

Federal Benefits
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TSP Withdrawal Options

What's New and What to Do



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USE THIS WHITE PAPER TO LEARN ABOUT RECENT CHANGES TO THRIFT SAVINGS PLAN (TSP) WITHDRAWAL OPTIONS AND FACTORS TO CONSIDER WHEN DECIDING ON A WITHDRAWAL STRATEGY. YOU WILL ALSO FIND LINKS TO ADDITIONAL RESOURCES—NARFE WEBINARS AND TSP BROCHURES—TO HELP YOU PLAN YOUR WITHDRAWALS.

What's New?

Required Minimum Distributions Suspended for 2020

The Coronavirus Aid, Relief and Economic Security (CARES) Act, which was passed by Congress and signed into law by the president on March 27, 2020, included a provision to suspend required minimum distributions (RMDs) on retirement accounts, including Thrift Savings Plan (TSP) accounts, for calendar year 2020. NARFE [advocated](#) for the inclusion of the provision in the bill. There's some additional information on RMDs below. Just remember that RMDs do not apply in 2020, but without any further changes in law, they will apply in future years.

Change in Required Minimum Distribution Age

The Setting Every Community Up for Retirement Enhancement (SECURE) Act, which was passed by Congress and signed into law by the president on December 20, 2019, changes the age at which you have to start taking RMDs from 70½ to 72. This change does not apply to those who turned 70½ on or before December 31, 2019—so those individuals still need to take RMDs prior to turning age 72.

More Flexible Withdrawal Options

The TSP Modernization Act of 2017, which passed Congress with NARFE's endorsement and was signed into law by the president on November 17, 2017, allows for more flexible withdrawal options for TSP participants, giving them more control over their own retirement savings. The law gave the Federal Retirement Thrift Investment Board (FRTIB) two years to implement the new options through final regulations and updated systems and forms. All the new withdrawal options went into effect on September 15, 2019.

Partial Withdrawals

After separating from service, you can now take multiple, post-separation partial withdrawals (one-time payments). There is no overall limit, but you cannot take more than one every 30 calendar days. You can also take partial withdrawals while receiving post-separation installment payments (ongoing monthly, quarterly or annual payments).

Also, if you are 59½ or older and still working (as a federal civilian employee or uniformed service member), you can now take up to four in-service withdrawals per year. Taking these withdrawals does not prevent you from taking post-separation partial withdrawals.

Prior to the changes, you could only take one partial withdrawal in your lifetime—either an age-based in-service withdrawal (when 59½ or older) or a partial post-separation withdrawal.



Choosing Withdrawals From Roth or Traditional Balances (or Both)

You can now choose whether to withdraw money from your Roth balance, your traditional balance or a proportional mix from both. Prior to the changes, you were only allowed to withdraw money on a pro rata basis from both—for example, if 60 percent of your account was in a Roth TSP, and 40 percent was in a traditional TSP, your withdrawals took 60 percent from your Roth and 40 percent from your traditional. The new options—to take only from Roth, or only from traditional—are available for all withdrawal options. However, note that withdrawal payments will continue to come proportionately from the investment funds held in your TSP account. For example, if you have 75 percent of your TSP allocated to the C Fund and 25 percent allocated to the G Fund, then 75 percent of your withdrawal will come from the C Fund and 25 percent will come from the G Fund.

Installment Payments

After separating from service, you can now take monthly, quarterly or annual payments. Prior to the changes, you could only select monthly payments.

Additionally, you can stop, start or make changes to your installment payments at any time. Previously, you were only permitted to change the amount of your installment payments during the October 1 to December 15 Open Season. Also, in the past, if you wanted to stop monthly installments, you were forced to withdraw your entire account to yourself or through a transfer to another eligible plan or individual retirement account (IRA).

You also have the option to change from life-expectancy payments to a fixed dollar amount installment at any point in the year, which was not possible previously. But note that changing from installments based on life expectancy to a fixed installment amount may make you liable for the 10 percent penalty tax on the payments you previously received. This can happen if you separated from service prior to the year you turn age 55 (or 50 for certain public safety employees) and changed to installments within 5 years of beginning your payments or before you are age 59½. See: [Tax Information for TSP Participants Receiving Installment Payments](#).

Withdrawal Elections

You no longer need to make a full withdrawal election. Previously, this had been required once you turned age 70½. If no election was made, the TSP initiated an account “abandonment” process.

If your account has already been abandoned, you can restore the account without making a full withdrawal election. Your restored balance would remain in the plan (subject to RMDs) with all the new withdrawal options available.

Note that this change does not alter the IRS required minimum distribution (RMD) at age 70½ or age 72 (for those turning 70½ after December 31, 2019). It simply means you do not need to decide how you intend to fully withdraw your account balance (single payment, installment payments, etc.).

If you do have RMDs, you can satisfy the requirement by taking a partial withdrawal or installment payments. If you take no action or just don't withdraw enough to meet your RMD, the TSP will automatically send you the remaining RMD amount.

Updates to Withdrawal Process

The “My Account” section of the TSP website (www.tsp.gov) now includes additional tools for completing transactions online. However, some additional paper forms—e.g., for notarized signatures—may still be required. But those will be available online.



Availability of New Options

As long as you had an account balance when the new rules went into effect, even if you had begun receiving monthly payments or had taken a partial withdrawal before then, you can take advantage of the new withdrawal options.

Remember that changing the amount or frequency of your installment payments could have tax consequences. Consider talking to a tax advisor before making such a change. For more information, see the TSP tax notices [Important Tax Information About Payments From Your TSP Account](#) and [Tax Information for TSP Participants Receiving Installment Payments](#).

If you have already closed your TSP account by transferring 100 percent of your balance to an IRA, there is nothing in the new legislation that would allow you to reopen your TSP account to receive any transfers from a traditional IRA or eligible employer plan. If you had left at least \$200 in your vested account balance, this could have kept your TSP account open and available for these transfers using the TSP-60 form, "Request for a Transfer into the TSP." However, if you return to federal service under a position that allows you to contribute to the TSP, you could then use the TSP-60 form to make these qualified transfers back into the TSP.

Summary of Current Withdrawal Options

The new changes have added flexibility and/or limited restrictions for TSP participants looking to withdraw money from their accounts. This white paper has thus far outlined those changes. At the end of the day, here are the basic options currently available to TSP participants after leaving federal service:

- Installment payments (a fixed dollar amount or one based on life expectancy).
- Single withdrawals (of at least \$1,000).
- Purchase an annuity (a regular monthly payment for the remainder of your life) from the TSP annuity vendor (\$3,500 minimum).

You can choose any combination of these. And as mentioned above, if you have both Roth and traditional money in your account, you can choose to have your payment come from your traditional balance only, from your Roth balance only, or pro rata (proportionally) from both balances. The default option is a pro rata withdrawal from both balances. If you choose traditional only or Roth only for installments, your payments will continue after your chosen balance runs out. At that point, your payments will begin coming from the balance you did not choose.

For single withdrawals and fixed-dollar-amount TSP installment payments expected to last less than 10 years, you can also transfer payments to an IRA or eligible employer plan.

What to Do Now?

Now that you know what you **can** do, how do you figure out what you **should** do? That will depend on your individual circumstances, so this white paper won't provide you with a simple answer. But we do outline some factors to consider, some rules and strategies to keep in mind, and some additional resources to help you make the best decision for you.

How Much Do You Need and How Long Will It Last?

Your TSP withdrawals should fit into your larger financial planning strategy for retirement, taking into consideration other income or savings you have, how much you need to have the lifestyle you would like (and can afford) in retirement, and making sure your money lasts throughout retirement.



First, it helps to ask yourself how much you need to retire—or, if you're already retired, how long will your savings last? There's not one answer—it's dependent on your personal circumstances.

NARFE can help you find the right answer for you through its Federal Benefits Institute webinar, "[How Much Money Do You Need for a Secure Retirement?](#)," presented by federal financial planning expert Mark Keen, CFP. The webinar will walk you through how to estimate your after-tax retirement income from all sources (CSRS or FERS annuities, Social Security benefits, TSP withdrawals and other income). The webinar will also help you estimate your retirement needs.

Based on those answers, you can then consider how much (what percentage) of your retirement savings you can withdraw each year to last you through retirement. Will the 4 percent rule—which estimates the amount a retiree with a diversified portfolio of stocks and bonds can withdraw—work for you? What are the advantages and disadvantages of purchasing an annuity with your TSP funds? The webinar will go through those options as well.

Tax Issues to Consider

Once you have figured out how much you need and how long it might last, you can start to figure out how to maximize your savings—or minimize the cost of accessing them—through smart tax strategies. The TSP is a tax-advantaged retirement savings account, so making sure you maximize its benefits and minimize your tax liability should be a key part of your TSP withdrawal strategy.

Here are some important tax issues to keep in mind when devising a TSP strategy for retirement:

- Unless separating from federal service in the year of your 55th birthday or later, most TSP funds withdrawn before age 59½ are subject to a 10 percent penalty. Special group employees, such as law enforcement officers and firefighters, are exempt from this penalty if they separate from federal service in the year of their 50th birthday or later.
- The first RMD year is the year in which you turn 72 or the year you separate from service, if later. The first RMD may be delayed until the required beginning date (RBD), which is April 1 of the year following the year in which you turn 72, or the year that you retire, if later. If you miss this deadline, you could face a stiff penalty. Note, however, that the TSP will automatically issue a payment in March of the year following the year you turn 72, or the year you retire if you retire later than age 72, to make sure you do not miss the deadline.
 - o As noted earlier, the SECURE Act changes the age at which you have to start taking RMDs from 70½ to 72. This change does not apply to those who turned 70½ on or before December 31, 2019—so those individuals still need to take RMDs prior to turning age 72.
 - o Also, as noted, the CARES Act suspended RMDs for 2020.
- Qualified distributions from a TSP Roth account are not be subject to federal taxation.
- TSP federal tax withholding rates vary based on the type of withdrawal.
- TSP funds withdrawn and rolled over into an IRA will not be taxed until the funds are withdrawn from the IRA.
 - o IRAs may charge higher administrative fees than TSP funds, so they may eat into your savings over the course of your life and retirement. The TSP offers low-cost investments in index funds for large U.S. stocks (C Fund), small U.S. stocks (S Fund), large international stocks from developed countries (I Fund), and bonds and bond equivalents (F and G Funds). But IRAs may offer more asset classes to invest in—value stocks, midsize companies, real estate stocks, emerging market stocks, etc. So you may want to consider rolling over some—but probably not all—of your TSP funds into an IRA if you're interested in



investing in those asset classes. Keeping some money in the TSP allows participants to access the G Fund, which provides a low risk-return, as well as low-cost index funds, and maintain the TSP's options into the future. Once you're out, you can't get back in, unless you go back to work.

Your goal should be to minimize tax liability by timing your withdrawals as best as possible and choosing the source of income. For example, if you're facing a higher marginal tax rate in one year versus others, whether because you are working post-retirement or realized a large capital gain, it may be better to delay withdrawals, to the extent possible, or take money from your Roth TSP (which has already been subject to taxes) that year.

Don't underestimate the impact of taxes in retirement! It's important to plan the timing and amount of your withdrawals or you could lose thousands of dollars, if not more, to unnecessary taxes without the proper withdrawal strategy. This may translate into years of lost retirement income potential.

This document was prepared by NARFE staff with expertise on recent legislative and administrative changes affecting TSP withdrawal options and the Thrift Savings Plan (TSP) generally, and based on information provided by the Federal Retirement Thrift Investment Board (FRTIB), including its Thrift Savings Plan Fact Sheet, TSPFS10, "Questions and Answers About Changes to TSP Withdrawal Options," from which some of the segments of the "What's New?" section were adapted. To obtain the fact sheet, visit: www.tsp.gov/PDF/formspubs/tspfs10.pdf.

More Resources From NARFE

Helping Feds make the most of their benefits and prepare for a secure retirement is a high priority for NARFE. Our members have easy access to reliable resources and expertise to help them make informed decisions about their savings and their future.

For specific tips on how to maximize your TSP savings and take advantage of tax strategies, NARFE has several webinars available that NARFE members can watch today:

- **Smart TSP Strategies to Build a Strong Financial Future** (presented by Mark Keen, CFP, February 27, 2020)
- **New TSP Withdrawal Options Explained** (presented by Mark Keen, CFP, September 30, 2019)
- **TSP and You: Sound Savings Strategies** (presented by Mark Keen, CFP, March 7, 2019)*
- **Plan Ahead, Pay Less: Tax Strategies for Feds** (presented by Mark Keen, CFP, January 24, 2019)*
- **TSP: Maximizing Your Retirement Savings** (presented by Tammy Flanagan, April 26, 2018)*

The webinars, slides and transcripts of post-webinar Q&A sessions for these and all of NARFE's Federal Benefits Institute webinars are available to all NARFE members in the NARFE Federal Benefits Institute.

**These three webinars were presented before the new withdrawal options came into effect but with the knowledge that the updates were on their way.*

Additionally, *NARFE Magazine* features "Managing Money," a monthly column by Mark Keen, CFP, that addresses the unique situations that affect the finances of federal employees and retirees.

Learn more about NARFE and how you can become a member at www.narfe.org.

Active and Retired Federal Employees ... Join NARFE Today!

The only organization dedicated solely to protecting and preserving the benefits of all federal workers and retirees, NARFE informs you of any developments and proposals that affect your compensation, retirement and health benefits, AND provides clear answers to your questions.

Who Should Join NARFE?

If your future security is tied to federal retirement benefits—federal retirees, current employees, spouses and individual survivors—you should join NARFE.

NARFE MEMBER BENEFITS

- Access the NARFE Federal Benefits Institute for powerful resources to help you fully understand and manage your benefits.
- Visit the Legislative Action Center to contact your representatives about bills affecting federal benefits.
- Get monthly issues of *NARFE Magazine* with news and insights for the federal community.
- Visit the Member Perks page for a full listing of the many time-, money- and hassle-saving benefits available only to NARFE members.
- The opportunity to get involved at the local level by joining a chapter in your area.

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I am a (check all that apply)

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☐ Annuitant ☐ Annuitant Spouse ☐ Survivor Annuitant

☐ Please enroll my spouse

Spouse's Full Name

Spouse's Email

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- ☐ Check, Money Order or Bill Pay (Payable to NARFE)
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☐ Charge my:
☐ MasterCard ☐ VISA ☐ Discover ☐ AMEX

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Expiration Date ____ / ____
mm yyyy

Name on Card

Signature

Date

TOTAL DUES

\$40 Annual Dues X ____ = ____
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Dues payments are not deductible as charitable contributions for federal income tax purposes.

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Would you like to receive a FREE one-year chapter membership? Choose one:

☐ Chapter closest to home OR ☐ Chapter # _____

THREE EASY WAYS TO JOIN

1. **Complete this application** and mail with your payment to NARFE Member Services / 606 N Washington St / Alexandria, VA 22314-1914.
2. Join online at **www.NARFE.org**.
3. **Call 800-456-8410**, Monday through Friday, 8 a.m. to 5 p.m. ET.

MAY WE THANK SOMEONE? Did someone introduce you to NARFE? Please provide their Name and Member ID.

Recruiter's Name

Recruiter's Membership ID

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(08/19)