The TSP Modernization Act of 2017

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The Thrift Savings Plan (TSP) was created as one of the three components of the Federal Employees Retirement System (FERS). It is a defined contribution plan that works in ways similar to private-sector 401(k)s. It is available to federal and postal employees covered by FERS and the Civil Service Retirement System (CSRS), as well as members of the armed services. Currently, there are more than 5 million participants in the TSP, with more than $500 billion in assets.

The TSP is an exceptional retirement savings system, with valuable features such as matching funds from the employer (for FERS employees), tax-sheltered employee contributions, a high annual employee contribution limit ($18,500 in 2018, plus an additional $6,000 for employees over age 50), an array of investment choices—including stock index funds and lifecycle funds (providing automatic reallocation of assets at certain ages), a low net expense ratio of about 0.038 percent* (compared to an average 1.5 percent for actively managed mutual funds), and a requirement of the law to manage investments solely in the interest of participants and their beneficiaries.

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These features, and others, make the TSP one of the greatest examples of progressive social legislation benefitting American workers enacted in our lifetimes. However, there is one feature of the TSP, related to withdrawal options, that has been recognized as needing improvement.

Currently, the law provides for post-retirement withdrawal options that include both partial withdrawal and full withdrawal. A full withdrawal comes with a host of choices, including full withdrawal of the entire balance as a single payment, full withdrawal as a series of payments over time (distributed as a dollar amount that you specify until the entire TSP balance has been paid, or as a monthly payment calculated by TSP using the IRS Life Expectancy Tables). A full withdrawal as a single payment can be used to purchase a lifetime annuity through a private company that has contracted with TSP (currently MetLife), or for any other use. The purchased lifetime annuity choice comes with a host of options: a single life annuity; a joint life annuity with a person of your choice, with either 100 percent or 50 percent survivor benefits; single or joint annuity with inflation protection; single annuity with 10-year certain payout; single or joint annuity with cash refund; and more.

While a full withdrawal comes with many choices, the partial withdrawal rule is much simpler. It can be for any amount, except there is a $1,000 minimum. And it can be made only one time. Once a partial withdrawal is made, the only further option is full withdrawal (although the full withdrawal option itself comes with many choices as detailed above).

The TSP was not designed to be used as a bank account in retirement, and indeed, the cost of managing the system would be much higher if it were so designed. Nevertheless, the rule limiting partial withdrawal to one time has been a problem for many retirees.

The Federal Retirement Thrift Investment Board, the agency that manages the TSP, recognized this problem and proposed legislation to fix it. Congress recently passed that legislation. This law, titled The TSP Modernization Act of 2017, was signed by the president on Nov. 17. It changed the then-current language at 5 USC 8433(c), which stated "may make one withdrawal" to now read "may make one or more withdrawals."

The law gives the Federal Retirement Thrift Investment Board up to two years to make the regulatory and operational changes necessary to enact the changes in the law. The Board has explained that it is required to draft proposed new implementing regulations and make them available to the public for comment for a period of time, to review and consider the resulting public comments, and to only then issue the final regulations that will implement this change in the law.

In the meantime, pending the finalization of the implementing regulations, all of the previous withdrawal and other provisions will continue to apply.

To access the "TSP Question and Answer Fact Sheet About Changes to TSP Withdrawal Options," visit tsp.gov/PDF/formspubs/tspfs10.pdf.

* It costs money to operate any financial investment fund. A standard way to measure such costs is known as "net expense ratio." It is a measure of the annual cost of operating a fund expressed as a percentage of average dollar value of the amount of the fund. Operating expenses are taken out of a fund's assets and lower the return to the fund's investors.