Federal Benefits Information from NARFE

TSP Withdrawal Options for Separated Participants

What's New and What to Do

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TSP Withdrawal Options

What's New and What to Do

Use this White Paper to learn about recent changes to the 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?

SECURE Act 2.0

The SECURE Act 2.0, passed by Congress and signed into law by the president on December 29, 2022, builds on the SECURE Act and makes some important changes for TSP participants looking to withdraw their TSP.

Required Minimum Distribution (RMD) Age

SECURE Act 2.0 increased the starting age of RMDs to 73 and increases the starting age again in 2033 to age 75. Another way to look at it is if you were born between 1951 through 1959, your RMD age is 73. If you were born in 1960 or later, your RMD age is 75.

RMDS and the Roth TSP

The SECURE Act 2.0 removed the requirement to take RMDs based on Roth accounts in employer-sponsored retirement plans. Beginning in 2024, TSP RMDs will no longer be calculated based on traditional and Roth balances. Only the TSP traditional balance will be subject to RMDs.

Exceptions to 10% Early Withdrawal Penalty

The SECURE Act 2.0 builds on a list of existing exceptions to the 10% early withdrawal penalty, which may apply if you take a withdrawal before age 59 ½. The following are the new exceptions introduced by the SECURE Act 2.0:

- **Employer retirement plans:** Prior to the SECURE Act 2.0, the 10% penalty was waived for withdrawals from an employer plan by an employee who departs from their job at the age of 55 or later, or at age 50 for qualified public safety employees. The SECURE 2.0 Act broadened this exception to include public safety officers with at least 25 years of service with the employer sponsoring the plan, irrespective of age. Additionally, the exception now applies to state and local corrections officers, as well as private-sector firefighters.
- **Emergency expenses:** Up to $1,000 per calendar year of payments used for emergency personal expenses.
- **Terminal illness:** Payments made to an individual with a terminal illness.
- **Disaster relief:** Payments made as a qualified disaster recovery distribution as defined and limited by section 72(t)(11) of the Internal Revenue Code.
- **Domestic abuse:** Up to $10,000 (or 50% of the vested account balance, whichever is less) of any payment received within one year following domestic abuse.

Withdrawal Options

The TSP Modernization Act of 2017, which went into effect on September 15, 2019, enhanced your options for accessing the money in your TSP account. After retiring or separating from federal service or the uniformed services, you have four options for taking money from your TSP account: partial distributions, a total distribution, installment payments, and annuity purchases.

Summary of Current Withdrawal Options

The TSP offers separated participants four options to take withdrawals:

1. Partial distributions (of at least $1,000)
2. Total distribution
3. Installment payments (a fixed dollar amount or one based on life expectancy).
4. Annuity purchase (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. If you have both Roth and traditional balances 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.

Direct deposit information and your mailing address must be on file with the TSP for at least 7 days prior to requesting a distribution.

Partial Distributions

After separating from service, you may take multiple, partial distributions. Partial distributions must be at least $1,000. While there is no overall limit on the number of partial distributions you may take, the TSP restricts partial distributions to one every 30-day period.

You are permitted to take a partial distribution even while receiving installment payments.

Total Distribution

If you want to close out your TSP account, you may elect a total and partial distribution. Once a total distribution is processed, your TSP account balance will be $0, and you can no longer transfer money into your TSP account from other eligible retirement plans. Furthermore, any installments you may have received will stop once you've requested a total distribution.

Installment Payments

Installment payments are automatic recurring payments sent to you at a specified interval. You may set up installment payments to be distributed monthly, quarterly, or annually. The starting date of an installment payment may be scheduled up to six months in advance.

The TSP offers two options for selecting the installment payment amount: fixed dollar amount and life expectancy-based payments.

Fixed dollar payments: With a fixed dollar installment payment, you specify the amount you want to receive in each installment, subject to a $25 minimum.

Life expectancy-based payments: If you select life expectancy-based installment payments, the TSP calculates the amount of your installment payments based on IRS life expectancy tables. When you first elect life expectancy-based installment payments, your initial installment amount will be based on your age and account balance at the time of the first installment payment. Your installment payments will be based on your entire account balance, including both the traditional and Roth balances, even if you choose to have your payments come from the traditional balance first or the Roth balance first.

The TSP will recalculate your installment payments every January based on your age and the prior year's ending account balance. For example, assuming your installment payments started before 2024, your 2024 installment payments will be based on your age and TSP account balance as of December 31, 2023. The TSP will also recalculate your life expectancy-based installment payments if you take an additional distribution from your TSP or if you roll over money into your TSP.

You may stop or make changes to your installment payments at any time. Depending on the change you would like to make, you may have to stop an existing installment payment first. For example, to make the following changes, you must first stop an existing installment payment and then request a new installment payment by logging into My Account or calling the ThriftLine:

- Start, stop, or change direct deposit of your payments if the payments go to more than one destination
- Change the dollar amount of a fixed dollar installment payment
- Change the frequency of a fixed dollar installment payment
- Change the source of an installment payment (traditional, Roth, or both)
- Change the installment payment type (fixed dollar amount or life expectancy-based)
- Cwitch from the Single Life Table to the Uniform Lifetime Table when taking RMDs

The following changes may be made without stopping an existing installment payment by calling the ThriftLine:

- Start, stop, or change direct deposit of your payments if the payments go to one destination
- Change your federal tax withholding
- Start rolling over installment payments from traditional TSP money (not Roth TSP) to an IRA or eligible employer retirement plan. Only fixed-dollar installment payments expected to last less than 10 years are eligible to be rolled over into another retirement plan.

You may elect to have your installment payments come from your traditional balance first, from your Roth balance first, or pro rata. A pro rata distribution means your withdrawal will consist of the same ages of traditional and Roth as are in your TSP account.

Installment payments will continue until you stop them or until your total account balance is $0. If you have elected to have your installment payments come from your traditional balance first, or your Roth balance first, your installment payments will continue from the chosen source until that account balance is zero, and then they will start from the other source.

If you are receiving installments based on life expectancy, and you began these installments prior to age 59 ½, you are excluded from any early withdrawal penalty. If you change your installment method from life expectancy to fixed dollar amount and you are still younger than 59 ½, you might be liable for a 10% early withdrawal penalty on those payments. See: Tax Rules about TSP Payments (page 5).

Annuity Purchase

You may use some or all of your TSP account to purchase an annuity through an outside vendor. The minimum

purchase amount for an annuity is $3,500, which applies separately to the traditional and Roth balances. When purchasing an annuity, you are handing over the amount of the annuity purchase to an insurance company in exchange for monthly payments. The monthly payments will continue for your entire life, and if you elect a joint life annuity, the payments will continue for the lives of you and your joint annuitant.

Once you have purchased an annuity, the TSP funds used to purchase it are no longer part of your TSP account, and you cannot change or cancel the purchase. Furthermore, it's important to understand that you are giving up access and control of the money in exchange for guaranteed lifetime payments.

The amount of your monthly annuity payments will be based on the dollar amount of your annuity purchase, your age (and the age of your joint annuitant, if elected), the type of annuity you choose, and the annuity interest rate index at the time of the annuity purchase.

For additional information, please see the TSP's annuity fact sheet Annuities.

Withdrawals From Traditional, Roth, or Both

When electing a withdrawal, if you have both traditional and Roth balances in your TSP account, and you are leaving some money in your TSP account, you can choose whether to withdraw money from your traditional balance, Roth balance, or a pro rata mix from both.

If you choose to take a pro rata withdrawal from the traditional and Roth balances in your TSP account, your withdrawal will consist of the same percentages of traditional and Roth as are in your TSP account at the time of the withdrawal.

For example, if 60% of your TSP account is in traditional and 40% is in Roth, 60% of your withdrawal will consist of traditional money and 40% will consist of Roth.

RMDs

RMDs are mandatory distributions you must take from your TSP account each year. They begin the year you turn 73 or the year you separate from federal service, if later. Beginning in 2033, the RMD age increases to 75 or the year you separate from service, if later.

RMDs are based on the prior year's ending balance of your traditional TSP account and your age. The TSP calculates the amount of your RMD using your age, your traditional TSP balance at the end of the previous year, and the IRS's Uniform Lifetime Table.

New in 2024, RMDs are based on the traditional TSP balance only—the Roth TSP balance is no longer subject to RMDs—and only distributions from the traditional TSP balance will count towards satisfying your RMD.

Please note that the rules for RMDs from beneficiary participant accounts are different.

For additional information on RMDs, please see the TSP's Tax Rules about TSP Payments.

Requesting a Withdrawal From the TSP

To request a withdrawal from the TSP after you have separated from federal service, log in to My Account to begin the request or contact the ThriftLine.

What to Do Now?

Now that you know what you can do, how do you figure out what you should do? Because that depends on your circumstances, this white paper can only outline some factors to consider, some rules and strategies to keep in mind, and additional resources to help you make the best decision.

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

Your TSP withdrawals should fit into your larger financial planning strategy for retirement. Consider the following:

- What are your other sources of income?
- How much have you saved and will you need to use these accounts to supplement retirement income?
- What lifestyle do you want (or can you afford) in retirement?
- Will your money last throughout retirement?

Each of these answers depends on your personal circumstances.

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 maximizing its benefits and minimizing your tax liability should be a key part of your TSP withdrawal strategy.

NARFE can help you plan for taxes on retirement income through its Federal Benefits Institute webinar, "Tax Planning for Retired Feds," and "Roth Conversions: A Path to Maximize the Value of Your TSP," both presented by federal financial planning expert Mark Keen, CFP®.

Important tax issues to keep in mind when devising a TSP strategy for retirement:

- **Traditional TSP:** All traditional TSP distributions are subject to federal income tax and possibly state income taxes. It's important to understand your state income tax rules.
- **Roth TSP:** Roth money is separated into two sources: contributions and earnings. You've already paid tax on your contributions, so they are never taxed when distributed. Earnings may also be distributed tax-free, but only with a qualified withdrawal. The earnings portion of a non-qualified distribution is taxed and may be subject to the early withdrawal penalty.
- **Qualified withdrawals from Roth TSP:** A qualified withdrawal meets the following conditions: 1.) Five years have passed since January 1 of the calendar year you made your first Roth TSP contribution, and 2.) You have reached age 59½, have a permanent disability, or are deceased.
- **Early withdrawal penalty:** Unless an exception applies, traditional TSP funds distributed before age 59½, and the earnings portion of a non-qualified Roth TSP withdrawal, may be subject to a 10% early withdrawal penalty. Roth TSP contributions are never taxed or penalized upon distribution. See the TSP's Tax Rules about TSP Payments for a complete list of exceptions to the early withdrawal penalty.
- **First RMD:** The first RMD year is when you turn 73 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 73 or the year following the year you retire, if later. If you miss this deadline, you could face a 25% penalty. Note: the TSP will automatically issue a payment in March of the year following the year you turn 73 or the year following the year you retire, if later, to make sure you do not miss the deadline.
- **Subsequent RMDs:** Must be distributed by December 31 of each year. If you do not withdraw enough to satisfy your RMD, the TSP will send out an automatic payment in December equal to the amount needed to satisfy your RMD for the year.
- **RMD Age:** The SECURE Act 2.0 changes the age at which you must start taking RMDs to 73 (if you were born between 1951 and 1959) and 75 (if you were born in 1960 or later).
- **Mandatory federal tax withholding:** TSP federal tax withholding rates vary based on the type of withdrawal.

- **Rollovers to IRAs:** TSP funds withdrawn and rolled over into an IRA will not be taxed until the funds are withdrawn from the IRA.
  - 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). IRAs may offer more asset classes—value stocks, midsize companies, real estate stocks, emerging market stocks, etc. You may consider rolling some of your TSP funds into an IRA to further diversify your holdings. Some participants choose to keep some money in the TSP G fund to continue to benefit from TSP features throughout retirement.

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 withdraws, 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.

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:

- **Understanding TSP Funds and How To Diversify For Your Life Stage** (presented by Mark Keen, CFP®, September 30, 2021)
- **One Year Later: New TSP Withdrawal Options Explained** (presented by Mark Keen, CFP®, September 24, 2020)

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.

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.

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