

TSP sets date of Sept. 15 to launch new options under modernization act



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Public Law 115-84, better known as the TSP Modernization Act, was passed in 2017. The new law benefits active and retired letter carriers by expanding the withdrawal options for the Thrift Savings Plan (TSP). It's been nearly two years now and the new options have not yet been made available, but there is good news on the horizon. TSP finally has set a date: Sept. 15.

The delay in implementation was due to the agency's obligation to go through the rule-making process when making policy changes, as well as its need to update programming and forms for the change.

TSP will not accept withdrawal requests from Sept. 7 through Sept. 14, to allow for the transition. Those making withdrawals around this time might consider waiting until after Sept. 15, to take advantage of the greater options and more efficient online tools to initiate your request.

Currently, there is a limit of one partial withdrawal in your lifetime. The new rules will allow:

- Up to four age-based in-service withdrawals per calendar year (in-service hardship withdrawals will not change);
- Unlimited partial withdrawals after separating from federal service (except that you won't be able to take more than one every 30 calendar days);
- Partial withdrawals while receiving post-separation installment payments; and
- Post-separation partial withdrawals even after taking age-based in-service withdrawals.

With the present rules, those who have both a Roth and a Traditional account can't dictate which account the withdrawal comes from. The withdrawal comes from each account on a pro rata basis. In other words, if 80 percent of your balance is in a Traditional account, and 20 percent is in a Roth, the withdrawal would be 80 percent from the Traditional and 20 percent from the Roth. The new rules allow you to dictate which account you draw from and give you more control if you want to take taxes into consideration.

Currently, when reaching age 70½ and separated from service, TSP participants are required to make a full withdrawal election or their account will be considered abandoned. The new rules eliminate this requirement, but if one withdraws less than the IRS-required minimum distribution

(RMD), TSP will automatically send the RMD (or the difference) to the participant. Those who already have an abandoned account will be able to restore the account without making a full withdrawal election.

Installment payments will have increased options as well. Present rules allow changes to installment payments only during open season from October to mid-December. The new rules allow changes any time throughout the year. Additionally, when you stop an installment payment, you no longer will be forced to withdraw the entire balance.

What about those who already have begun receiving monthly payments or who have previously taken a partial withdrawal before the law is implemented? TSP addresses these questions in its updated *Questions and Answers about Changes to TSP Withdrawal Options* (TSPFS10, 5/2019), stating:

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*.

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TSP is a valuable benefit for federal employees. The low expense ratio of TSP is hard to beat anywhere and often makes it a good place to leave your money in retirement. With the current rules, some people are forced to make a full withdrawal from their TSP account because changed circumstances or a change in lifestyle require additional money and the only option left is a full withdrawal. The new rules will increase flexibility and will help retirees keep their TSP account open by being able to start, stop and change payments as their needs change.