FAS Reference Guide

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Thrift Savings Plan (TSP)

A Guide for Personnelists

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Thrift Savings Plan
(TSP)

REFERENCES

Title 5, United States Code (U.S.C.), Chapter 83, Subchapter III
Title 5, United States Code (U.S.C.), Chapter 84, Subchapter IV
Title 5, Code of Federal Regulations (C.F.R.), Chapter 6 (Parts 1600 –1690)

Thrift Savings Plan web site: www.tsp.gov for TSP forms, publications and TSP Highlights.

INTRODUCTION

TSP is a retirement savings and investment plan for Federal employees and members of the uniformed services. Employee contributions and accrued earnings are tax-deferred. The purpose of TSP is to provide annuitants with retirement income. TSP offers Federal civilian employees the same type of savings and tax benefits that many private corporations offer their employees under "401(K)" plans. Employees covered by Civil Service Retirement System (CSRS) and Federal Employees Retirement System (FERS) can contribute to TSP.

TSP is a defined contribution plan. The retirement income the employee will receive from TSP account will depend on how much the employee and the employer have contributed to the account during the employee's career and the earnings on those contributions. Contributions to TSP are voluntary and are separate from contributions to the FERS annuity and the CSRS annuity.

The Federal Retirement Thrift Investment Board administers TSP. The Board is an independent Government agency that is required by law to manage TSP solely in the interest of its participants and their beneficiaries.

The employing agency also plays an important role in TSP administration. Employing agencies are responsible for determining employee retirement coverage and reporting to the record keeper the dollar amount of contributions to employee accounts each pay period. The agency also distributes TSP materials and answers employee questions. The employing agency is the employee's primary TSP contact.

TSP is a daily valued system, shared-based plan with transactions (loans, interfund transfers, withdrawals, etc.) processed daily. TSP accounts are expressed as shares of TSP funds in which participants invest their money. The value of the account is based on the daily share price of the funds and the number of shares the participant holds in each account. The value of the account balance will change every day as the share balance and number of shares change. The account balance will be shown in both shares and dollar amounts.

TSP Features

- Immediate employee contributions
- Before-tax savings and tax-deferred investment earning
- Daily valuation
- Choice of Investment Funds
- Interfund Transfers
- Low administrative and investment expenses
- Transfers or rollovers of eligible distributions into TSP
- Ability to make contribution allocations daily
- Catch-up contributions (for participants age 50 or older)
- Portability Benefits (after separation from Federal Service)
- Loan Program
- Spouse's Rights
- In-Service Withdrawals
- Post-Employment Withdrawal Options
- Ability to designate beneficiaries
- Calculators
- ThriftLine & TSP web site

TSP Investment Funds

There are six investment funds from which to choose.

- G Fund (U.S. Treasury Securities) – The objective of the G Fund is to maintain a higher return than inflation without exposing the fund to risk of default or changes in market prices. It offers the opportunity to earn rates of interest similar to those of long-term Government securities but without any risk of loss of principal and very little volatility of earnings. It also is invested in short-term U.S. Treasury Securities specially issued to TSP. Payment of principal and interest are guaranteed by the U.S. Government, thus, there is no "credit risk." Earnings consist entirely of interest income on the securities.

- F Fund (U.S. Debt Index Fund – Bond Market) – The objective of the F Fund is to match the performance of the Barclays Capital U.S. Aggregate Index, a broad index representing the U.S. bond market. The F Fund offers the opportunity to earn rates of return that exceed those of money market funds over the long term, with relatively low risk. The risk of nonpayment of interest or principal (credit risk) is relatively low because the fund includes only investment-grade securities and is broadly diversified. The F Fund has market risk (the risk that the value of the underlying securities will decline) and prepayment risk (the risk that the security will be repaid before it matures). Earnings consist of interest income on the securities and gains (or losses) in the value of securities resulting from changing market interest rates.

- C Fund (Stocks) – The objective of the C Fund is to match the performance of the Standard and Poor's 500 (S&P 500) Index, a broad market index made up of stocks of 500 to medium-sized U.S. companies. The C Fund offers the opportunity to earn a potentially high investment return over the long term from a broadly diversified portfolio of stocks. There is a risk of loss if the S&P 500 index declines in response to changes in overall economic conditions (market risk). Earnings consist of gains and losses in the prices of stocks and dividend income.

- S Fund (U.S. Stocks) – The objective of the S Fund is to match the performance of the Dow Jones U.S. Completion Total Stock Market (TSM) Index, a broad market index made up of stocks of medium to small U.S. companies not included in the S&P 500 index. The S Fund offers the opportunity to earn a potentially high investment return over the long term. There is a risk of loss if the TSM Index declines in response to changes in overall economic conditions (market risk). Earnings consist of gains and losses in the prices of stocks and dividend income.

- I Fund (International Stocks) – The objective of the I Fund is to match the performance of the Morgan Stanley Capital International EAFE (Europe, Australasia, Far East) Index, a broad international market index, made up of stocks of companies in 21 developed countries. The I Fund offers the opportunity to earn a potentially high investment return over the long term by investing in the stocks of companies in developed countries outside of the U.S. There is a risk of loss if the EAFE index declines in response to changes in overall economic conditions (market risk) or in response to increases in the value of the U.S. dollar (currency risk). Earnings consist of gains and losses in the prices of stocks, currency changes relative to the U.S. dollar, and dividend income.

- L Fund – The objective of the L Funds is to provide the highest possible rate of return for the amount of risk taken. The L Funds diversify participant accounts among the G, F, C, S, and I Funds, using professionally determined investment mixes (allocations) that are tailored to different time horizons. The L Funds are rebalanced to their target allocations each business day. The investment mix of each fund adjusts quarterly to more conservative investments as the fund's time horizon shortens. Investing in the L Funds is not a guarantee against loss and does not eliminate risk. The L Funds are subject to the risks inherent in the underlying funds, and can have periods of gain and loss. The L Funds' expected returns will be approximately equal to the weighted average of the G, F, C, S and I Funds' returns. Earnings will be calculated daily and there will be a daily share price for each L Fund.

For more detailed information on each of TSP investment funds, refer to TSP web site under Forms and Publications, booklets, Managing Your Account.

Becoming a TSP Participant

Employees covered by FERS and CSRS are eligible to participate in TSP. Employees who are hired or rehired in a covered position are subject to the automatic enrollment provisions of Public Law 111-31, the Thrift Savings Plan Enhancement Act of 2009. A "Welcome Package" with an account number, web password, and personal identification number (PIN) for accessing their account on TSP website, TSP ThriftLine, and TSP's automated telephone system will be mailed to the employee's home address of record. Employees who were previously on the agency's rolls retained their TSP eligibility status upon employment, unless there was a TSP election on file with the agency.

New hired CSRS and FERS employees are automatically enrolled in TSP and their agency will deduct 3% of their basic pay each pay period and depositing it into the employee's account.

Employees covered by CSRS, FERS and members of the Uniformed Services are immediately eligible to participate in TSP. Employees covered by Social Security (FICA) only are not eligible to participate in TSP.

Maximum Contributions

Currently, there is no contribution percentage limit. Employees will only be limited by the IRS Elective Deferral Limit.

Interfund Transfers

An interfund transfer moves the money already in an account among TSP investment funds. When an employee makes an interfund transfer, he or she chooses the new percent to invest in each fund. An employee cannot move a specific dollar amount among the funds. An employee will be able to make two interfund transfers each calendar month, with unlimited transfers to the G Fund. Transactions can be made at any time on TSP web site, the ThriftLine or submit an Investment Allocation form (TSP-50) to TSP.

Catch-up Contributions

"Catch-Up" contributions are supplemental tax deferred employee contributions, which are in addition to regular TSP employee contributions. The catch-up contributions are tax-deferred but do not count towards the IRS deferral limit. To be eligible to make catch-up contributions, a participant must be:

- Turning age 50 or older in the calendar year in which the catch-up contributions are made;
- Currently employed and in a pay status; and,
- Contributing either the maximum TSP contribution percentage allowed by his/her retirement or contributing an amount that will cause him/her to reach the IRS elective deferral limit at the end of the year.

An employee in a 6-month suspension period after making a TSP financial hardship withdrawal is not eligible to make catch-up contributions during that time.

Catch-up contributions:

- Do not continue into the next calendar year.
- Receive no matching contributions.
- Are immediately vested.
- Have an annual IRS limit.
- Must be in dollars not percentages.
- May start and stop at any time.
- Can only be made from basic pay through payroll deductions.
- Must be submitted on the form TSP-1-C, Catch-Up Contributions Election.

For more information on Catch-Up contributions refer to the Fact Sheet Catch-Up Contributions found on TSP web site.

TSP Loan Program

Both CSRS and FERS employees can borrow from their TSP account. There are 2 types of loans: 1) General purpose loan and 2) Residential loan. To be eligible to take a TSP loan, Federal employees must meet the following eligibility requirements:

- Be a current Federal employee;
- Be in active pay status;
- Must have at least $1,000 of his or her own contributions and earnings in TSP. (Agency contributions cannot be borrowed.)
- Have not repaid a TSP loan (of the same type) in full within the past 60 days;

- Have not had a taxable distribution on a loan within the past 12 months, unless the taxable distribution resulted from separation from Federal service.

The maximum amount an employee can borrow is limited by TSP and IRS rules.

An employee who has a court order against their account is not eligible to obtain a TSP loan.

TSP loan program is an important benefit that allows participants access to the money in their accounts. However, taking a loan could result in less money for retirement. Before an employee takes a TSP loan, they should make sure they realize its potential effect on their retirement income and decide whether it makes more sense to borrow from another source.

For more information on TSP Loans, refer to TSP Loan Booklet found on TSP web site. Employees can apply for loans using TSP web site, www.tsp.gov. Loans are processed and disbursed daily.

Rollovers and Transfers

P.L. 106-361, effective July 1, 2001, allows TSP to accept transfers of eligible rollover distributions from qualified retirement plans or from Individual Retirement Arrangements (IRAs). To transfer funds into TSP, an individual must have an open TSP account and they cannot be receiving monthly payments from it. To request a transfer or to complete a rollover into a TSP account, a participant must complete TSP-60, Request for Transfer into TSP (available on the web site) and mail the completed form to TSP service office at the address on the back of the form.

As of January 2008, all or a portion can be transferred to a Roth IRA (subject to Federal tax). If an employee makes an Age-Based In-Service Withdrawal from their account, they will not be eligible for a Request for Partial Withdrawal from that account after they separate from service. They will also deplete their retirement savings by the amount they withdrew. Employees cannot return or pay back the money to their account.

Disposition of TSP after Death

TSP will make a death benefit payment upon the death of a participant with a TSP account. TSP account balance will be paid in a lump sum according to the most recent Form TSP-3, Designation of Beneficiary. If there is no TSP-3 on file, the account balance is paid according to the Order of Precedence, which is as follows:

- Widow or widower
- Child or children equally

- Parents equally (or all to a surviving parent)
- Appointed executor or administrator of the estate
- Next of kin entitled to the estate under the laws of the state resided in at the time of death

<u>TSP Withdrawal Options</u>

In-service Withdrawals (while employed by the Federal government), 2 types:

- Age-Based In-Service Withdrawal – one-time-only withdrawal of all or any portion of an employee's vested account balance if age 59 ½ or older.
- Financial Hardship In-Service Withdrawal – employee may withdraw their own contributions and earnings for a financial hardship.

To be eligible for a Financial Hardship In-Service Withdrawal, an employee's financial need must result from at least 1 of the following 4 conditions:

- Negative monthly cash flow
- Medical expenses (including household improvements needed for medical care)
- Personal casualty losses
- Legal expenses for separation or divorce

For more information on in-service withdrawals, refer to the booklet <u>TSP In-Service Withdrawals</u> available on TSP web site.

An employee is eligible to withdraw their account when they separate from Federal service. A separated employee can use any combination of the following withdrawal options:

- Make a partial withdrawal of the account in a single payment
- Make a full withdrawal of the account by any one, or any combination, of the following methods:

    1. Receive the account in a single payment
    2. Receive the account in a series of monthly payments
    3. Receive a life annuity
    4. A mixed withdrawal

TSP can transfer all or part of any single payment or, in some cases, a series of monthly payments, to a traditional IRA or eligible employer plan. As of January 2008, participants may transfer all or a portion to a Roth IRA (subject to Federal tax).

Payments to the participant can be deposited directly into a checking or savings account by means of electronic funds transfer (EFT).

For more information on TSP withdrawal options, refer to the booklet "Withdrawing Your TSP Account "After Leaving Federal Service" available on TSP web site.

Employee Transfers

When an employee transfers from one federal agency to another; the transfer should be seamless. Information about an employee's current contributions are included on the Standard Form 75 (SF 75 Request for Preliminary Employment Data). Use the SF 75 to obtain pre-employment information when the applicant's Official Personnel Folder (OPF) or Merged Records Personnel Folder (MRPF) is not available for review. This most often occurs when the applicant works for a different agency. In addition, complete TSP 19 information at https://www.tsp.gov/PDF/bulletins/10-8.pdf

Nonpay Status and TSP Participation

Nonpay status is defined as:

- A civilian employee's furlough or leave without pay for one or more pay periods, or
- A uniformed services member not receiving pay each month (e.g., a member of the Ready Reserve who does not drill each month).

All employees while in nonpay status:

- Will not be able to contribute to TSP because the employee contributions must be made through payroll deductions.
- Employees are not eligible to request a new TSP loan.

Uniformed services accounts:

- Civilian employees in nonpay status in order to perform military service, may make contributions to their uniformed services account from their active uniformed services pay.
- Employees will not receive Agency Contributions in their uniformed services account, upon return to civilian pay status, an employee may be entitled to make up TSP contributions to their civilian account (and receive restored Agency Contributions, if covered by FERS). For more information, read the fact sheet TSP Benefits That Apply to Members of the Military Who Return to Federal Civilian Service.

FERS employee accounts:

- Will not receive Agency Matching Contributions (which are based on your employee contributions).

- You will not receive Agency Automatic (1%) Contributions, which are calculated on basic pay earned each pay period.

Nonpay Status and Loan Payments

The Internal Revenue Service allows employees to suspend any outstanding loan payments:

- If an employee is on approved nonpay status, the employee may suspend loan payments for up to one year.
- If a civilian employee is entering nonpay status to perform military service, the employee may suspend loan payments until the employee returns to pay status. However, the employee cannot repay their civilian loan(s) from uniformed services pay.

While an employee is on nonpay status interest continues to accrue. For this reason it is important to inform the employee of the option to make loan payments. To make a loan payment while in nonpay status, an employee may send a personal check or money order to TSP, along with a TSP Loan Payment Coupon.

Agency notifies TSP when employee is entering nonpay status and upon return to pay status, to avoid default on TSP loan. Agency should use Form TSP-41 (TSP-U-41, uniformed services) to notify TSP of nonpay status. However, there are other forms of acceptable documentation.

Nonpay Status While Uniformed Services Employment and Reemployment Rights Act (USERRA)

Agency must determine if the returning employee is eligible for restoration under USERRA. Once the determination is made, employment and benefits issues (including TSP) must be addressed. Upon notification of return to duty or reinstatement under USERRA, provide the employee with the following:

- Information regarding the retroactive corrections to his/her TSP account

- Internal agency procedures the participant must follow to begin corrections to his/her TSP account

- Submit TSP-41 if employee has an outstanding TSP loan to indicate the return to duty

- Begin making correction to the employee's TSP account within 60 days notification of restoration under USERRA!

Effect of TSP Uniformed Services Participation under USERRA

The employee must provide the agency the amounts contributed from military basic pay, and the total amounts contributed from all sources of pay for the period of separation/Absent Uniformed Service. The agency must calculate and deposit retroactive Agency Matching Contributions for FERS employees.

The agency is responsible for depositing the Agency Automatic 1% Contributions and breakage based on civilian basic pay that would have been earned for the period of non-pay/separation and the applicable pay dates these contributions would have been made.

NOTE: Uniformed Services TSP started January 2002! The Federal Retirement Thrift Investment Board allows contributions from one source only "basic pay". Therefore; it is a good idea for most FERS employees to elect to contribute to their uniformed services TSP account during the period of active duty.

Nonpay Status While on Workers' Compensation

Federal civilian employees receiving Workers' Compensation benefits, cannot, by law, use these benefits to contribute to their TSP account or make payments on TSP loans. Workers' Compensation benefits are payments made by the Department of Labor's Office of Workers' Compensation Programs (OWCP) and, by law, are not payments from which TSP contributions may be made. Consequently, while in nonpay status, an employee can neither contribute to their TSP account nor make loan payments from OWCP benefits.

Federal Erroneous Retirement Coverage Correction Act (FERCCA) Errors and TSP Breakage

FERCCA changes the rules on employee make-up contributions to TSP for some individuals**.** Before FERCCA, individuals did not receive lost earnings (now termed breakage) on any make-up employee contributions they had withheld from their pay because of a retirement coverage error. However, they did receive lost earnings on the make-up agency contributions that were made to their TSP accounts. Under FERCCA, affected individuals can receive lost earnings (breakage) on their make-up employee contributions if they choose to stay in FERS. They also continue to receive breakage on any contributions their agency makes to their TSP accounts. Additional information regarding retirement coverage errors can be found on our website at www.cpms.osd.mil "Information Sheet on TSP Breakage and FERCCA"

TSP ThriftLine

The ThriftLine is an automated telephone service for TSP, which is generally available 24 hours a day, 7 days a week, from a touch-tone telephone. The toll-free telephone number is 1-877-968-3778.

Participant Statement

Participants may access their Participant's Statement on www.tsp.gov using their account number and their Web Password or they may request a mailed copy.