TSP to provide exception for coronavirus hardship; more changes coming this fall

As part of the financial recovery package Congress passed and the president signed into law in March, the Thrift Savings Plan (TSP) is expected to waive the 10 percent tax on early TSP withdrawals of up to $100,000 for people affected by the coronavirus outbreak in some way, retroactive to Jan. 1, 2020. If the policy goes into effect, those who use this waiver will have three years to either pay the tax or reimburse their plans.

TSP spokeswoman Kim Weaver explained that the category of "people who would be eligible [is] quite broad: if you've been diagnosed with COVID-19, if your spouse or dependent has been diagnosed, or if you've experienced adverse financial consequences like you've been laid off, unable to work due to child care, etc."

The COVID-19 pandemic is not the only hardship exception at the TSP. While existing rules already allow participants to withdraw money early for 1) negative cash flow, 2) medical expenses for the participant, spouse or dependents, 3) repairs or property replacement from a personal casualty loss, or 4) attorneys' fees or court costs for a participant's divorce or separation, they also grant special exceptions for natural disasters.

Previously, the TSP relied on the Internal Revenue Service (IRS) to issue guidance and make announcements authorizing participants to take hardship withdrawals for specific events, such as the California wildfires of 2017, but the IRS decided to stop issuing these announcements. Instead, it added lost expenses and income due to a Federal Emergency Management Agency (FEMA)-declared natural disaster to the list of "safe harbor" expenses eligible for financial hardship.

By adding FEMA-declared natural disasters to the list of eligible expenses for financial hardship, the TSP will eliminate a step or two, as it no longer would be required to inform participants when they are eligible for this reason.

For those who don't know, the TSP works like a 401(k) in the private sector, allowing the employee to save with tax advantages and to benefit from employer contributions. TSP is an essential part of most carriers' retirement plans. Under the Federal Employees Retirement System (FERS), which covers most letter carriers, new career carriers are automatically enrolled in TSP and contributions are taken from their paychecks, unless they opt out.

One more change is coming to the TSP, this one aimed at new participants. The Federal Retirement Thrift Investment Board (FTRIB) will set automatic contribution rates at 5 percent for those participants, with the change going into effect on Oct. 1, the TSP announced in February. New career letter carriers will automatically begin contributing 5 percent—up from the current 3 percent—of their basic pay toward the TSP, maximizing the matching contributions from USPS.

This change won't affect existing TSP participants, and all participants can change their contribution rates at any time.

The change is an effort by the TSP to help its participants save more and better prepare for retirement. According to the FTRIB, 26 percent of participants were contributing less than 5 percent of their pay at the end of 2018.

"Increasing the rate to 5 percent not only increases the amount that a participant saves from his or her basic pay but also ensures that that participant receives the full amount of agency/service matching contributions he or she is entitled to, both of which allow the participant…to achieve significantly greater retirement savings," the FRTIB wrote in the proposed rule. PR