



My Account | Plan Participation | Investment Funds | Planning & Tools | Life Events | Participant Support

Enter search term(s)

**Plan Participation**

How to set up and manage your TSP account

- ▶ TSP and Your Retirement
- ▶ Enrolling in the TSP
- ▶ Investing Contributions

[Learn more ▶](#)

**Investment Funds**

Information on TSP fund options and performance

- ▶ Fund Comparison
- ▶ Lifecycle Funds
- ▶ Share Prices
- ▶ Monthly Returns

[Learn more ▶](#)

**Planning & Tools**

Retirement planning and tools for all career stages

- ▶ Before You Invest
- ▶ Maximize Your TSP Savings
- ▶ Calculators

[Learn more ▶](#)

**Life Events**

Help with life events affecting your TSP account

- ▶ Entering Gov't Service
- ▶ Called to Active Duty
- ▶ Family Changes

[Learn more ▶](#)

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**A Message from the TSP's Executive Director**

TSP Executive Director Gregory Long introduces the new TSP.gov. [Read more ▶](#)

**BULLETIN BOARD**

- ▶ January processing schedule
- ▶ 2011 contribution limits
- ▶ L 2050 Fund to debut in January 2011
- ▶ Explore TSP.gov on your own or watch our welcome video.

**QUICK LINKS**

- ▶ Website Orientation
- ▶ Forms & Publications
- ▶ Current Limit & Rates
- ▶ Fund Performance
- ▶ E-mail Updates

**ACCOUNT SHORTCUTS**

- ▶ Account Balance
- ▶ Recent Transactions
- ▶ Contribution Allocation
- ▶ Interfund Transfer
- ▶ Statements

## Calculators

### How Much Should I Save (Ballpark Estimate) ?

How Much Will My Savings Grow?

How Much Can I Contribute?

Estimate Loan Payments

Annuity Calculator

Monthly Payment Calculator

## How Much Should I Save (Ballpark Estimate) ?

The TSP is one source of your retirement income. Other major sources of retirement income include your FERS Basic Annuity or CSRS annuity (or your retired pay if you are a member of the uniformed services), Social Security benefits, individual retirement accounts (IRAs), and other savings. To find out how much you need to save for retirement, link to the Ballpark Estimate calculator below. The calculator was developed by the American Savings Education Council to calculate how much you need to save each year from now until retirement based on your estimates of retirement income and existing savings.

### In-depth Retirement Planning

The Ballpark Estimate calculator is just the first step in retirement planning. For more in-depth planning, you may want to consult your agency's or service's retirement or benefits counselor, visit the Office of Personnel Management website at [www.opm.gov](http://www.opm.gov), read books and articles on retirement planning, or use more detailed software to test a variety of assumptions for estimated benefits, expenses, and rates of return.

| What You Need for the Ballpark Estimate Calculator                          | Where to Find Information  |
|---|--|
| <b>1</b> Estimate of annual income from FERS Basic Annuity or CSRS annuity. | Contact your agency or service personnel office to find out how to estimate your annual income from your FERS or CSRS annuity.   |
| <b>2</b> Social Security benefit estimate, if applicable                    | Request a Personal Earnings and Benefit Estimate Statement (PEBES) from the Social Security Administration (SSA) website. The SSA will mail the PEBES to you.                                |
| <b>3</b> Current savings balances   | Access your most recent account balance in <a href="#">My Account</a> , or you can call the <a href="#">ThriftLine</a> . Include savings from other retirement investment accounts, as well. |

[Go to Ballpark Estimate Calculator](#)

As of February 1, 2012



# TSP Website

www.tsp.gov

Log into your account from the home page:

**MY ACCOUNT**

TSP Account Number

OR

User ID

Forgot your account number or user ID?

**Log In**

**You can:**

- View your account balance
- Change your contribution allocation
- Request an interfund transfer
- Request a loan or withdrawal
- Create (or change) a user ID
- Change or request a Web password

**Learn about:**

- Benefits of TSP participation
- TSP eligibility and how to establish your account
- Contribution types and limits
- Rollovers and transfers
- Contribution allocations and interfund transfers
- Loans and withdrawals

**Get information on:**

- TSP fund options
- Earnings components and expense ratios
- Daily and historical share prices
- Current and historical rates of return

**Learn how to:**

- Develop an investment strategy
- Maximize your retirement savings
- Determine how much to save and contribute
- Use the calculators to estimate loan payments, TSP monthly payments, and annuity payments

**Manage your TSP account when you:**

- Enter or leave Government service
- Get married, have children, or get divorced
- Are called to active duty

**Get quick access to:**

- Current limits and rates
- TSP forms and publications
- Plan news

VISIT  
WWW.TSP.GOV

MY  
ACCOUNT

PLAN  
PARTICIPATION

INVESTMENT  
FUNDS

PLANNING  
& TOOLS

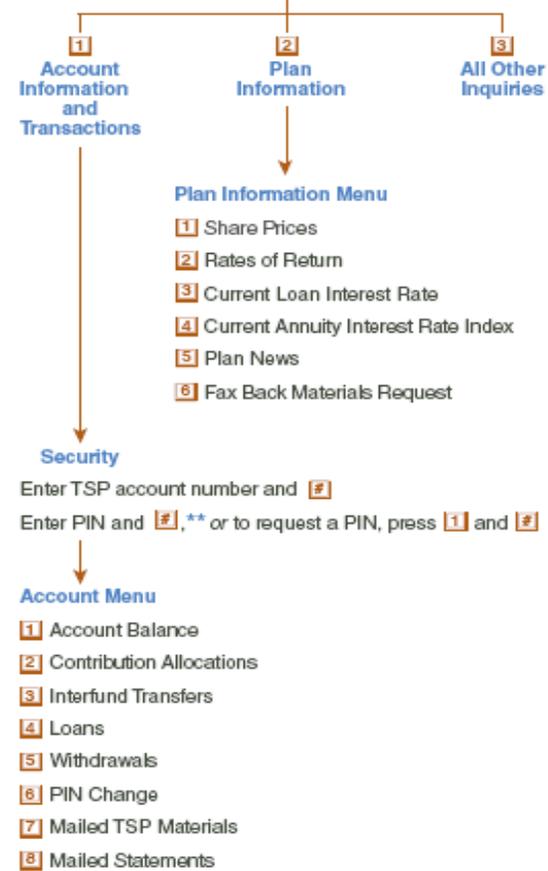
LIFE  
EVENTS

OTHER  
RESOURCES

# ThriftLine

1-TSP-YOU-FRST\*  
(1-877-968-3778)

**MAIN MENU**



\* Outside U.S. and Canada: 404-233-4400 (not toll free).

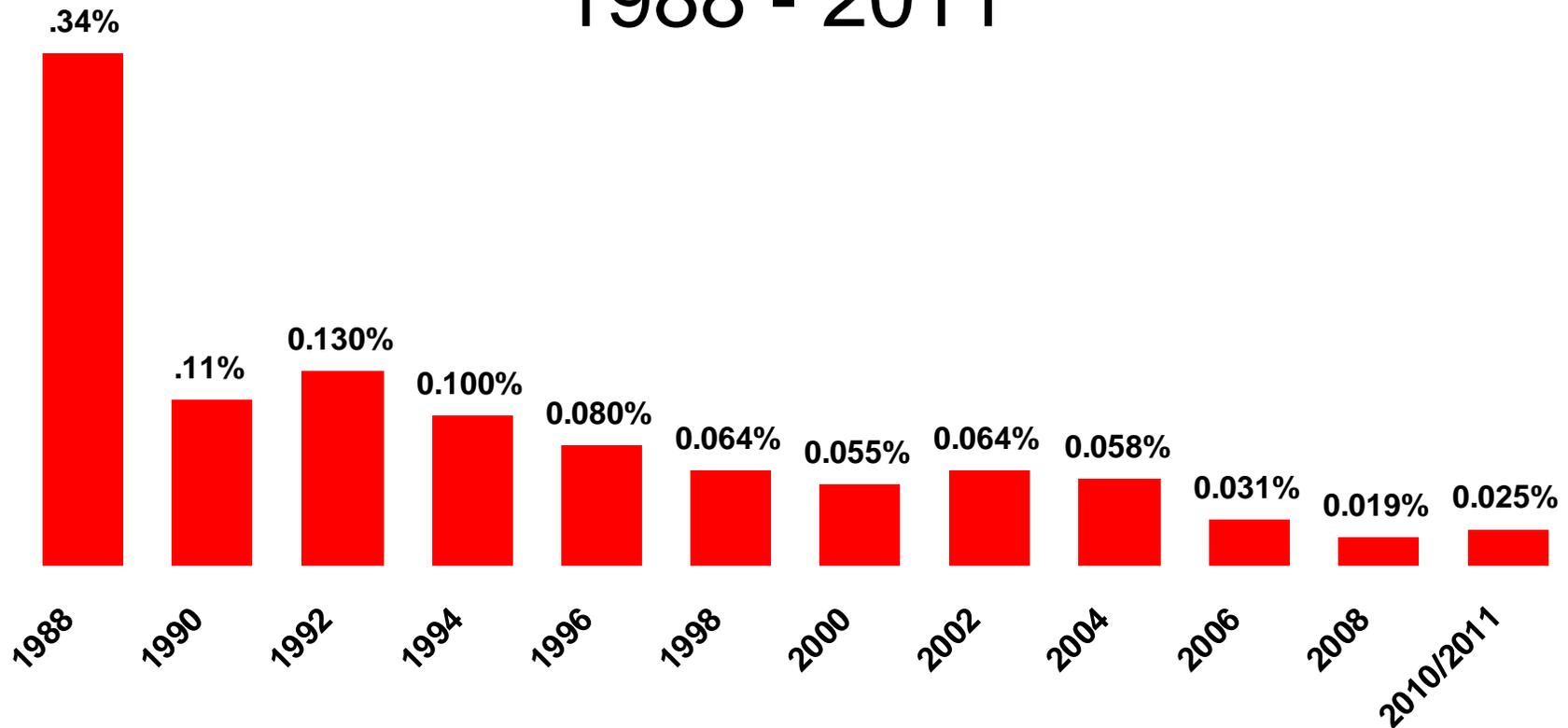
\*\* If you have both a civilian and a uniformed services account, you will be taken to the account that is specific to the PIN you entered. If you have customized your PIN to be the same for both accounts, you will be asked which account you wish to access.

TSPLF09 (7/2010)

# Investment Considerations

- Ten investment funds (including the five Lifecycle funds)
- Time horizon
- Diversification
- Risk tolerance
- Inflation
- Taxes
- Investment costs

# Thrift Savings Fund Net Expense Ratio 1988 - 2011



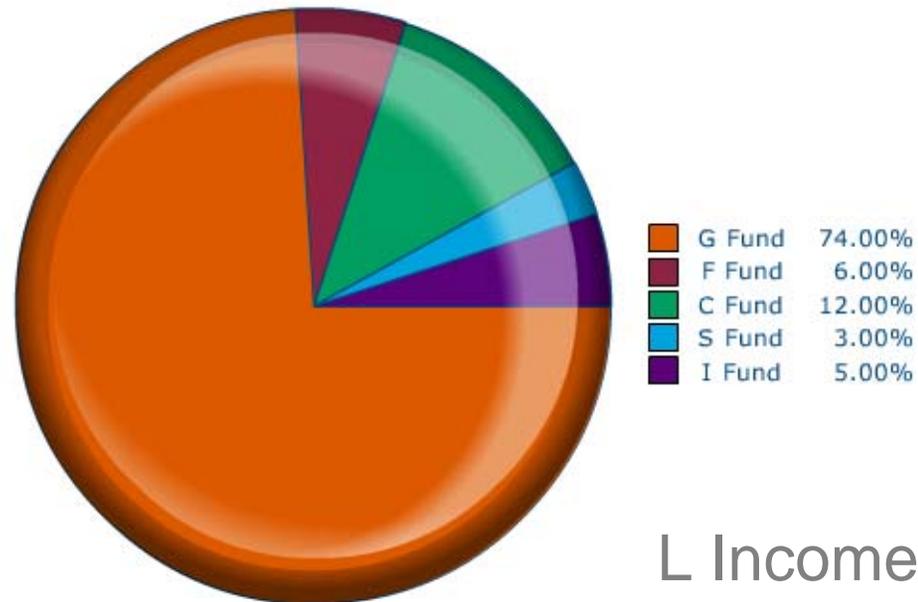
- The average expense ratio for mutual index funds is 0.262% , or \$2.62 per \$1,000 (Lipper, Inc., 2009); median 401(k) expenses are .72%, or \$7.20 per \$1,000 (Investment Company Institute, 2009)
- In 2011 the average expense ratio for the TSP was 0.025%, or \$0.25 per \$1,000 (Net administrative expenses are investment management fees after forfeitures)
- Administrative expenses after June 2004 are reduced by loan fees (\$50 per loan)

As of February 1, 2012

# TSP L Funds

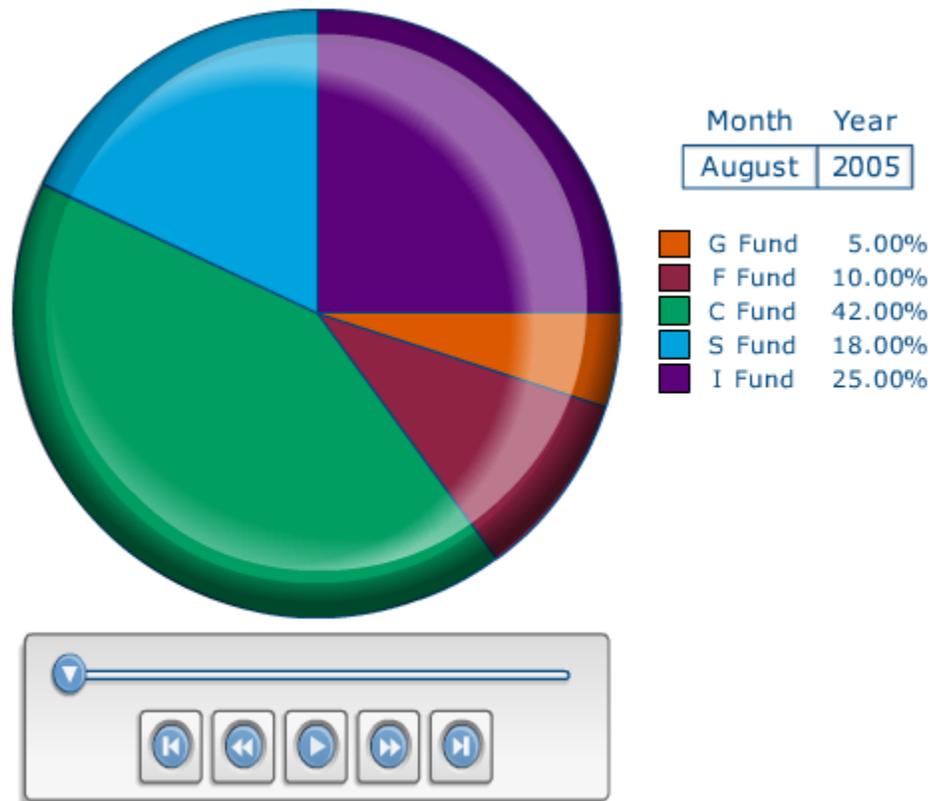
- The L Funds are geared toward participants who do not have the:
  - Time
  - Interest
  - Comfort level to make active investment decisions among the funds
- Investment in the L Funds does not protect the participant from investment losses
- The L Funds are based on time horizon; the years 2050, 2040, 2030, 2020, or Today

# L Income Fund Investment Allocation



- Note: When each L Fund reaches its target date, its distribution will match the L Income Fund investment and it will “roll into” the L Income Fund
- A new L Fund will be introduced when an L Fund reaches its target date

# L 2040 Investment Allocation Cycle



As of February 1, 2012

# Types of Loans



*and*



**General Purpose**  
No documentation required

**Residential**  
For purchase or construction  
of a primary residence

# TSP Taxable Distributions

- Leaving federal service
  - Separated participant will still receive a notice with 90 days to pay the outstanding loan balance
  - A full or partial payment(s) may be submitted by check during the 90 day period
  - Partial payments will reduce the taxable distribution that will be declared on the remaining outstanding loan balance
  - Taxable distributions are effective after 90 days from receipt of separation information or generation of the notice
  - Participants not repaying the loan balance can request an acceleration of the taxable distribution date by signing the intent block on the notice and fax or mail to the TSP
- Death in service
  - Effective as of date of death or last loan payment

***Note: No post-service withdrawal options can be processed until the outstanding loan is settled***

# Withdrawal Rules for TSP Participants

- Married FERS and uniformed service participants must print their withdrawal form from the TSP website, obtain notarized spouse's signature, and return the withdrawal request to the TSP for processing and completion
- Notification will be sent to the spouse of married CSRS participants two business days before withdrawal disbursement

# Withdrawal Rules for TSP Participants

- Unmarried participants requesting a single payment by check can complete and submit form on the website
- Unmarried participants requesting payment by EFT must print their withdrawal form from the TSP website and have their signature notarized
- If a participant has both a traditional and a Roth balance, all withdrawal options are paid proportionally (pro-rata) from each balance
- Separated participants should not submit withdrawal forms until after official date of separation

# Spouse's Rights

| Classification              | Requirement*  | Exceptions**  |
|-----------------------------|---|---|
| FERS/<br>Uniformed Services | Notarized spouse signature required. Spouse is entitled to a joint life annuity with 50% survivor benefits, level payments, and no cash refund feature, unless he/she waives this right | Whereabouts unknown or exceptional circumstances<br>TSP-16 or<br>TSP-U-16<br>required |
| CSRS                        | Spouse is entitled to notification by the TSP of the participant's withdrawal election  | Whereabouts unknown<br>TSP-16 or<br>TSP-U-16<br>required                              |

\* If account balance is less than \$3,500 spouse's signature/notice is not required

\*\* Waiver of spouse's signature/notification valid for 90 days from approval



# IRS Early Withdrawal Penalty

- If you separate/retire during or after the year in which you reach age 55, you are not subject to the early withdrawal penalty
- TSP withdrawals received at age 59½ or later are not subject to the early withdrawal penalty
- Exceptions to the early withdrawal penalty
  - Total and permanent disability
  - Purchase of a TSP life annuity
  - Request TSP “compute my payments” based on life expectancy
  - Death benefit payouts
- IRS Publication 575 at [www.irs.gov](http://www.irs.gov)

# In-Service Withdrawals

- Financial Hardship withdrawals
- Age-Based withdrawal (59½ or older)



# Age-Based In-Service Withdrawal

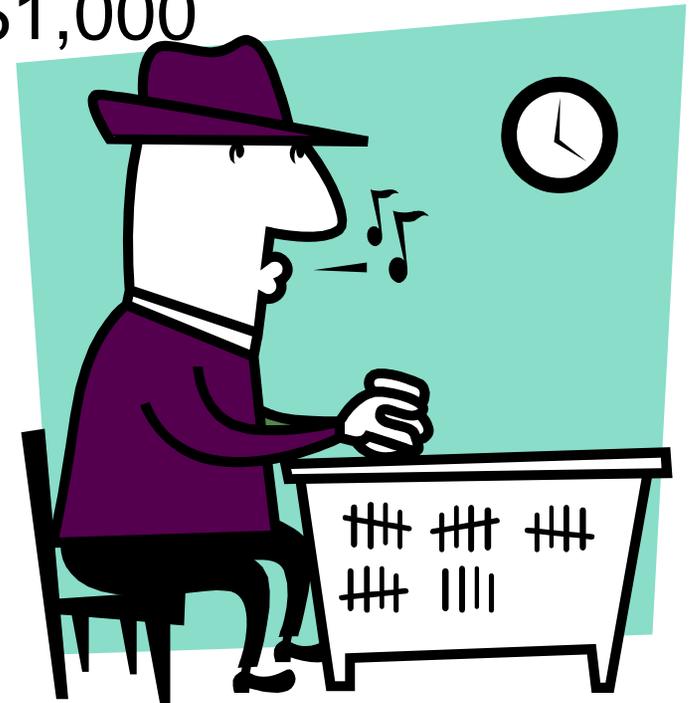
- Must be age 59½ or older
- One-time withdrawal of all or a specific dollar amount of the account balance, Form TSP-75/TSP-U-75
  - Minimum - \$1,000
  - Maximum – entire vested account balance
- Will prohibit participant from receiving a partial post-service withdrawal after separation
- Traditional account balance received as a single payment subject to mandatory 20% Federal tax withholding (may request additional tax withholding)
- Qualified *Roth* account balance received as a single payment not subject to Federal tax (nonqualified *Roth* earnings subject to mandatory 20% Federal tax withholding)

# Age-Based In-Service Withdrawal

- Participant can elect to transfer all or a portion of their withdrawal (No Federal tax withholding at time of transfer)
  - Separate elections for transfer of *traditional* and *Roth* balances
    - May transfer to same or different financial institutions or eligible employer plans
    - May transfer different percentages from each balance
  - *Roth* account balance can be transferred to a Roth IRA or eligible Roth employer plan
  - *Traditional account* balance can be transferred to a traditional or Roth IRA or other eligible traditional employer plan
- Considerations when transferring *traditional* TSP to Roth IRA
  - Subject to Federal tax, but no withholding
  - Participant may need to pay estimated taxes to mitigate tax liability
  - May increase effective tax rate
  - May need to meet five year rule for the Roth IRA
- Participant should discuss all options with tax or financial advisor or IRA provider before making withdrawal decisions

# Post-Service Withdrawals

- Automatic cashout
- Leaving money in the TSP
- Combining Accounts
- Partial Withdrawal of at least \$1,000
- Full Withdrawal Options
  - Single payment
  - Monthly payments
  - TSP life annuity
- Mixed Withdrawal Options



As of February 1, 2012

# Automatic Cashout

- Separated participants with a vested account balance of less than \$200 will receive an automatic cashout
  - Account balances of \$4.99 or less will be forfeited to the TSP
  - Participant may request restoration and payment of the forfeited balance
- The account will be paid automatically after the participant is separated for more than 31 days
  - No notification prior to disbursement
- Participant may not elect to leave the balance in the TSP
- Amount not subject to the mandatory 20% Federal tax-withholding

# Leaving Money in the TSP

- Contributions may not continue, but participant may transfer in amounts from traditional IRAs or eligible employer retirement plans
- Participant may continue to request interfund transfers and contribution allocations
- By April 1st after you turn 70½ and are separated from service, you must begin to take required minimum distributions from your TSP account, to include Roth balance
  - Participant may retain the account for life as long as the balance remains above \$0.00
- Participant is responsible for updating address when needed by using the TSP Account Access section of the TSP website, telephoning the TSP record keeper, or submitting Form TSP-9

# Combining Uniformed Services and Civilian TSP Accounts

- Only the account related to the separation can be transferred
- TSP accounts can be combined provided that monthly payments are not being made from the remaining account
- TSP cannot transfer the tax-exempt portion in a uniformed services account to a TSP civilian account
- If married and transferring the uniformed services account to a Civil Service Retirement System (CSRS) account, spouse must sign consent section on Form TSP-65

# Partial Withdrawal

- One-time request for the “life” of the account, Form TSP-77 TSP-U-77
  - Participant must not have received an age-based withdrawal
  - Participant must not have received a partial withdrawal from a prior period of employment
  - Single payment only
- Minimum amount that can be withdrawn is \$1,000
- Participant must request a full withdrawal
  - If the account balance is less than \$1,000
  - If requesting entire account balance
- Traditional balance received as a single payment subject to mandatory 20% Federal tax withholding (may request additional tax withholding)
- Qualified *Roth* balance received as a single payment not subject to Federal tax (nonqualified *Roth* earnings subject to mandatory 20% Federal tax withholding)

# Partial Withdrawal

- Participant can elect to transfer all or a portion of their withdrawal (No Federal tax withholding at time of transfer)
  - Separate elections for transfer of traditional and Roth balances
    - May transfer to same or different financial institutions or eligible employer plans
    - May transfer different percentages from each balance
  - Roth balance can be transferred to a Roth IRA or eligible Roth employer plan
  - Traditional balance can be transferred to a traditional or Roth IRA or other eligible traditional employer plan
- Considerations when transferring traditional TSP to Roth IRA
  - Subject to Federal tax, but no withholding
  - Participant may need to pay estimated taxes to mitigate tax liability
  - May increase effective tax rate
  - May need to meet five year rule for the Roth IRA
- Participant should discuss all options with tax or financial advisor or IRA provider before making withdrawal decisions

# Single Payment

- Participant may request TSP pay any percentage of the account balance as a single payment
- Traditional balance received as a single payment subject to mandatory 20% Federal tax withholding (may request additional tax withholding)
- Qualified *Roth* balance received as a single payment not subject to Federal tax (nonqualified *Roth* earnings subject to mandatory 20% Federal tax withholding)
- Participant can elect to transfer all or a portion of their withdrawal (No Federal tax withholding at time of transfer)
  - Separate elections for transfer of *traditional* and *Roth* balances
    - May transfer to same or different financial institutions or eligible employer plans
    - May transfer different percentages from each balance
  - *Roth* balance can be transferred to a Roth IRA or eligible Roth employer plan
  - *Traditional* balance can be transferred to a traditional or Roth IRA or other eligible traditional employer plan
- Same considerations apply when transferring traditional balance to Roth IRA

# Monthly Payments

- Participant may request any percentage of the account balance be paid in monthly payments
- Monthly payment amount
  - Any dollar amount (minimum monthly payment starting at \$25)
  - TSP compute my payments based on life expectancy
- Monthly payments are paid proportionally (pro-rata) from traditional and Roth balances

# Withholding Rules for Monthly Payments

- Monthly payments will be paid proportionally from traditional and Roth balances
- Monthly payments expected to last less than 10 years (less than 120 payments)
  - Traditional balance subject to mandatory 20% Federal tax withholding
  - May request additional tax withholding
  - Qualified Roth balance payments are not taxed (nonqualified Roth earnings subject to mandatory 20% Federal tax withholding)
- Monthly payments expected to last 10 years or more (120 or more payments) or computed based on life expectancy
  - Traditional balance is subject to Federal tax withholding based as if participant is married with 3 dependents
    - Or participant may choose to have no withholding
    - Or participant may change withholding marital status and allowances
    - Or participant may ask the TSP to withhold an additional amount
  - Qualified Roth balance payments are not taxed (nonqualified Roth earnings subject to same withholding rules as traditional balance)

# Transfer Rules for Monthly Payments

- Only monthly payments expected to last less than 10 years (less than 120 payments) may be transferred
- Participant can elect to transfer all or a portion of their withdrawal (No Federal tax withholding at time of transfer)
- Separate elections for transfer of *traditional* and *Roth* balances
  - May transfer to same or different financial institutions or eligible employer plans
  - May transfer different percentages from each balance
- *Roth* balance can be transferred to a Roth IRA or eligible Roth employer plan
- *Traditional* balance can be transferred to a traditional or Roth IRA or other eligible traditional employer plan

# Changes to Monthly Payments

- Participant may complete Form TSP-73/TSP-U-73\* to request a change in monthly payments from:
  - Compute my payment to dollar amount
  - Current dollar amount to new dollar amount
- Change in monthly payments are effective in January of the following year
- Percentage transferred or financial institution may be changed at any time
- Tax withholding rules will be determined when the monthly payment option is processed or when a change in monthly payments occurs

\*Forms and form numbers will be modified or changed upon implementation of Roth TSP

# Summary of Annuity Options

- Participant may elect to purchase an annuity
  - Minimum amount to purchase an annuity is \$3,500
  - If participant has both traditional and Roth balances, a separate annuity will be purchased for each balance
- Only one annuity option for both traditional and Roth balances
- Nonqualified Roth earnings will be included in the Roth annuity payment
  - Earnings are taxable until participant meets qualified distribution rules

# Summary of TSP Annuity Options

- Single Life
  - Level or Increasing Payments
  - 10- year Certain
  - Cash Refund
- Joint Life with Spouse
  - Level or Increasing Payments
  - 50% or 100% survivor benefit
  - Cash Refund
- Joint Life with Other Survivor having an insurable interest
  - Level Payments only
  - 50% or 100% survivor benefit
  - 100% survivor benefit not available if joint annuitant is more than 10 years younger
  - Cash Refund
- The TSP website has an annuity calculator to estimate annuity payments

# Form TSP-70/TSP-U-70

**IV. WITHDRAWAL ELECTION**— This section is required. Choose one or more methods. Indicate percentages in whole numbers. If choosing monthly payments, include the dollar amount of each payment or choose to have the TSP compute your payments based on your life expectancy.

23. I would like to withdraw my entire account balance as follows:

a.  .0% Single Payment

b.  .0% Life Annuity (Must equal \$3,500 or more. Also complete Page 6.)

c.  .0% TSP Monthly Payments → Tell us how to pay your monthly payments:

1 0 0 % (Total a, b, and c)

\$  ,  .00 per month (\$25.00 or more)

OR

Compute my payments based on my life expectancy.

## Important Tax Information About Payments From Your TSP Account

Before you decide how to receive the money in your Thrift Savings Plan (TSP) account, you should review the important information in this notice. Although the TSP can assist you with your withdrawal, we cannot provide tax advice. Because tax rules are complex, you may wish to speak with a tax advisor before you make any withdrawal decisions.

You can find more specific information on the tax treatment of payments from qualified employer plans like the TSP in IRS Publication 575, *Pension and Annuity Income*, IRS Publication 590, *Individual Retirement Arrangements (IRAs)*, and IRS Publication 721, *Tax Guide to U.S. Civil Service Retirement Benefits*. (See page 4, Resources.)

### 1. Federal Income Tax Withholding

Your contributions to the TSP were tax-deferred. This means you have not yet paid taxes on your contributions, any agency contributions, or earnings. Instead, you will owe taxes when you receive a payment (distribution) from your account. We report all TSP distributions to the Internal Revenue Service (IRS), and to you, on IRS Form 1099-R, *Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.* Distributions from beneficiary participant accounts will be reported as death payments on IRS Form 1099-R.

We must withhold for Federal income tax from payments unless you are allowed to request reduced or no withholding for certain payment types. For purposes of IRS withholding, there are three types of payments: eligible rollover distributions, periodic payments, and non-periodic payments. The chart on the next page describes the withholding rates and the rules that apply to each type of TSP payment. If you are eligible and want to change the standard withholding, you must provide this information with your withdrawal request using IRS Form W-4P, *Withholding Certificate for Pension or Annuity Payments* or complete the withholding section of your withdrawal request, if available.

If you elect a post-separation "mixed withdrawal" (e.g., an annuity and a single payment), each type of distribution is treated separately and may be subject to different tax withholding rules.

We do not withhold for state or local income tax. However, we do report, on IRS Form

1099-R, all TSP distributions to your state of residence at the time of the payment (if that state has an income tax). You may need to pay state and local income taxes on your payment. See a tax advisor or state or local tax officials for specific information.

**Special note regarding automatic enrollment refunds:** If you were automatically enrolled in the TSP, you may request a refund within 90 days of your first contribution using Form TSP-25, *Automatic Enrollment Refund Request*; the funds will be subject to 10% tax withholding.

If you separate from service within the 90-day period and your balance is \$200 or more, you may request a refund using Form TSP-25 or a withdrawal using Form TSP-70, *Request for Full Withdrawal*. If you use Form TSP-25, your refund will be taxed at a withholding rate of 10% with no early withdrawal penalty tax. However, if you are FERS, you will forfeit all Agency Matching Contributions and earnings you received on your automatic contributions. You will also forfeit any non-vested Agency Automatic (1%) Contributions and earnings. Alternatively, if you use Form TSP-70 to request a withdrawal, you will be subject to the withholding rules based on your chosen payment type (e.g., 20% for a single payment) and the 10% early withdrawal penalty tax rules will apply. But you will keep the Agency Matching Contributions and forfeit only the nonvested Agency Automatic (1%) Contributions. (If your account has less than \$200 when you separate, the balance will be sent to your address of record automatically.) Automatic enrollment refunds do not apply to beneficiary participant accounts.

## Tax Treatment for TSP Payments

| Type of TSP Payment   | Type of Payment for IRS Purposes   | May I Transfer or Roll Over the Payment? | What Is the Withholding Rate?       | May I Increase Withholding?   | May I Decrease Withholding?                         | May I Waive Withholding?                              |
|---|--|--|-------------------------------------|---|---|---|
| Automatic enrollment refund <sup>1</sup>  | Non-periodic payment   | No                                       | 10%                                 | Yes — complete tax withholding section of Form TSP-25   |   | Yes — complete tax withholding section of Form TSP-25 |
| Single payment (full withdrawal after separation or from a beneficiary participant account) | Eligible rollover distribution   | Yes                                      | 20% mandatory                       | Yes — complete line 3 of IRS Form W-4P <sup>2</sup>   | No  | No  |
| Monthly payments for less than 10 years (requested dollar amount)                           | Eligible rollover distribution   |  |                                     |   |   |   |
| Monthly payments for 10 years or more (requested dollar amount) <sup>3</sup>                | Periodic payments  | No                                       | As if married with 3 dependents     | Yes — change exemption on line 2 of IRS Form W-4P <sup>2</sup> and add additional dollar amount on line 3 | Yes — complete line 2 of IRS Form W-4P <sup>2</sup> | Yes — complete line 1 of IRS Form W-4P <sup>2</sup>   |
| Monthly payments based on the IRS life expectancy table                                     | Periodic payments  |  |                                     |   |   |   |
| Automatic cash-out (less than \$200)  | Eligible rollover distribution   | Rollover only                            | None                                | Not applicable  | Not applicable                                      | Not applicable  |
| Partial withdrawal after separation or from a beneficiary participant account               | Eligible rollover distribution   | Yes                                      | 20% mandatory                       | Yes — complete line 3 of IRS Form W-4P <sup>2</sup>   | No  | No  |
| Required minimum distribution payments <sup>4</sup>   | Non-periodic payment   | No                                       | 10%                                 |   |   | Yes — complete line 1 of IRS Form W-4P <sup>2</sup>   |
| Final single payment after a series of monthly payments                                     | Eligible rollover distribution   | Yes                                      | 20% mandatory                       |   |   | No  |
| Age-based in-service withdrawal   | Eligible rollover distribution   |  |                                     |   |   | No  |
| Financial hardship in-service withdrawal  | Non-periodic payment   | No                                       | 10%                                 |   |   | Yes — complete line 1 of IRS Form W-4P <sup>2</sup>   |
| Loan taxable distribution — default by separation   | Eligible rollover distribution   | Rollover only (using personal funds)     | Not applicable — money already paid | Not applicable  | Not applicable                                      | Not applicable  |
| Loan taxable distribution — default while still employed                                    | Non-periodic payment   | No                                       |                                     |   |   |   |
| Court order payments to a current or former spouse <sup>5</sup>                             | Eligible rollover distribution   | Yes                                      | 20% mandatory                       | Yes — complete line 3 of IRS Form W-4P <sup>2</sup>   | No  | No  |
| Court order payments not to a current or former spouse                                      | Non-periodic payment   | No                                       | 10%                                 |   |   | Yes — complete line 1 of IRS Form W-4P <sup>2</sup>   |
| Death benefit to a beneficiary participant account  | Non-periodic payment   |  |                                     |   |   | No  |
| Death benefit to a non-spouse <sup>6</sup>  | Eligible rollover distribution   | Only to an "inherited" IRA               | 20% mandatory                       |   |   | No  |
| Annuity purchase  | Not reported to the IRS by the TSP; payments will be reported for tax purposes by the annuity provider |  |                                     |   |   |   |

<sup>1</sup> Withholding rules that apply to refunds of automatic enrollment contributions paid out as withdrawals using Form TSP-70 are based on the withdrawal option chosen on that form.

<sup>2</sup> Some versions of withdrawal requests have tax withholding sections that should be completed in lieu of IRS Form W-4P, Withholding Certificate for Pension or Annuity Payments. Otherwise, be sure to complete, sign, and date IRS Form W-4P before you submit it to the TSP with your request.

<sup>3</sup> If the payment is satisfying the IRS required minimum distribution amount, it is treated as a non-periodic payment. See the "Required minimum distribution payments" section of this chart.

<sup>4</sup> Payments are treated as periodic even if they are satisfying the IRS required minimum distribution amount.

<sup>5</sup> Required minimum distributions are not treated as non-periodic payments (for IRS purposes) if they are part of monthly payments that are expected to be paid over 10 or more years or are part of monthly payments that are based on the IRS life expectancy table. In these cases, taxes are based on withholding for a married person with 3 dependents, under the IRS withholding rules for periodic payments.

<sup>6</sup> Court order payments made to a current or former spouse of a beneficiary participant are treated as non-periodic payments.

<sup>7</sup> Death benefits paid to a non-spouse are treated as non-periodic payments if they come from a beneficiary participant account.

**Special note regarding tax-exempt money:** TSP accounts for members of the uniformed services and the beneficiary participant accounts that result from them may include contributions from pay that is subject to the combat zone tax exclusion. That pay, earned in a combat zone, is exempt from Federal income tax. Consequently, TSP contributions from that pay are also tax-exempt and remain tax-exempt when a participant dies and the money is inherited. However, the earnings on those contributions are taxable when they are distributed. Therefore, if you receive a payment from an account that has both tax-deferred and tax-exempt contributions, your distribution will be paid in the same proportions as your tax-deferred and tax-exempt balances. The TSP will report the tax-exempt portion separately on IRS Form 1099-R.

**Special note regarding annuities:** Payments you receive from an annuity that the TSP purchases for you are also subject to tax withholding. The annuity provider will send information about making a withholding election.

## 2. Transferring or Rolling Over Your TSP Distribution

Some payments from the TSP may be transferred or rolled over into a traditional individual retirement account (IRA), an eligible employer plan, or a Roth IRA. Such payments, called "eligible rollover distributions," are identified on the chart on page 2.

An eligible employer plan includes a plan qualified under section 401(a) of the Internal Revenue Code, such as a section 401(k) plan, profit-sharing plan, defined benefit plan, stock bonus plan, and money purchase plan; a section 403(a) annuity plan; a section 403(b) tax-sheltered annuity; and a section 457(b) plan maintained by a governmental employer.

A traditional IRA is any IRA that is not a Roth IRA, a SIMPLE IRA, or an education IRA. Before-tax money that is transferred from the TSP to a traditional IRA is not subject to tax until it is withdrawn from the IRA.

A Roth IRA accepts only after-tax dollars, but provides tax-free growth. You must pay taxes on the funds you transfer to a Roth IRA for the year of the transfer.

No IRA or eligible employer plan is required to accept a transfer or rollover. Before you decide to transfer or roll over your TSP account, you should find out whether your IRA or plan accepts transfers or rollovers, the minimum amount it will accept, and whether tax-exempt contributions, if applicable, will be accepted.

If your payment is an eligible rollover distribution, you may ask the TSP to transfer part or all of the payment directly to your IRA or plan. If you receive an eligible rollover distribution directly, you may deposit (roll over) the payment into your traditional IRA, eligible employer plan, or Roth IRA yourself. Depending on the type of plan you choose, a withdrawal from it may be subject to

different tax treatment and plan rules (such as different spousal consent rules) than a distribution from the TSP.

If you choose to have the TSP transfer part or all of your eligible rollover distribution:

- Your transfer to a traditional IRA or eligible employer plan will not be taxed in the current year and no income tax will be withheld. Your payment will be taxed when you withdraw it from the traditional IRA or the eligible plan.
- The entire transfer to a Roth IRA will be taxed in the current year. No income tax will be withheld at the time of the transfer. (You may need to pay estimated taxes to mitigate your tax liability.)
- If a portion of your payment is a required minimum distribution, that portion cannot be transferred. Instead, it will be paid directly to you after 10% has been deducted for Federal income tax withholding. This rule also applies if you are receiving monthly payments and elect to receive a final single payment that includes a required minimum distribution.

If the TSP pays an eligible rollover distribution directly to you, and you decide to do a "rollover" to a traditional IRA or eligible employer plan:

- You will receive only 80% of the taxable amount of the payment, because we are required to withhold 20% for Federal income tax.
- You will have up to 60 days to complete the rollover and avoid tax on the amount you roll over.
- You can roll over all or part of the payment to your traditional IRA or plan. The amount rolled over will not be taxed until you take it out of the IRA or plan. However, if you want to roll over 100% of the payment, you must replace the 20% that was withheld with your own funds. If you roll over only the portion you received, you will be taxed on the 20% that was withheld and not rolled over.

If you roll over your payment into a Roth IRA, the full amount rolled over will be taxed in the current year.

**Special note regarding tax-exempt money:** TSP tax-exempt balances in both uniformed services accounts and the beneficiary participant accounts that result from them may be transferred or rolled over into a traditional IRA or a Roth IRA or transferred to certain eligible employer plans, but only if the IRA or plan certifies that it accepts tax-exempt balances. Otherwise, the tax-exempt amount will be paid directly to you. Check with your IRA trustee or plan administrator to see if the funds will be accepted.

## 3. Other Tax Rules

**Repayment of plan loans.** If you separate from Federal service with an outstanding TSP loan and you do not repay the entire loan by the established deadline, we must declare a taxable distribution of your outstanding loan

balance. (Note: You may make a partial repayment of your loan, in which case the taxable distribution would be the reduced outstanding loan balance.) Your loan must be closed before we can process a withdrawal request.

To avoid current tax (and, if applicable, an additional 10% penalty tax, see the following section), you may deposit part or all of the taxable loan distribution amount into an IRA or an eligible employer plan – using your personal funds – within 60 days of the date of the taxable distribution.

This rollover rule does not apply to taxable loan distributions declared while you are still employed.

*Additional 10% penalty tax if you are under age 59½.*

If you receive a TSP distribution before you reach age 59½, in addition to the regular income tax, you may have to pay an early withdrawal penalty tax equal to 10% of any portion of the distribution not transferred or rolled over. The additional 10% tax generally does not apply to payments that are:

- Paid after you separate from service during or after the year you reach age 55;
- Annuity payments;
- Automatic enrollment refunds;
- Made as a result of total and permanent disability;<sup>\*</sup>
- Made because of death;
- Made from a beneficiary participant account;
- Made in a year you have deductible medical expenses that exceed 7.5% of your adjusted gross income;<sup>\*</sup>
- Ordered by a domestic relations court; or
- Paid as substantially equal payments over your life expectancy.

**Special note for members of the uniformed services:** The penalty tax does not apply to any portion of a TSP distribution (including a loan) which represents tax-exempt contributions from pay earned in a combat zone.

Relief from the 10% early withdrawal penalty is available to eligible Reservists called to duty for more than 179 days. The Reservist must have been activated after September 11, 2001 and must have received his or her TSP distribution between the date of the order or call and the close of the active duty period. The Reservist may also be eligible to repay the distribution to an IRA (not the TSP). Participants should consult with their tax advisors, legal assistance officers, or the IRS regarding this relief.

**Receiving monthly payments.** Participants receiving monthly payments may change the amount annually. If you elect to change the fixed dollar amount of your payments, if you transfer money into your account while receiving

<sup>\*</sup> The TSP cannot certify to the IRS that you meet these exemption requirements when your taxes are reported. Therefore, you must provide the justification to the IRS when you file your taxes.

monthly payments, or if you change from payments based on life expectancy to a fixed dollar amount, the withholding from your payment may change. The withholding rules will be determined according to whether your new payments are eligible rollover distributions or periodic payments (based on your account balance at the time the payment changes).

In addition, changing from monthly payments based on life expectancy to a fixed monthly payment amount may make you liable for the 10% penalty tax on the payments you previously received, if you do so within 5 years of beginning your payments or before you are age 59½. To learn more, see IRS Publication 575, *Pension and Annuity Income*.

**Required minimum distribution if you are over 70½.** If you are over age 70½ and are separated from Federal service, you must either withdraw your entire TSP account or begin receiving monthly payments by April 1 of the year following the year you turned 70½. In addition, this April 1 date is the deadline for the TSP to start to distribute the IRS "required minimum distribution," a minimum amount of the money in your account which you must receive each year. For more information, see the TSP tax notice "Important Tax Information About Your TSP Withdrawal and Required Minimum Distributions."

**Special note for beneficiary participants:** Special rules apply to required minimum distributions from beneficiary participant accounts. To learn more, see the TSP tax notice "Tax Information About TSP Withdrawals and Required Minimum Distributions for Beneficiary Participants."

**Special tax treatment if you were born before January 2, 1936.** If you were born before January 2, 1936, and you receive your entire account in a lump sum distribution, you can make a one-time election to calculate the amount of the tax on the distribution by using the 10-year tax option and using 1986 tax rates. The 10-year tax option often reduces the taxes that you owe. To learn more, see IRS Publication 575, *Pension and Annuity Income*. The 10-year tax option does not apply to beneficiary participant accounts.

**Rules for nonresident aliens or beneficiaries of nonresident aliens.** Special tax withholding rules apply to TSP payments made to nonresident aliens and beneficiaries of nonresident aliens. To learn more, see the TSP tax notice "Tax Treatment of Thrift Savings Plan Payments to Nonresident Aliens and Their Beneficiaries."

#### 4. Resources

TSP publications are available from the TSP website at [www.tsp.gov](http://www.tsp.gov) or from the TSP by calling the TSP toll free at 1-877-968-3778 (TDD: 1-877-847-4385). Outside the U.S. and Canada, please call 404-233-4400 (not toll free). You can also send a fax to 1-866-817-5023 or write to the TSP at the address on the TSP website.

IRS publications are available from your local IRS office, on the IRS website at [www.irs.gov](http://www.irs.gov), or by calling 1-800-TAX-FORMS.

# Death Benefits

- To Whom
  - Based on Form TSP-3, Designation of Beneficiary
    - Participant responsible for mailing or faxing form directly to TSP
    - Do not submit forms to agency/service
  - If there is no TSP-3 on file at the TSP, then statutory order of precedence:
    - Spouse, natural and adopted children, parents, estate, next of kin
- How paid
  - Death reported on Form TSP-17/TSP-U-17, Information Relating to Deceased Participant
- The beneficiary is responsible for reporting the payment as taxable income earned

# Death Benefit Payments – Spouse Beneficiaries

- Spouse beneficiaries automatically have a beneficiary participant account (BPA) established upon notification of death of TSP participant
- Balance is automatically invested in the G Fund
- Beneficiary participants have same investment and withdrawal options as separated TSP participants
  - Exception: TSP cannot accept transfers or rollovers from other equivalent employer plans or traditional IRAs into BPAs
  - Interfund transfers to any TSP investment funds are permitted
- Spouse may designate beneficiaries using Form TSP-3
- Death benefit payments from a BPA are single payments to the designated beneficiaries; cannot be transferred or rolled over to an IRA (to include inherited IRA) or eligible employer plan
- Required Minimum Distribution from BPA is based on the age of the TSP participant

# Death Benefit Payments – Non-Spouse Beneficiaries

- Paid as a single payment
  - Payments to beneficiary subject to 20% tax withholding
  - Payments transferred to an inherited IRA account not subject to withholding
- The benefits of an Inherited IRA
  - Allows beneficiaries, other than spouse, to take the IRC minimum required distribution amount based on their age
    - If a 24-year-old beneficiary's entitled amount is \$100,000, the IRC minimum required distribution must start by December 31 the year following the TSP participant's death
    - The first year IRC minimum required distribution would be \$1,720 based on age 25
  - The remaining balance continues to grow tax deferred
  - Each year the IRC minimum required distribution increases slightly providing a lifetime benefit
- Inherited IRAs are complicated and a tax advisor or IRA provider should be contacted to discuss this benefit