Thrift Savings Plan Loans & In-Service Withdrawals Webinar
Presented by the Federal Retirement Thrift Investment Board

77 K Street, NE * Washington, D.C. 20002 * www.tsp.gov
Agenda

- Helpful/harmful factors that affect TSP balance
- TSP Loan Program
- In-Service Withdrawal Options
- Loan & Withdrawal Rules: Other Considerations
- TSP Tips & Resources

Factors that affect TSP balance

- **Helpful**
  - FERS: contribute enough to get full agency match
    - Contribute five percent to get maximum agency match of four percent
      - Dollar for dollar on first three percent
      - Fifty cents per dollar for next two percent
      - Applies on a per pay date basis - NOT an annual basis
  - Allocate contributions to investment funds based on appropriate balance of risk to return
    - Periodically:
      - Review account performance and long-term strategy
      - Rebalance and reallocate based on review
    - Or, choose a Lifecycle Fund – rebalancing and reallocations occur automatically
Factors that affect TSP balance

× Harmful

- Frequent Interfund Transfers
  - Short-term, tactical moves using index funds is an unsuccessful long-term investment strategy
- Using TSP to access savings that should have been put into another type of account
  - Loans
    - Temporary depletion
    - Financial Hardship In-Service Withdrawals
  - Permanent depletion

TSP LOANS
Types of Loans

**General Purpose**
No documentation required
(1-5 years)

**Residential**
For purchase or construction
of a primary residence only
(1-15 years)

Costs of a Loan

- $50.00 processing fee - deducted when loan is disbursed
- Loan interest
  - Based on G fund rate at time application is processed
  - Fixed for life of the loan
  - Not tax deductible
- The invisible (and probably the largest) cost – foregone investment earnings and reduced compounding of retirement savings
Other Loan Rules

- May have a maximum of two loans outstanding at one time
  - Participants may have one residential and one general purpose loan outstanding
- When a loan is paid in full there will be a 60-day waiting period before another like loan application is accepted
- Valid or pending court order prevents loan disbursement
- See tsp.gov/planparticipation or the TSP booklet, Loans, for more information

Repaying the Loan

- Payroll deduction based on the schedule of loan payments
- Participants may send additional payments in any amount
  - Personal checks, money orders or cashier’s checks must be accompanied by loan coupon
- Multiple voluntary reamortizations
  - Participant may reamortize on TSP website or by calling the TSP to raise or lower payments only
- No post-service withdrawal options can be processed until the outstanding loan is settled
IN-SERVICE WITHDRAWALS

Financial Hardship Withdrawals

- Qualifying circumstances
  - Negative monthly cash flow
  - Medical expenses
  - Personal casualty losses
  - Legal expenses for separation or divorce

- Restrictions
  - Minimum withdrawal $1,000
  - May only withdraw your own contributions and earnings
  - Six month non-contribution/waiting period
Costs of a Financial Hardship Withdrawal

• Withdrawal can’t be repaid – permanently reduces retirement savings
• Contributions suspended for 6 months
  • No contributions means no matching (FERS)
• Withholding rate is 10%, actual tax is likely to be higher
• Additional 10% penalty tax on distributions prior to age 59½
• See tsp.gov/plan participation or the TSP booklet, In-Service Withdrawals, for more information

Age-Based Withdrawals

• Participants age 59½ or older may take a lump sum withdrawal (one-time only) while still in service
• Minimum withdrawal is $1,000; maximum is entire vested account balance
• All or any portion may be transferred to an IRA or another eligible employer plan
• See the instructions for Form TSP-75, Age-Based In-Service Withdrawal Request, for more information
OTHER CONSIDERATIONS

Loan Considerations

- TSP loans can be settled before or within 90 days after separation
- Options
  - Reamortize or make additional payments before separation
  - Report a taxable distribution of the unpaid balance
    - TSP declares taxable distribution upon expiration of the 90-day grace period and reports to IRS
    - Participant can accelerate the distribution by signing “intent not to repay”

See tsp.gov/planparticipation or the TSP booklet, Loans, for more information
Submitting Withdrawal Forms

- Married participants must print their withdrawal form from the TSP website
  - Provide notarized participant signature
  - Return the withdrawal request to the TSP for processing

Spouses’ Rights

<table>
<thead>
<tr>
<th>Retirement Plan</th>
<th>Requirement*</th>
<th>Exceptions†</th>
</tr>
</thead>
<tbody>
<tr>
<td>FERS or Uniformed Services</td>
<td>Notarized spouse signature required**</td>
<td>Whereabouts unknown or exceptional circumstances - TSP-16 or TSP-U-16 required</td>
</tr>
<tr>
<td>CSRS</td>
<td>Spouse is entitled to notification of the participant’s withdrawal election</td>
<td>Whereabouts unknown - TSP-16 required</td>
</tr>
</tbody>
</table>

* If account balance is less than $3,500, spouse’s signature/notice is not required
** If married but no spouse signature: Spouse is entitled to a Joint Life Annuity with 50% Survivor Benefits, Level Payments, and no cash refund feature
† Waiver of spouse’s signature/notification valid for 90 days from approval
Pro-Rata Distribution Rule

Pro-Rata: All withdrawal options will be paid proportionally from each balance

Tax Withholdings & Portability

<table>
<thead>
<tr>
<th>Type of payment</th>
<th>Eligible for transfer or rollover?</th>
<th>Federal income tax withholding rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lump sum distributions: Single payments, age-based and partial withdrawals, final withdrawal following a series of monthly payments</td>
<td>Yes</td>
<td>20% (mandatory) unless transferred</td>
</tr>
<tr>
<td>Monthly payments for less than 10 years</td>
<td>Yes</td>
<td>20% (mandatory) unless transferred</td>
</tr>
<tr>
<td>Monthly payments for 10 years or more</td>
<td>No</td>
<td>As if Married w/3 (may be decreased or waived)</td>
</tr>
<tr>
<td>Monthly Payments based on life expectancy</td>
<td>No</td>
<td>As if Married w/3 (may be decreased or waived)</td>
</tr>
</tbody>
</table>

See TSP-536, Important Tax Information About Payments From Your TSP Account, for more information
Eligible Rollover Distributions

TSP Account

Traditional Balance  
Roth Balance

Transfer

Traditional IRA, eligible employer plan, or Roth IRA

Eligible Rollover Distribution

Transfer

Traditional

Roth

Roth IRA or eligible Roth employer plan

Distribution to Participant

Whatever isn’t transferred will be distributed and is eligible to be rolled over within 60 days

Exceptions to the IRS Early Withdrawal Penalty

The 10% IRS Early Withdrawal Penalty does not apply to payments that are:

- Received at age 59½ or later
- Received after you separate/retire during or after the year you reach age 55 (or the year you reach age 50 if you are a public safety employee as defined in section 72(t)(10)(B)(ii) of the internal revenue code)
- TSP monthly payments based on life expectancy
- Annuity payments
- Ordered by a domestic relations court
- Made because of death
- Made from a beneficiary participant account
- Received in a year you have deductible medical expenses that exceed 10% of your adjusted gross income (7.5% if you or your spouse is 65 or over)
- Received as a result of total and permanent disability*

* Participant must provide the justification to IRS when they file their taxes

IRS Publications 575, Pension and Annuity Income
IRS Publication 721, Tax Guide to U.S. Civil Service Benefits
TSP TIPS & RESOURCES

7 TSP tips: “What & Why”

• Contribute at least 5% of your salary
  • WHY: Don’t lose out on free money from the Agency match

• Transfer other retirement savings into the TSP
  • WHY: Other plans can cost significantly more

• Think twice about taking a loan from your TSP account
  • WHY: It may cost you hundreds (maybe thousands) of dollars in missed growth

• Use the calculators at tsp.gov to help define your retirement goal
  • WHY: Planning your retirement is smarter than winging it
7 TSP tips: “What & Why”

• Diversify your investment strategy or choose a TSP Lifecycle (L) Fund
  • WHY: Varying your investments reduces risk

• Review your contributions and investment strategy regularly
  • WHY: As life changes, so may your retirement goals

• Stay with the TSP after you separate
  • WHY: TSP’s low costs are hard to beat
TSP Website (www.tsp.gov)

**Access Your Account**
- View account balance
- View Annual & Quarterly Statements
- Change your contribution allocation
- Request inter-fund transfers
- Request loans and withdrawals
- Create (or change) a user ID
- Change or request a Web password

**Contacting the TSP**
- Facebook
- TSP GOV
- ThriftLine: 1-877-968-3778
- Secure Message Center: Civilian
- TSP IS NOW ON TWITTER!
- YouTube
- TSPgov is the official YouTube channel of the Thrift Savings Plan

**Notes**
- You may also call TSP GOV or visit their website.
TSP Publications

Post-Training Survey

http://tsptraining.questionpro.com