



New TSP Withdrawal Options Explained

A NARFE Federal Benefits Institute Webinar

Presented by Mark Keen, CFP

TSP Modernization Act



Old Withdrawal Rules

- **In-service withdrawal**
- **Partial withdrawal**
- **Full withdrawal**
 - Single payment
 - Monthly payments
 - Annuity
 - Mixed withdrawal

New Withdrawal Rules

- **In-service withdrawal**
- **Single withdrawal**
- **Installment payments**
- **Annuity**





- **Financial Hardship Withdrawal**
 - Negative cash flow
 - Extraordinary expenses
 - Medical, personal casualty, legal
 - \$1,000 minimum
 - From own contributions and earnings on those contributions
 - One every 6 months
- **Age-based**
 - At least 59 ½
 - **Unlimited: up to 4 per year**
 - \$1,000 minimum; up to entire vested account balance
 - May transfer all or part to eligible retirement plan

Single Withdrawal



- **\$1,000 minimum**
- **Unlimited** single withdrawals permitted
 - Up to one every 30 days
- **Allowed even if receiving installment payments**
- **May elect 100 percent traditional, 100 percent Roth, or pro rata of both**

Installment Payments



- **Frequency: monthly, quarterly and annually**
- **Two types**
 - Fixed dollar amount
 - \$25 minimum
 - Life expectancy
 - Based on account balance and IRS life expectancy tables
 - Recalculated each January
- **May elect 100 percent traditional, 100 percent Roth, or pro rata of both**

***May take single withdrawal while receiving installment payments**

Installment Payments: Making Changes



- **Fixed or Life expectancy**
 - Stop payments
 - Change source of payments (traditional, Roth or both)
 - Start, stop or change direct deposit of payments
 - Change federal tax withholding

- **Fixed only**
 - Change the dollar amount of your payments
 - Change the frequency of your payments
 - Start transferring your payments to an IRA or eligible employer plan
 - Change or stop transfers



- **Married FERS or uniformed services participant**
 - Balance greater than \$3,500
 - Spouse entitled to Joint life annuity with 50% survivor benefit, level payments & no cash refund
 - If you choose any other withdrawal option, spouse must provide signed, notarized consent
 - Includes any change to amount or frequency of installment payments
- **Married CSRS participants**
 - Balance greater than \$3,500
 - Spouse will be notified of any withdrawal
 - Including any change to amount or frequency of installments payments



- **Eliminates the withdrawal election deadline**
 - Previously, the law required you make a full withdrawal election once you turned 70½ and were separated from federal service

- **Eliminates proportional distribution between traditional and Roth**
 - Not part of the TSP Modernization Act

What Didn't Change



- **Required Minimum Distributions (RMDs)**
 - Must begin at age 70 ½
 - Applies to both traditional and Roth balances
 - Will be able to elect
- **No in-plan conversions from traditional to Roth**
- **Proportional distributions from investment funds**
- **Taxable lump sum distribution upon beneficiary participant's death**
- **Mandatory tax withholding**

Tax Withholding From Withdrawals



Type of withdrawal	Withholding rate
Single withdrawal	20%
Installment payments for less than 10 years	20%
Installment payments for more than 10 years	Married with 3 dependents
Installment payments based on life expectancy	Married with 3 dependents
Required minimum distribution	10%

Proportional Withdrawals



- **Traditional, Roth or both**
 - May specify 100 percent traditional or 100 percent Roth
 - Otherwise, withdrawals are taken proportionally between traditional and Roth
- **Withdrawal example**
 - TSP = \$150,000
 - Traditional = \$120,000 (80%)
 - Roth = \$30,000 (20%)
 - Withdrawal = \$10,000
 - Traditional = \$8,000
 - Roth = \$2,000



- **Why this is significant**
 - Avoid tax trap
 - 5-year rule and 59 ½ for tax-free Roth earnings
 - Coordinate traditional and Roth distributions for tax efficient withdrawals
 - Delay drawing down Roth money (until RMD)
 - May take RMD attributed to Roth balance from Traditional balance
 - Avoid Roth RMD by selectively transferring Roth TSP to Roth IRA prior to year turning 70 ½



- **Tax efficient withdrawals**
 - Combine traditional and Roth distributions to minimize taxes or avoid stealth taxes

U.S. Tax System



2019 Income Tax Brackets

Marginal Tax Rate	Single		Married Filing Jointly	
10%	\$0	to	\$9,700	\$0 to \$19,400
12%	\$9,701	to	\$39,475	\$19,401 to \$78,950
22%	\$39,476	to	\$84,200	\$78,951 to \$168,400
24%	\$84,201	to	\$160,725	\$168,401 to \$321,450
32%	\$160,726	to	\$204,100	\$321,451 to \$408,200
35%	\$204,101	to	\$510,300	\$408,201 to \$612,350
37%	Over		\$510,300	Over \$612,350



Tax Efficient Withdrawal

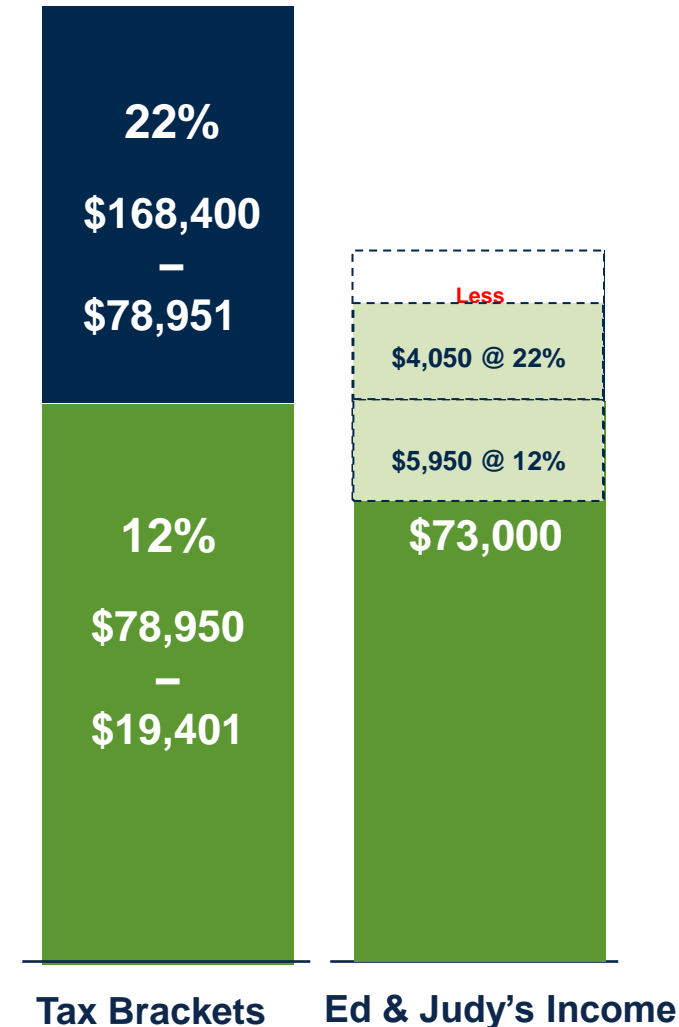


Assumptions: Ed and Judy

- 65 years old
- Married filing jointly
- Income before TSP withdrawal = \$100,000
- Standard deduction = \$27,000
- TSP withdrawal = \$10,000
 - Traditional = \$10,000
 - Roth = \$0

Tax Effect

- Taxed @ 12% \$ 5,950
- Taxed @ 22% \$ 4,050
- Total tax: \$ 1,605



Tax Efficient Withdrawal

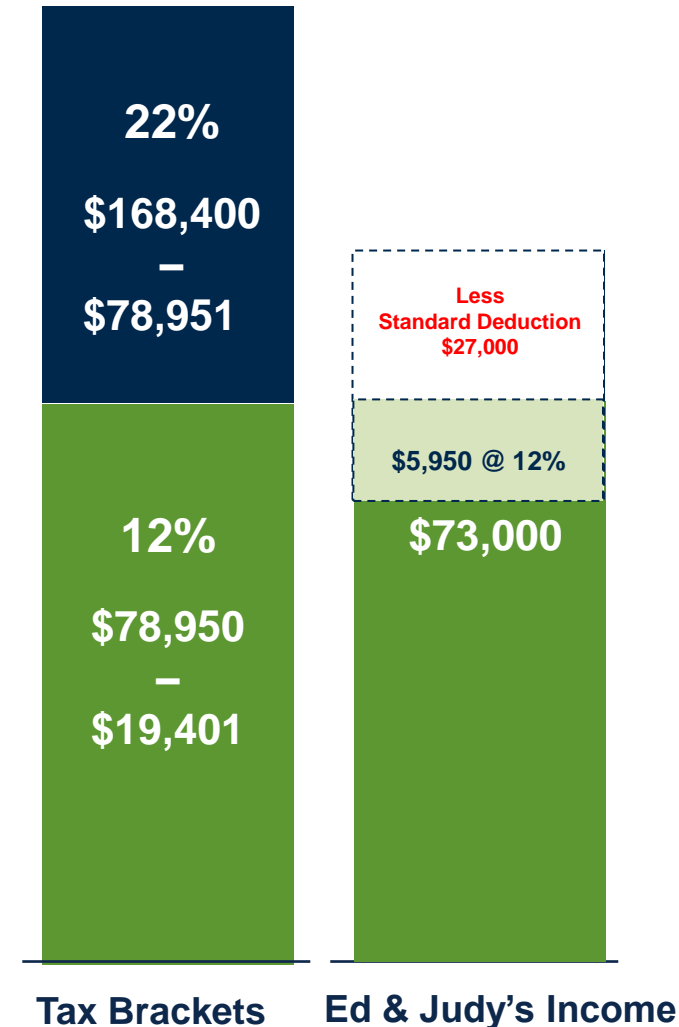


Assumptions: Ed and Judy

- 65 years old
- Married filing jointly
- Income before TSP withdrawal = \$100,000
- Standard deduction = \$27,000
- TSP withdrawal = \$10,000
 - Traditional = \$5,950
 - Roth = \$4,050

Tax Effect

• Taxed @ 12%	\$ 5,950
• Taxed @ 22%	\$ 0
• Total tax:	\$ 714





- **Tax efficient withdrawals**
 - Combine traditional and Roth distributions to minimize taxes or avoid stealth taxes
 - Take no more than necessary through combination of installment payments and single withdrawals

- **Avoid RMDs on Roth TSP**
 - Transfer Roth TSP to Roth IRA prior to turning 70 1/2

Required Minimum Distributions (RMDs)



- **Traditional TSP and Roth TSP**
 - May take RMD attributed to Roth balance from Traditional balance
- **Begin the year participant turns 70 ½, or**
 - The year participant separates from service, if later
- **Required beginning date (RBD)**
 - Deadline for taking first RMD
 - April 1 following the year owner turns 70½
 - Exception if still working
 - RBD is April 1 following year of retirement
 - Applies only to current employer's retirement plan
- **RMDs due by December 31st every year thereafter**



- **Tax efficient withdrawals**
 - Combine traditional and Roth distributions to minimize taxes or avoid stealth taxes
 - Take no more than necessary through combination of installment payments and single withdrawals
- **Avoid RMDs on Roth TSP**
 - Transfer Roth TSP to Roth IRA prior to turning 70 1/2
- **Roth conversions**
 - No in-plan conversion
 - Must convert to Roth IRA



1. Withdrawing from your TSP account

For separated and beneficiary participants

www.tsp.gov/PDF/formspubs/tspb02.pdf

2. In-Service Withdrawals

Financial Hardship & Age-based "59 ½"

<https://www.tsp.gov/PDF/formspubs/tspb12.pdf>

3. Important tax information about payments from your TSP account

www.tsp.gov/PDF/formspubs/tsp-536.pdf

Thank You!



- **Thank you for joining me**
- **Registrants will receive email with link to webinar**
- **Questions? Contact NARFE's federal benefits experts**
 - Email: fedbenefits@narfe.org
 - Phone: 1-800-456-8410

