



THRIFT
SAVINGS
PLAN

As of November 1, 2010

Agenda

- ◆ Contribution rules
- ◆ Portability
- ◆ Investment considerations
- ◆ Outstanding TSP loan
- ◆ In-service withdrawal options
- ◆ Post-service withdrawal options
- ◆ Death benefits

Contribution Rules - FERS

- ◆ Employee Contributions
 - Elections to start, change, and stop contributions can be made at any time
 - Immediately eligible upon hire/rehire
 - Any whole dollar amount or percentage up to IRS elective deferral limit (\$16,500 for 2010)
 - Always vested
- ◆ Agency Contributions
 - Agency Automatic (1%) Contributions
 - Subject to vesting
 - Not based on Employee Contributions
 - Agency Matching Contributions
 - Based on first 5% of Employee Contributions
 - 4% maximum
 - \$1/\$1 for 1st 3%
 - 50¢/\$1 for next 2%
 - Always vested

Maximizing Agency Matching Contributions

- ◆ Ed and Susan earn the same annual salary of \$130,000; bi-weekly \$4,983.22
- ◆ Ed elects 20% and Susan elects 13% to contribute to the TSP
- ◆ Both will contribute \$16,500 this year, however Ed will **not** maximize his agency contributions
- ◆ Ed and Susan will both receive \$1,295.58 in Agency Automatic (1%) Contributions

ED - \$4,983.22 Basic Pay		
Pay	<u>20% EC</u>	<u>4% Matching</u>
check #1	\$996.64	\$199.32
PC #2	\$996.64	\$199.32
PC #3	\$996.64	\$199.32
PC #4	\$996.64	\$199.32
.....		
PC #16	\$996.64	\$199.32
PC #17	<u>\$553.76</u>	<u>\$199.32</u>
Total PC #17	\$16,500.00	\$3,388.44

SUSAN - \$4,983.22 Basic Pay		
	<u>13% EC</u>	<u>4% Matching</u>
PC #1	\$ 647.82	\$199.32
PC #2	\$ 647.82	\$199.32
PC #3	\$ 647.82	\$199.32
PC #4	\$ 647.82	\$199.32
.....		
PC #16	\$ 647.82	\$199.32
PC #17	<u>\$ 647.82</u>	<u>\$199.32</u>
Total PC #17	\$11,012.94	\$3,388.44
PC #18	\$ 647.82	\$199.32
PC #19	\$ 647.82	\$199.32
.....		
PC #25	\$647.82	\$199.32
PC #26	<u>\$304.50</u>	<u>\$199.32</u>
Total PC #26	\$16,500.00	\$5,182.32

TSP Contribution Rules - CSRS

- ◆ Employee Contributions
 - Elections to start, change, and stop contributions can be made at any time
 - Immediately eligible upon rehire to contribute
 - Any dollar amount or percentage up to IRS elective deferral limit (\$16,500 for 2010)
 - Always vested
- ◆ No Agency Contributions

Catch-Up Contributions

- ◆ Participants age 50 or older may make additional tax-deferred contributions to the TSP
 - Must be age 50 or older, or will turn age 50 in the calendar year the contribution is deducted from pay
 - Cannot be in the 6-month termination period because of a TSP financial hardship in-service withdrawal
 - Must self-certify election to make regular contributions up to the maximum amount allowed by the IRC and TSP plan rules
- ◆ Maximum contribution for 2010 is \$5,500
- ◆ Catch-up contributions are in addition to the regular TSP employee contributions

$$(\$16,500 + \$5,500 = \$22,000)$$

Catch-Up Contributions

- ◆ Catch-up contributions are made through payroll deduction only and are not matched
- ◆ Elections to start, change, and stop contributions can be made at any time
- ◆ Catch-up contributions will not continue into the next calendar year; a new election must be submitted for each calendar year

TSP Transfers and Rollovers

- ◆ Active or separated participants may transfer or rollover into the TSP money from:
 - Eligible employer plans under the IRC
 - e.g. 401(k), 403(a), 403(b) or 457(b) governmental plans
 - Traditional, SIMPLE, and SEP individual retirement accounts or annuities (IRAs) under section 408(a) or 408(b) of the IRC
 - Does not include Roth, education, or inherited IRAs
 - Transfer from a SIMPLE IRA must be accompanied by documentation showing at least two years of participation
- ◆ Submit Form TSP-60 available from the TSP website
- ◆ The amount transferred or rolled over into the TSP account is allocated according to the current contribution allocation on file
- ◆ The amount will be reflected as employee contributions in the account after it has been valued by the TSP



Welcome to the Thrift Savings Plan

The Thrift Savings Plan (TSP) is a retirement savings plan for civilians who are employed by the United States Government and for members of the uniformed services.

1 2 3

[My Account](#) | [Plan Participation](#) | [Investment Funds](#) | [Planning & Tools](#) | [Life Events](#) | [Participant Support](#)

Text size: [+](#) [-](#)

Plan Participation

How to set up and manage your TSP account

- ▶ Rules for Contributing
- ▶ Managing Contributions
- ▶ How to Read your Statements
- ▶ More...

Investment Funds

TSP fund types and performance

- ▶ Fund Comparison
- ▶ Share Prices
- ▶ Fund Performance
- ▶ More...

Planning & Tools

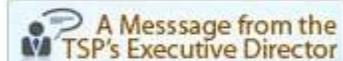
Retirement planning and tools for all career stages

- ▶ Before You Invest
- ▶ Calculators
- ▶ Nearing Retirement
- ▶ More...

Life Events

Help with life events affecting your TSP account

- ▶ Separate from Government Service
- ▶ Marriage/Divorce
- ▶ Ready Reserve
- ▶ More...



You talked. We listened.

BULLETIN BOARD

- Required Minimum Distributions: What You Need to Know
- 3Q Participant Statement on the Web and in the Mail
- Elective Deferral Limit for 2010
- Questions and Answers About Contributing to the TSP
- Form TSP-U-3 and Many More Now Fillable
- Legislative changes to the Thrift Savings Plan

QUICK LINKS

- ▶ About the TSP
- ▶ Lifecycle Funds
- ▶ Request an Interfund Transfer
- ▶ Catch-up Contributions
- ▶ Site Tour
- ▶ Becoming a TSP Participant
- ▶ View Account Balance
- ▶ Forms & Publications
- ▶ Request a Loan
- ▶ Glossary of Terms
- ▶ How Do I...
- ▶ View Recent Account Activity
- ▶ Tax Information
- ▶ Withdrawals
- ▶ Change Address

Calculators
How Much Should I Save (Ballpark Estimate) ?
[How Much Will My Savings Grow?](#)
[How Much Can I Contribute?](#)
[Estimate Loan Payments](#)
[Annuity Calculator](#)
[Monthly Payment Calculator](#)

How Much Should I Save (Ballpark Estimate) ?

The TSP is one source of your retirement income. Other major sources of retirement income include your FERS Basic Annuity or CSRS annuity (or your retired pay if you are a member of the uniformed services), Social Security benefits, individual retirement accounts (IRAs), and other savings. To find out how much you need to save for retirement, link to the Ballpark Estimate calculator below. The calculator was developed by the American Savings Education Council to calculate how much you need to save each year from now until retirement based on your estimates of retirement income and existing savings.

In-depth Retirement Planning

The Ballpark Estimate calculator is just the first step in retirement planning. For more in-depth planning, you may want to consult your agency's or service's retirement or benefits counselor, visit the Office of Personnel Management website at www.opm.gov, read books and articles on retirement planning, or use more detailed software to test a variety of assumptions for estimated benefits, expenses, and rates of return.

What You Need for the Ballpark Estimate Calculator	Where to Find Information
1 Estimate of annual income from FERS Basic Annuity or CSRS annuity.	Contact your agency or service personnel office to find out how to estimate your annual income from your FERS or CSRS annuity.
2 Social Security benefit estimate, if applicable	Request a Personal Earnings and Benefit Estimate Statement (PEBES) from the Social Security Administration (SSA) website. The SSA will mail the PEBES to you.
3 Current savings balances	Access your most recent account balance in My Account , or you can call the ThriftLine . Include savings from other retirement investment accounts, as well.



TSP Website

www.tsp.gov

VISIT
WWW.TSPGOV

MY
ACCOUNT

PLAN
PARTICIPATION

INVESTMENT
FUNDS

PLANNING
& TOOLS

LIFE
EVENTS

OTHER
RESOURCES

Log into your account from the home page:

MY ACCOUNT

TSP Account Number

OR

User ID

Forgot your account number or user ID?

Log In

You can:

- View your account balance
- Change your contribution allocation
- Request an interfund transfer
- Request a loan or withdrawal
- Create (or change) a user ID
- Change or request a Web password

Learn about:

- Benefits of TSP participation
- TSP eligibility and how to establish your account
- Contribution types and limits
- Rollovers and transfers
- Contribution allocations and interfund transfers
- Loans and withdrawals

Get information on:

- TSP fund options
- Earnings components and expense ratios
- Daily and historical share prices
- Current and historical rates of return

Learn how to:

- Develop an investment strategy
- Maximize your retirement savings
- Determine how much to save and contribute
- Use the calculators to estimate loan payments, TSP monthly payments, and annuity payments

Manage your TSP account when you:

- Enter or leave Government service
- Get married, have children, or get divorced
- Are called to active duty

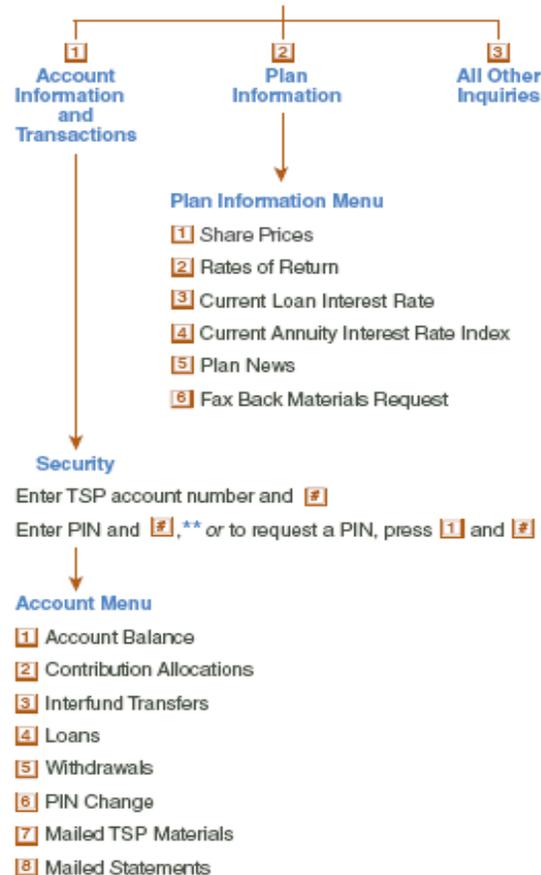
Get quick access to:

- Current limits and rates
- TSP forms and publications
- Plan news

ThriftLine

1-TSP-YOU-FRST*
(1-877-968-3778)

MAIN MENU



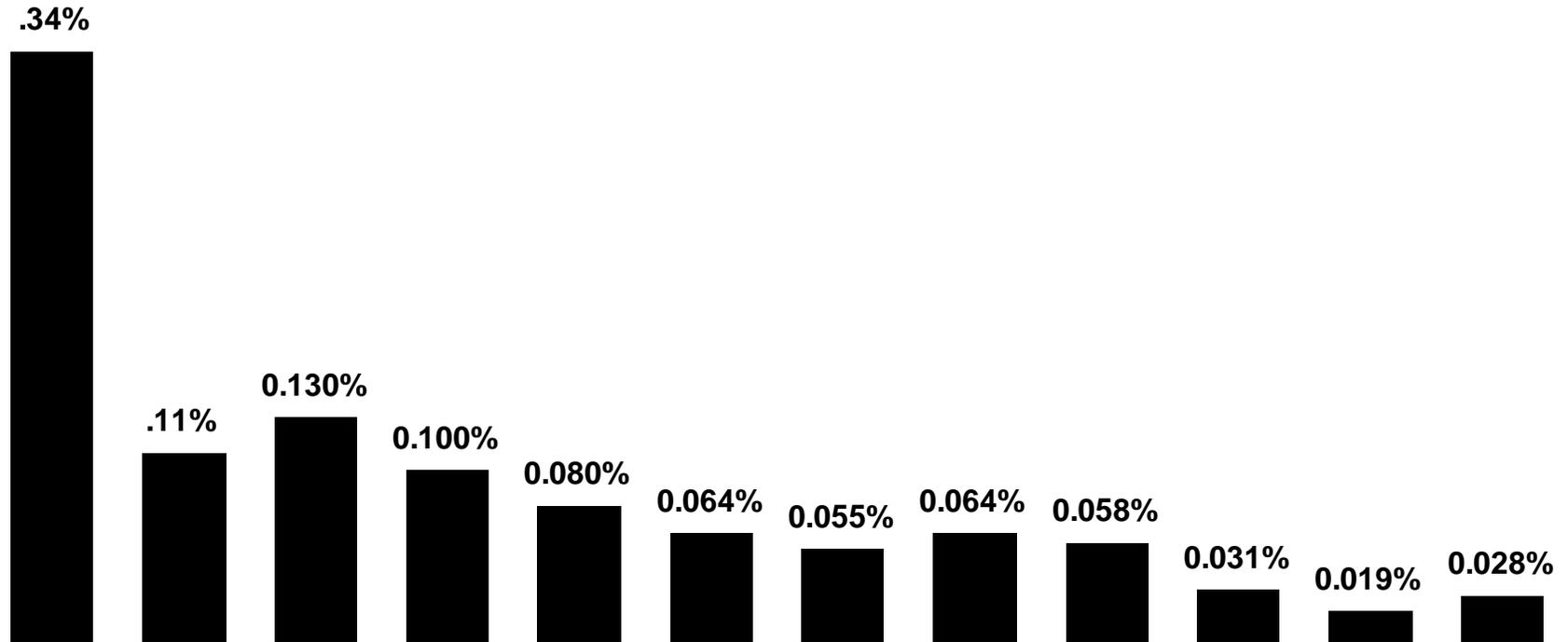
* Outside U.S. and Canada: 404-233-4400 (not toll free).

** If you have both a civilian and a uniformed services account, you will be taken to the account that is specific to the PIN you entered. If you have customized your PIN to be the same for both accounts, you will be asked which account you wish to access.

Investment Considerations

- ◆ Ten investment funds (including the five Lifecycle funds)
- ◆ Time horizon
- ◆ Diversification
- ◆ Risk tolerance
- ◆ Inflation
- ◆ Taxes
- ◆ Investment costs

Thrift Savings Fund Net Expense Ratio 1988 - 2009



- ◆ The average expense ratio for mutual index funds is 0.262% , or \$2.62 per \$1,000 (Lipper, Inc., 2009); median 401(k) expenses are .72%, or \$7.20 per \$1,000 (Investment Company Institute, 2009)
- ◆ The average expense ratio for the TSP is 0.028%, or \$0.28 per \$1,000 (Net administrative expenses are investment management fees after forfeitures)
- ◆ No additional expenses except loan processing fee of \$50

As of November 1, 2010



THRIFT SAVINGS PLAN FACT SHEET

TSP Funds Annual and Monthly Returns

November 1, 2010

	L 2040	L 2030	L 2020	L 2010	L Income	G Fund	F Fund	C Fund	S Fund	I Fund
2005	-	-	-	-	-	4.49%	2.40%	4.96%	10.45%	13.63%
2006	16.53%	15.00%	13.72%	11.09%	7.59%	4.93%	4.40%	15.79%	15.30%	26.32%
2007	7.36%	7.14%	6.87%	6.40%	5.56%	4.87%	7.09%	5.54%	5.49%	11.43%
2008	(31.53%)	(27.50%)	(22.77%)	(10.53%)	(5.09%)	3.75%	5.45%	(36.99%)	(38.32%)	(42.43%)
2009	25.19%	22.48%	19.14%	10.03%	8.57%	2.97%	5.99%	26.68%	34.85%	30.04%

2009										
Nov	3.98%	3.55%	3.00%	1.47%	1.27%	0.26%	1.30%	6.00%	3.85%	3.16%
Dec	2.12	1.85	1.50	0.70	0.59	0.25	(1.55)	1.94	6.57	1.43
2010										
Jan	(2.88)	(2.49)	(2.03)	(0.58)	(0.45)	0.29	1.54	(3.60)	(2.43)	(5.17)
Feb	2.18	1.94	1.61	0.81	0.74	0.24	0.38	3.11	4.89	0.06
Mar	5.15	4.52	3.75	1.61	1.43	0.27	(0.11)	6.04	7.39	6.28
Apr	1.05	0.94	0.76	0.51	0.50	0.28	1.07	1.58	4.82	(2.35)
May	(6.97)	(6.07)	(4.98)	(1.64)	(1.50)	0.28	0.85	(7.99)	(7.51)	(11.20)
June	(3.47)	(2.98)	(2.34)	(0.68)	(0.61)	0.24	1.56	(5.24)	(6.90)	(1.75)
July	6.60	5.80	4.82	1.81	1.81	0.23	1.07	7.01	7.00	10.78
Aug	(3.33)	(2.88)	(2.29)	(0.62)	(0.63)	0.22	1.28	(4.51)	(5.59)	(3.14)
Sept	7.76	6.77	5.54	2.00	2.00	0.17	0.17	8.92	11.47	9.81
Oct	3.16	2.78	2.29	0.92	0.92	0.18	0.36	3.80	4.48	3.63
Last 12 Months	15.18%	13.65%	11.63%	6.41%	6.18%	2.94%	8.16%	16.53%	29.17%	9.78%

Percentages in () are negative.

As of November 1, 2010

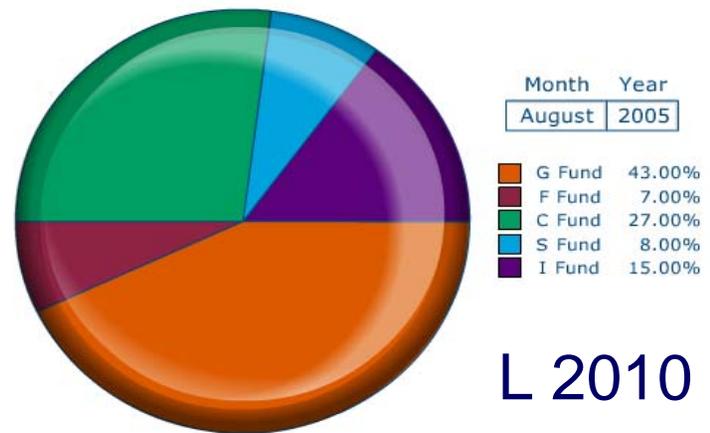
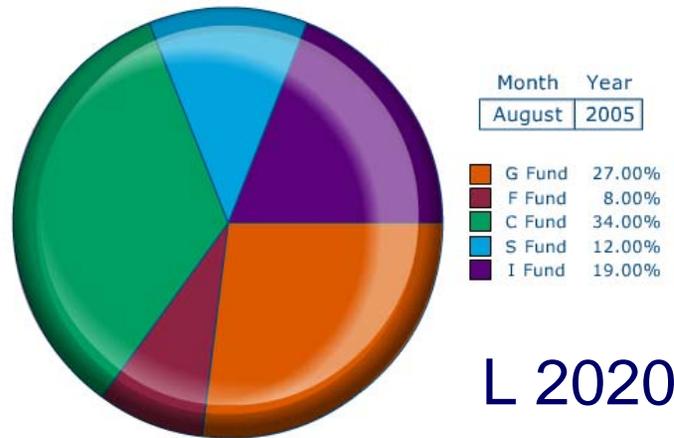
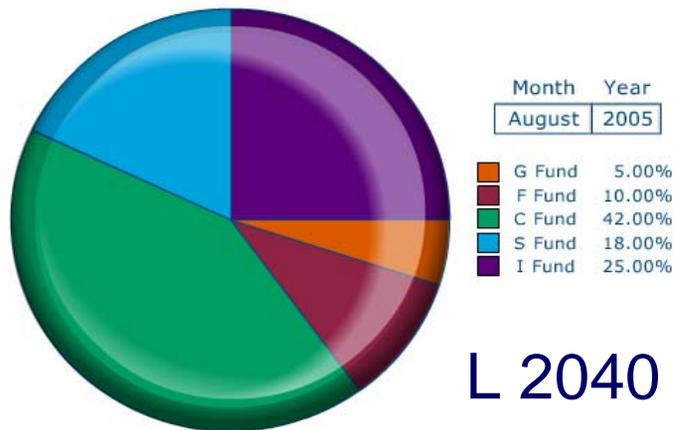
TSP L Funds

- ◆ The L Funds are geared toward participants who do not have the:
 - Time
 - Interest
 - Comfort level to make active investment decisions among the funds
- ◆ Investment in the L Funds does not protect the participant from investment losses
- ◆ The L Funds are based on time horizon; the years 2040, 2030, 2020, 2010, or Today

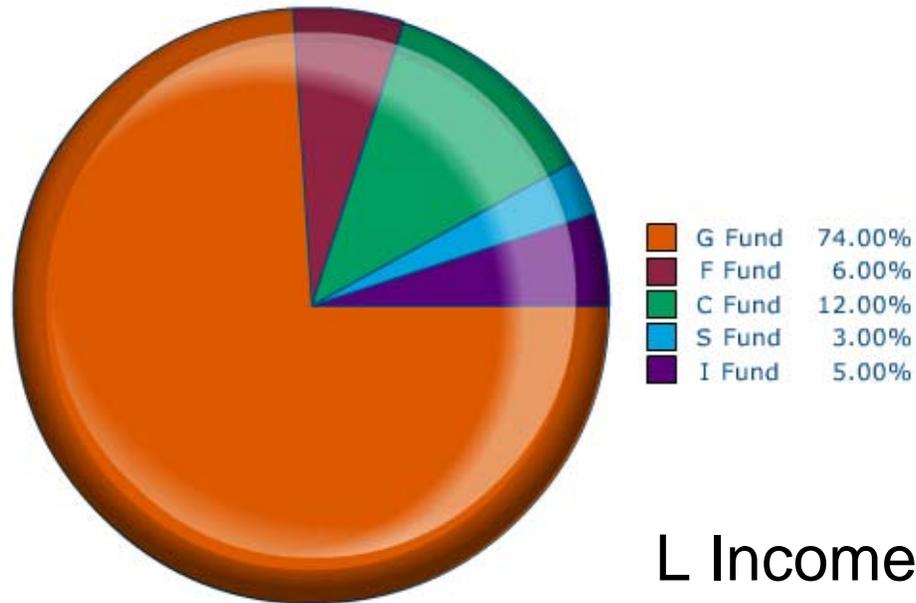
L Funds

- ◆ It's simple
 - Make one decision: When will you need your money?
- ◆ It's maintenance free
 - The L Funds are professionally designed and adjust automatically
- ◆ It's low cost
 - No additional costs
- ◆ It's flexible
 - Transfer to individual TSP funds at any time

Initial L Funds Investment Allocation

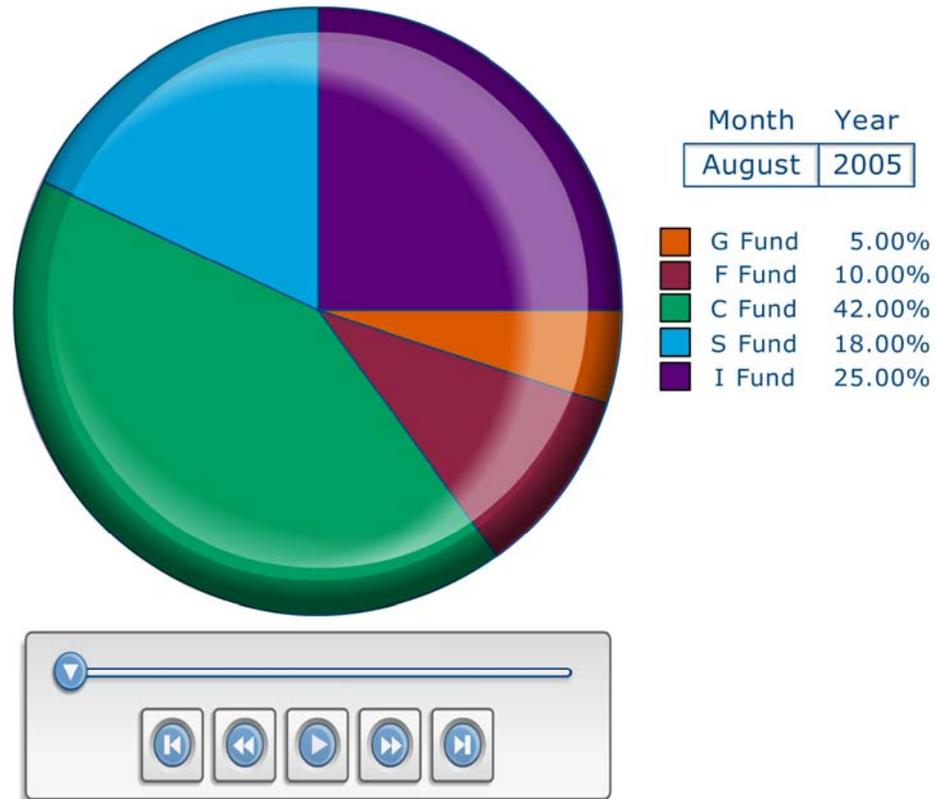


L Income Fund Investment Allocation



- ◆ Note: When each L Fund reaches its target date, its distribution will match the L Income Fund investment and it will “roll into” the L Income Fund
- ◆ A new L Fund will be introduced when an L Fund reaches its target date

L 2040 Investment Allocation Cycle



Types of Loans



and



General Purpose
No documentation required

Residential
For purchase or construction
of a primary residence

Outstanding TSP Loans

- ◆ When your agency reports your separation, the TSP will send you a notice with instructions to repay your outstanding loan balance (with interest) within 90 days
- ◆ During the 90 day period, you may mail checks to the TSP record keeper to pay down or pay in full the outstanding loan balance. If full payment is not received by the required date, the remaining loan balance will be declared a taxable distribution
- ◆ You may also sign the intent notice attached, which informs the TSP that you will not repay the outstanding balance and requests the TSP declare your outstanding loan balance a taxable distribution
- ◆ If any portion of the loan is declared a taxable distribution you will be liable for taxable amount reported to the IRS and, if applicable the 10% early withdrawal penalty
- ◆ No post-employment withdrawal options can be processed until the outstanding loan is settled

Withdrawal Rules for Married Participants

- ◆ Married FERS participants must print their withdrawal form from the TSP website, obtain notarized spouse's signature, and return the withdrawal request to the TSP for processing and completion
- ◆ Notification will be sent to the spouse of married CSRS participants two business days before withdrawal disbursement
- ◆ Unmarried participants requesting either an in-service or post-service withdrawal can complete and, in some cases, submit forms on the website

In-Service Withdrawals

- ◆ Financial Hardship withdrawals
- ◆ Age-Based withdrawal (59½ or older)



Age-Based In-Service Withdrawal

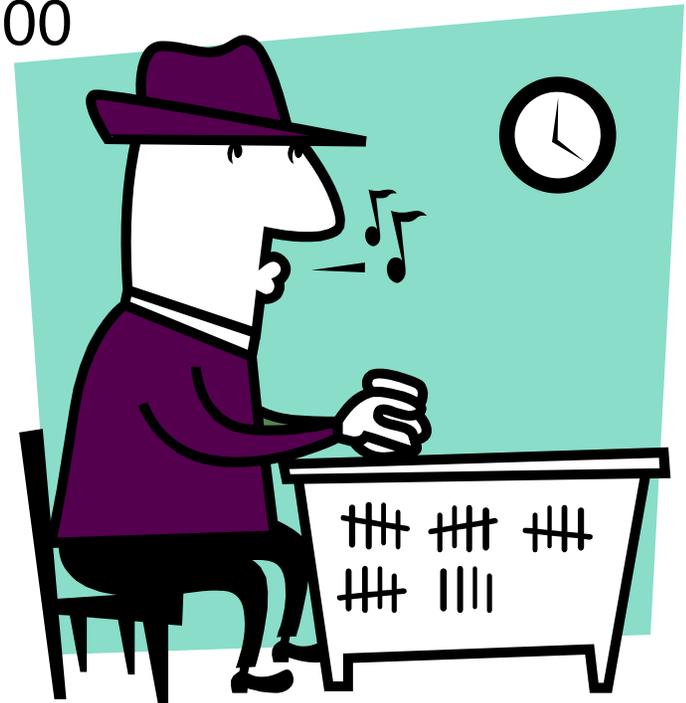
- ◆ Must be age 59½ or older
- ◆ One-time withdrawal of all or a specific dollar amount of the account balance, Form TSP 75
 - Minimum - \$1,000
 - Maximum – entire vested account balance
- ◆ Request can be initiated and, for some, completed on the TSP web site. Other participants must mail completed form to the TSP for processing
- ◆ All or a portion can be transferred to a traditional IRA or other eligible plan (no Federal tax at time of transfer)
- ◆ All or a portion can be transferred to a Roth IRA (subject to Federal tax but no withholding)
- ◆ Amount not transferred to an IRA or other eligible plan subject to mandatory 20% tax withholding
- ◆ Will prohibit participant from receiving a partial post-service withdrawal after separation

Roth IRA

- ◆ Roth IRA accepts only after-tax dollars, but provides tax-free growth
- ◆ All or a portion can be transferred to a Roth IRA
 - Subject to Federal tax, but no withholding
 - Participant may need to pay estimated taxes to mitigate tax liability
- ◆ Participant not eligible for a Roth IRA transfer if married and filing a separate return

Post-Service Withdrawals

- ◆ Automatic cashout
- ◆ Leaving money in the TSP
- ◆ Combining Accounts
- ◆ Partial Withdrawal of at least \$1,000
- ◆ Full Withdrawal Options
 - Single payment
 - Monthly payments
 - TSP life annuity
- ◆ Mixed Withdrawal Options



As of November 1, 2010

Automatic Cashout

- ◆ Separated participants with a vested account balance of less than \$200 will receive an automatic cashout
 - Account balances of \$4.99 or less will be forfeited to the TSP
 - Participant may request restoration and payment of the forfeited balance
- ◆ The account will be paid automatically after the participant is separated for more than 31 days
 - No notification prior to disbursement
- ◆ Participant may not elect to leave the balance in the TSP
- ◆ Amount not subject to the mandatory 20% Federal tax-withholding

Leaving Money in the TSP

- ◆ Contributions may not continue, but participant may transfer in amounts from traditional IRAs or eligible employer retirement plans
- ◆ Participant may continue to make interfund transfer and contribution allocation requests
- ◆ By April 1st after you turn 70½ and are separated from service, you must begin to take required minimum distributions from your TSP account
- ◆ Participant must update address by using the TSP Account Access section of the TSP Web site, by telephoning the TSP record keeper, or by submitting Form TSP-9

Combining Uniformed Services and Civilian TSP Accounts

- ◆ Only the account related to the separation can be transferred
- ◆ TSP accounts can be combined provided that monthly payments are not being made from the remaining account
- ◆ TSP cannot transfer the tax-exempt portion in a uniformed services account to a TSP civilian account
- ◆ If married and transferring the uniformed services account to a Civil Service Retirement System (CSRS) account, spouse must sign consent section on Form TSP-65

Partial Withdrawal

- ◆ One-time request for the “life” of the account
 - Participant must not have received an age-based withdrawal
 - Participant must not have received a partial withdrawal from a prior period of employment
 - Form TSP-77 may be submitted via the web or mailed to TSP
- ◆ Minimum amount that can be withdrawn is \$1,000
 - If the account balance is less than \$1,000, the participant must submit a request for a full withdrawal
- ◆ Single payment only
 - Participant may request payment by EFT (option available only if request is mailed or faxed)
 - Subject to mandatory 20% tax withholding
 - Any amount not transferred subject to mandatory 20% tax withholding
- ◆ All or a portion can be transferred to a traditional IRA or other eligible plan
- ◆ Participant may request a transfer of all or a portion of the payment to a Roth IRA (subject to Federal tax but no tax withholding)

Single Payment

- ◆ Participant may request TSP pay any percentage of the account balance as a single payment
- ◆ Participant may request payment by EFT (option available only if request is mailed or faxed)
- ◆ All or a portion can be transferred to a traditional IRA or other eligible plan
 - No Federal tax withholding
- ◆ All or a portion can be transferred to a Roth IRA
 - Subject to Federal tax, but no withholding
- ◆ Amount not transferred to an IRA or other eligible plan subject to mandatory 20% tax withholding

Monthly Payments

- ◆ Specify a dollar amount (\$25.00 minimum)
- ◆ Participants scheduled to receive fewer than 120 payments can transfer all or a portion of each monthly payment to either a traditional or Roth IRA
- ◆ Request TSP compute monthly payment (based on IRS tables)
- ◆ The TSP website has a monthly payment calculator to estimate monthly payment amounts
- ◆ TSP now accepts transfers/rollovers after monthly payments begin!

Changes to Monthly Payments

- ◆ Participant may complete Form TSP-73 to request a change in monthly payments from:
 - Compute my payment to dollar amount
 - Current dollar amount to new dollar amount
 - Change in monthly payments are effective in January of the following year
 - Percentage transferred or financial institution may be changed at any time
- ◆ Tax withholding rules will be determined when the monthly payment option is processed or when a change in monthly payments occurs

Summary of TSP Annuity Options

- ◆ Single Life
 - Level or Increasing Payments
 - 10- year Certain
 - Cash Refund
- ◆ Joint Life with Spouse
 - Level or Increasing Payments
 - 50% or 100% survivor benefit
 - Cash Refund
- ◆ Joint Life with Other Survivor having an insurable interest
 - Level Payments only
 - 50% or 100%* survivor benefit
 - 100% survivor benefit not available if joint annuitant is more than 10 years younger
 - Cash Refund

The TSP website has an annuity calculator to estimate annuity payments

**IV.
WITHDRAWAL
ELECTION**

Choose one or more methods. Indicate percentages in whole numbers. If choosing monthly payments, include the dollar amount of each payment or choose to have the TSP compute your payments based on your life expectancy.

23. a. Life Annuity 20 .0% (Must equal \$3,500 or more. Also complete Page 3.)
b. Single Payment 10 .0%
c. Monthly Payments 70 .0% → \$ 300 .00 per month OR Compute my payments
- TOTAL 100.0%**

Transfer Option—If you want to transfer all or any portion of your single or monthly payments (for a dollar amount that results in payments expected to be completed in less than 120 months) to a traditional IRA, eligible employer plan, or Roth IRA (see back for rules and restrictions), complete Items 24 and/or 25 and Section V.

24. Transfer 100.0% of my **single payment** (Item 23b) to a traditional IRA, eligible employer plan, or Roth IRA.
25. Transfer _____ .0% of each of my **monthly payments** (Item 23c) to a traditional IRA, eligible employer plan, or Roth IRA. (Note: You cannot transfer payments expected to last 120 months or more or those that are computed based on life expectancy.)

Spouses' Rights

Classification	Requirement	Exceptions
FERS	Notarized spouse signature required. Spouse is entitled to a joint life annuity with 50% survivor benefits, level payments, and no cash refund feature, unless he/she waives this right	Whereabouts unknown or exceptional circumstances TSP-16 required
CSRS	Spouse is entitled to notification by the TSP of the participant's withdrawal election	Whereabouts unknown TSP-16 required

If account balance is less than \$3,500 spouse's signature/notice is not required
Waiver of spouse's signature/notification valid for 90 days from approval



IRS Early Withdrawal Penalty

- ◆ If you separate/retire during or after the year in which you reach age 55, you are not subject to the early withdrawal penalty
- ◆ TSP withdrawals received at age 59½ or later are not subject to the early withdrawal penalty
- ◆ Exceptions to the early withdrawal penalty
 - Total and permanent disability
 - Purchase of a TSP life annuity
 - Request TSP “compute my payments” based on life expectancy
 - Death benefit payouts
- ◆ IRS Publication 575 at www.irs.gov



Tax Notice

Important Tax Information About Payments From Your TSP Account

Before you decide how to receive the money in your Thrift Savings Plan (TSP) account, you should review the important information in this notice. Although the TSP can assist you with your withdrawal, we cannot provide tax advice. Because tax rules are complex, you may wish to speak with a tax advisor before you make any withdrawal decisions.

You can find more specific information on the tax treatment of payments from qualified employer plans like the TSP in IRS Publication 575, *Pension and Annuity Income*, IRS Publication 590, *Individual Retirement Arrangements (IRAs)*, and IRS Publication 721, *Tax Guide to U.S. Civil Service Retirement Benefits*. (See page 4, Resources.)

1. Federal Income Tax Withholding

Your contributions to the TSP were tax-deferred. This means you have not yet paid taxes on your contributions, any agency contributions, or earnings. Instead, you will owe taxes when you receive a payment (distribution) from your account. We report all TSP distributions to the Internal Revenue Service (IRS), and to you, on IRS Form 1099-R, *Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.*

We must withhold for Federal income tax from payments we make to you unless you are allowed to request reduced or no withholding. For purposes of IRS withholding, there are three types of payments: **eligible rollover distributions**, **periodic payments**, and **non-periodic payments**. The chart on the next page describes the withholding rates and the rules that apply to each type of TSP payment. If you are eligible to change the standard withholding elections (for example, to fully cover your tax liability), you must file IRS Form W-4P, *Withholding Certificate for Pension or Annuity Payments*, with your withdrawal request.

Note that if you elect a "mixed withdrawal" (e.g., an annuity and a single payment), each type of distribution is treated separately and may be subject to different tax withholding rules.

We do not withhold for state or local income tax. However, we do report, on IRS Form 1099-R, all TSP distributions to your state

of residence at the time of the payment (if that state has an income tax). You may need to pay state and local income taxes on your payment. See a tax advisor or state or local tax officials for specific information.

Special note for members of the uniformed services: TSP accounts for members of the uniformed services may include contributions from pay that is subject to the combat zone tax exclusion. That pay, earned in a combat zone, is exempt from Federal income tax. Consequently, TSP contributions from that pay are also tax-exempt. However, the earnings on those contributions are taxable when they are distributed. Therefore, if you receive a payment from an account that has both tax-deferred and tax-exempt contributions, your distribution will be paid in the same proportions as your tax-deferred and tax-exempt balances, and the TSP will report the tax-exempt portion separately on IRS Form 1099-R.

Special note regarding annuities: Payments you receive from an annuity that the TSP purchases for you are also subject to tax withholding. You will receive information from the annuity provider about making a withholding election.

2. Transferring or Rolling Over Your TSP Distribution

Some payments from the TSP may be transferred or rolled over to a traditional individual retirement account (IRA), an eligible

Tax Treatment for TSP Payments

Type of TSP Payment	Type of Payment for IRS Purposes	May I Transfer or Roll Over the Payment? ¹	What Is the Withholding Rate?	May I Increase Withholding (using IRS Form W-4P ²)?	May I Decrease Withholding (using IRS Form W-4P ²)?	May I Waive Withholding (using IRS Form W-4P ²)?
Single payment full withdrawal after separation	Eligible rollover distribution	Yes	20% mandatory	Yes — complete line 3	No	No
Monthly payments for less than 10 years (requested dollar amount) ³	Eligible rollover distribution	Yes	20% mandatory	Yes — complete line 3	No	No
Monthly payments for 10 years or more (requested dollar amount) ⁴	Periodic payments	No	As if married with 3 dependents	Yes — complete line 2 to change exemption and line 3 for additional dollar amount	Yes — complete line 2	Yes — complete line 1
Monthly payments based on the IRS life expectancy table ⁴	Periodic payments	No	As if married with 3 dependents	Yes — complete line 2 to change exemption and line 3 for additional dollar amount	Yes — complete line 2	Yes — complete line 1
Automatic cash-out (less than \$200)	Eligible rollover distribution	Rollover only	None	Not applicable	Not applicable	Not applicable
Partial withdrawal after separation	Eligible rollover distribution	Yes	20% mandatory	Yes — complete line 3	No	No
Required minimum distribution payments ⁵	Non-periodic payments	No	10%	Yes — complete line 3	No	Yes — complete line 1
Final single payment after a series of monthly payments	Eligible rollover distribution	Yes	20% mandatory	Yes — complete line 3	No	No
Age-based in-service withdrawal	Eligible rollover distribution	Yes	20% mandatory	Yes — complete line 3	No	No
Financial hardship in-service withdrawal	Non-periodic payment	No	10%	Yes — complete line 3	No	Yes — complete line 1
Loan taxable distribution — default by separation	Eligible rollover distribution	Rollover only (using personal funds)	We cannot withhold because the money was already paid to you	Not applicable	Not applicable	Not applicable
Loan taxable distribution — default while still employed	Non-periodic payment	No	We cannot withhold because the money was already paid to you	Not applicable	Not applicable	Not applicable
Court order payment to a current or former spouse	Eligible rollover distribution	Yes	20% mandatory	Yes — complete line 3	No	No
Court order payment not to a current or former spouse	Non-periodic payment	No	10%	Yes — complete line 3	No	Yes — complete line 1
Death benefit to a spouse beneficiary	Eligible rollover distribution	Yes	20% mandatory	Yes — complete line 3	No	No
Death benefit to a non-spouse beneficiary	Non-periodic payment	May only be transferred to an “inherited” IRA	10%	Yes — complete line 3	No	Yes — complete line 1
Annuity purchase	Not reported to the IRS by the TSP; payments will be reported for tax purposes by the annuity provider					

¹ There are rules, and in the case of Roth IRAs, certain restrictions, that determine a participant's eligibility to make the transfer or rollover. See “Transferring or Rolling Over Your TSP Distribution” on pages 1 and 3 for more information.

² Be sure to complete, sign, and date IRS Form W-4P, “Withholding Certificate for Pension or Annuity Payments,” before you submit it to the TSP with your withdrawal request.

³ If the payment is satisfying the IRS required minimum distribution amount, it is treated as a non-periodic payment. See the “Required minimum distribution payments” section of this chart.

⁴ Payments are treated as periodic even if they are satisfying the IRS required minimum distribution amount.

⁵ Required minimum distributions are not treated as non-periodic payments (for IRS purposes) if they are part of monthly payments that are expected to be paid over 10 or more years or are part of monthly payments that are based on the IRS life expectancy table. In these cases, taxes are based on withholding for a married person with 3 dependents, under the IRS withholding rules for periodic payments.

employer plan, or a Roth IRA. Such payments, called "eligible rollover distributions," are identified on the chart.

An eligible employer plan includes a plan qualified under section 401(a) of the Internal Revenue Code, such as a section 401(k) plan, profit-sharing plan, defined benefit plan, stock bonus plan, and money purchase plan; a section 403(a) annuity plan; a section 403(b) tax-sheltered annuity; and a section 457(b) plan maintained by a governmental employer.

A traditional IRA is any IRA that is not a Roth IRA, a SIMPLE IRA, or an education IRA. Before-tax money that is transferred from the TSP to a traditional IRA is not subject to tax until it is withdrawn from the IRA.

A Roth IRA accepts only after-tax dollars, but provides tax-free growth. You are not eligible for a Roth transfer if either of the following conditions applies: (1) your modified adjusted gross income is over \$100,000 or (2) you are married and file a separate return. Further, you must pay taxes on the funds you transfer to a Roth IRA; the tax liability is incurred for the year of the transfer.

No IRA or eligible employer plan is required to accept a transfer or rollover. Before you decide to transfer or roll over your TSP account, you should find out whether your IRA or plan accepts transfers or rollovers, whether the IRA or plan has a minimum amount it will accept, and, in the case of a Roth IRA, whether you are eligible to make the transfer.

If your payment is an eligible rollover distribution, you may ask the TSP to transfer part or all of the payment directly to your IRA or plan. If you receive an eligible rollover distribution directly, you may deposit (roll over) the payment into your traditional IRA, eligible employer plan, or Roth IRA yourself. Depending on the type of plan, a withdrawal from it may be subject to different tax treatment and plan rules (such as different spousal consent rules) than a distribution from the TSP.

If you choose to have the TSP transfer part or all of your eligible rollover distribution:

- Your transfer to a traditional IRA or eligible employer plan will not be taxed in the current year and no income tax will be withheld. Your payment will be taxed when you withdraw it from the traditional IRA or the eligible plan.
- The entire amount of your transfer to a Roth IRA will be taxed in the current year. No income tax will be withheld at the time of the transfer. (You may need to pay estimated taxes to mitigate your tax liability.)
- If you are over age 70½ and a portion of your payment is a required minimum distribution, that

portion cannot be transferred. Instead, it will be paid directly to you after 10% has been deducted for Federal income tax withholding. This rule also applies if you are receiving monthly payments and elect to receive a final single payment that includes a required minimum distribution.

If the TSP pays an eligible rollover distribution **directly to you**, and you decide to do a "rollover" to a traditional IRA or eligible employer plan:

- You will receive only 80% of the taxable amount of the payment, because we are required to withhold 20% for Federal income tax.
- Your full payment will be taxed in the current year unless you roll over part or all of it within 60 days after you receive the payment.
- You can roll over all or part of the payment to your traditional IRA or plan. The amount rolled over will not be taxed until you take it out of the IRA or plan. However, if you want to roll over 100% of the payment, you must replace the 20% that was withheld with your own funds. If you roll over only the portion you received, you will be taxed on the 20% that was withheld and not rolled over.

You may be able to roll over your payment into a Roth IRA; the full amount rolled over will be taxed in the current year.

Special note for members of the uniformed services: TSP tax-exempt balances (i.e., tax-exempt contributions from pay earned in a combat zone) may be transferred or rolled over into a traditional IRA or a Roth IRA or transferred to certain eligible employer plans, but only if the IRA or plan certifies that it accepts tax-exempt balances. If the IRA or plan does not accept tax-exempt money, that amount will be paid directly to you. Check with your IRA trustee or plan administrator to see if the funds will be accepted.

3. Other Tax Rules

Repayment of plan loans

If you separate from Federal service with an outstanding TSP loan and you do not repay the entire loan by the established deadline, we must declare a taxable distribution of your outstanding loan balance before we can process your withdrawal request.

To avoid current tax (and, if applicable, an additional 10% penalty tax, as discussed on page 4), you may deposit part or all of the taxable loan distribution amount into an IRA or an eligible employer plan — using your personal funds — within 60 days of the date of the taxable distribution.

This rollover rule does not apply to taxable loan distributions declared while you are still employed.

Additional 10% penalty tax if you are under age 59½

If you receive a TSP distribution before you reach age 59½, in addition to the regular income tax, you may have to pay an early withdrawal penalty tax equal to 10% of any portion of the distribution not transferred or rolled over. The additional 10% tax generally does not apply to payments that are:

- Paid after you separate from service during or after the year you reach age 55;
- Made because you are totally and permanently disabled;*
- Paid as substantially equal payments over your life expectancy;
- Annuity payments;
- Ordered by a domestic relations court;
- Made because of death; or
- Made in a year you have deductible medical expenses that exceed 7.5% of your adjusted gross income.*

Special note for members of the uniformed services: The penalty tax does not apply to that portion of a TSP distribution (including the taxable distribution of a loan) which represents tax-exempt contributions from pay earned in a combat zone.

Relief from the 10% early withdrawal penalty is available to eligible Reservists called to duty for more than 179 days. The Reservist must have been activated after September 11, 2001 and must have received his or her distribution from the TSP during the period beginning on the date of the order or call and ending at the close of the active duty period. The Reservist may also be eligible to repay the distribution to an IRA (not the TSP). Participants should consult with their tax advisors, legal assistance officers, or the IRS regarding this relief.

Changing your monthly payments

Participants receiving monthly payments may change the amount annually. If you elect either to change the fixed dollar amount of your payments or to change from payments based on life expectancy to a fixed dollar amount, the withholding from your payment may change. The withholding rules will be determined according to whether your new payments are eligible rollover distributions or periodic payments (based on your account balance at the time the payment changes).

* The TSP cannot certify to the IRS that you meet these exemption requirements when your taxes are reported. Therefore, you must provide the justification to the IRS when you file your taxes.

In addition, changing from monthly payments based on life expectancy to a fixed monthly payment amount may make you liable for the 10% penalty tax on the payments you previously received, if you do so within 5 years of beginning your payments or before you are age 59½. To learn more, see IRS Publication 575, *Pension and Annuity Income*.

Required minimum distribution if you are over 70½

If you are over age 70½ and are separated from Federal service, you must either withdraw your entire TSP account or begin receiving monthly payments by April 1 of the year following the year you turned 70½. In addition, this April 1 date is the deadline for the TSP to start to distribute the IRS "required minimum distribution," a minimum amount of the money in your account which you must receive each year. For more information, see the TSP tax notice "Important Tax Information About Your TSP Withdrawal and Required Minimum Distributions."

Special tax treatment if you were born before January 2, 1936

If you were born before January 2, 1936, and you receive your entire account in a lump sum distribution, you can make a one-time election to calculate the amount of the tax on the distribution by using the 10-year tax option and using 1986 tax rates. The 10-year tax option often reduces the tax you owe. To learn more, see IRS Publication 575, *Pension and Annuity Income*.

Rules for nonresident aliens or beneficiaries of nonresident aliens

Special tax withholding rules apply to TSP payments made to nonresident aliens and beneficiaries of nonresident aliens. To learn more, see the TSP tax notice "Tax Treatment of Thrift Savings Plan Payments to Nonresident Aliens and Their Beneficiaries."

4. Resources

TSP publications are available from the TSP Web site, www.tsp.gov, or from the TSP by calling the TSP toll free at 1-877-968-3778 (TDD: 1-877-847-4385). Outside the U.S. and Canada, please call 404-233-4400 (not toll free). You can also send a fax to 1-866-817-5023 or write to the TSP at the address on the TSP Web site.

IRS publications are available from your local IRS office, on the IRS Web site at www.irs.gov, or by calling 1-800-TAX-FORMS.

Death Benefits

- ◆ To Whom
 - Based on Form TSP-3, Designation of Beneficiary
 - Participant responsible for mailing or faxing form directly to TSP
 - Do not submit forms to agency
 - If there is no TSP-3 on file at the TSP, then statutory order of precedence:
 - Spouse, natural and adopted children, parents, estate, next of kin
- ◆ How paid
 - Death reported on Form TSP-17, Information Relating to Deceased Participant
 - Spouse beneficiaries can maintain a surviving spouse TSP account or request a single payment
 - All or a portion of death benefit may be transferred to a Traditional or Roth IRA, eligible employer plan, his/her TSP account (no taxes withheld)
 - Any amount not transferred subject to mandatory 20% Federal tax withholding
 - Non-spouse beneficiaries will receive a single payment
 - All or a portion may be transferred to an inherited IRA
 - Amount not transferred to an Inherited IRA subject to 10% Federal tax withholding

Inherited IRA

- ◆ Non-spouse beneficiaries must select this option at the time the entitlement is disbursed
 - Beneficiaries select a financial institution that provides Inherited IRAs
 - Inherited IRAs are complicated and a tax advisor or IRA provider should be contacted to discuss this benefit
- ◆ The benefits of an Inherited IRA
 - Allows beneficiaries, other than spouse, to take the IRC minimum required distribution amount based on their age
 - If a 24-year-old beneficiary's entitled amount is \$100,000, the IRC minimum required distribution must start by December 31 the year following the TSP participant's death
 - The first year IRC minimum required distribution would be \$1,720 based on age 25
 - The remaining balance continues to grow tax deferred
 - Each year the IRC minimum required distribution increases slightly providing a lifetime benefit