

TSP MODERNIZATION ACT GOES INTO EFFECT ON SEPTEMBER 15, 2019

The law passed by Congress makes several important changes for federal employees who participate in the Thrift Savings Plan. The TSP issued the following statement about the new law:

On November 17, 2017, President Trump signed into law the TSP Modernization Act of 2017, which will provide TSP participants with more flexible withdrawal options. The law eliminates the statutory prohibition on multiple post-separation withdrawals and multiple age-based withdrawals while a participant is still working. It also removes the restriction that participants cannot take partial post-separation withdrawals if they've already taken an age-based in-service withdrawal. Though it has no effect on required minimum distributions mandated by the Internal Revenue Code, the law also allows separated participants who are over age 70½ to remain in the TSP, eliminating the requirement to make a withdrawal election on an entire account balance. Participants will also be able to stop monthly payments, change payment frequency, or elect to purchase an annuity while receiving monthly payments.

The Executive Director of the FRTIB has the authority to establish parameters regarding this new ability to take multiple withdrawals, and the law gives the FRTIB up to two years to make the regulatory and operational changes necessary to enact these changes.

Between September 7–14, 2019, the Thrift Savings Plan will be transitioning to new rules and options brought about by the TSP Modernization Act. If you need to withdraw money before these changes take effect, the TSP must receive your properly completed request by 11:59 p.m. eastern time on September 6, 2019. If possible, enrollees are being encouraged to wait until September 15 or later to request your withdrawal so that you can take advantage of more flexibility and use new, more efficient online tools to initiate your request.

WHAT'S GOING TO CHANGE?

Beginning September 15, 2019, you will have more options for how and when you can access money from your TSP account. These options fall into the following categories:

- After you separate from service, you can take multiple post-separation partial withdrawals.
- If you're 59½ or older and still working in federal civilian or uniformed service, you can take up to four in-service withdrawals each year.
- You'll be able to choose whether your withdrawal should come from your Roth balance, your traditional balance, or a proportional mix of both.
- You will no longer need to make a full withdrawal election after you turn 70½ and are separated

from federal service. (You will still need to receive IRS required minimum distributions (RMDs)).

- If you're a separated participant, you'll be able to take monthly, quarterly, or annual payments.
- You'll be able stop, start, or make changes to your installment payments at any time.
- You'll have enhanced online tools to help you make withdrawals in the My Account section of tsp.gov.

PARTIAL WITHDRAWALS

Right now, you're limited to one partial withdrawal in your lifetime—either an age-based in-service withdrawal (when you're 59½ or older) or a partial post-separation withdrawal. **Under the new policy:**

- you'll be able to take up to four age-based in-service withdrawals per calendar year. (The current rules on the number of in-service hardship withdrawals will not change);
- there will be no limit of the number of partial withdrawals you can take after separating from federal service (*except that you won't be able to take more than one every 30 calendar days*);
- you'll be able to take partial withdrawals while you're receiving post-separation installment payments; and

- having taken age-based in-service withdrawals will not prevent you from taking post-separation partial withdrawals.

ROTH, TRADITIONAL, OR BOTH

Currently, when you take a withdrawal, the money comes from your traditional and Roth balances on a pro rata basis. For example, if 80% of your account is in your traditional balance and 20% is in Roth, any withdrawal you take will be 80% traditional and 20% Roth. Under the new rules, you can still use this method, but you'll also have the option to take your withdrawal only from your Roth balance or only from your traditional balance. These options will be available for all types of withdrawals.

WITHDRAWAL DEADLINE

Previously, the law required that you make a full withdrawal election once you turned 70½ and were separated from federal service. If you failed to do that, we would initiate an account “abandonment” process.

The new law does away with this requirement. You will never be required to make a full withdrawal election, and TSP will no longer abandon accounts as in years past.

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

You will still need to receive IRS required minimum distributions (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, TSP will automatically send you the remaining RMD amount.

INSTALLMENT PAYMENTS

- Monthly payments are currently the only frequency option

you have for receiving regular post-separation installment distributions from your account. The new rules will also allow you to receive payments quarterly or annually.

- Right now, if you're receiving monthly payments, you can only change the amount of those payments during an open season between October 1 and December 15. When the new withdrawal options go into effect, you'll be able to change the amount and frequency (monthly, quarterly, annual) of your installment payments—and change from life-expectancy payments to a fixed dollar amount*—at any time throughout the year. (**This is a one-time-only change. As is currently the case, once you choose to receive “dollar-amount” payments, you cannot switch to life-expectancy.*)
- Now, if you want to stop your monthly payments, you must receive the remainder of your account in a final withdrawal paid to you or transferred to an IRA or other eligible plan. The new rule eliminates that requirement, allowing you to stop and start your payments any time.

WHAT WILL BE THE WITHDRAWAL PROCESS UNDER THE NEW RULES?

At the same time as TSP rolls out the new withdrawal options, they'll begin using enhanced online tools to make the withdrawal process even more efficient. Instead of just providing you with a completed paper form to send in, our new online tools will allow you to complete at least part of the transaction online. In many cases you'll still need to provide notarized signatures or other materials in paper form. But when that happens, you'll be given only the necessary pages to complete and submit. When we receive those pages, we'll be

able to link them to the information you've already submitted securely online and complete your transaction. This will greatly reduce the chance of errors that could cause delays, rejections, or—worse—unintended withdrawals that can't be reversed.

CAN BENEFICIARY PARTICIPANTS USE THE NEW WITHDRAWAL OPTIONS?

Yes, beneficiary participants, the spouses of deceased TSP participants who've had accounts established for them, can make all the same withdrawals as separated TSP participants.

If I've already begun receiving monthly payments from my TSP account, or elect to begin receiving payments before the new rules take effect, will the additional withdrawal options be available to me? How about if I've already taken a partial withdrawal (either in-service or post-separation) before the changes take place? Will that prevent me from being able to take additional withdrawals later?

If you have an account balance when the new rules go into effect, even if you've begun receiving monthly payments or have taken a partial withdrawal before then, you will be able to take advantage of the new withdrawal options. Note that, as is currently the case, if you are receiving monthly payments and elect to make a change that affects the duration of your payments, there may be tax consequences. For more information, see the TSP tax notice—*Important Tax Information About Payments From Your TSP Account*.

These changes are significant and very valuable to TSP participants. The new opportunities largely focus on withdrawal options that have previously lacked flexibility causing many to look for alternative options that offer more accessibility and control to their retirement savings. The source for this article is TSP Fact Sheet #10 (TSPFS10). Enrollees may acquire additional details at www.tsp.gov.