

# Questions and Answers about Changes to TSP Withdrawal Options

This fact sheet answers frequently asked questions about changes to the TSP withdrawal options associated with the passage of the TSP Modernization Act (PL 115-84). We'll revise and add to it as we establish policies and procedures and as we receive more questions.

## *What's going to change?*

When the new withdrawal policies go into effect, you will have more options for how and when you can access money from your TSP account. These options fall into the following categories:

- Multiple age-based (for those 59½ or older) in-service and post-separation partial withdrawals will be allowed.
- 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 be required to make a full withdrawal election after you turn 70½ and are separated. (You will still need to receive IRS-required minimum distributions (RMDs).)
- If you're a separated participant, in addition to the option of monthly payments, you'll be able to choose quarterly or annual payments, and you'll be able stop, start, or make changes to your installment payments at any time.

Read the following sections for more details.

## *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<sup>1</sup>;

<sup>1</sup> 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 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*

By law, the TSP currently requires that you make a full withdrawal election after you turn 70½ and have separated from federal service. If you fail to do that, we initiate an account "abandonment" process.

The new law does away with this requirement. You will never be required to make a full withdrawal election. You will still need to receive IRS-required minimum



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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, we will automatically send you the remaining RMD amount.

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.

### ***Installment Payments***

- Monthly payments are currently the only 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. In the future, 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 dollar amount<sup>2</sup>—at any time throughout the year.
- 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.

### ***How did the TSP Modernization Act come to be?***

Recognizing a need, the FRTIB developed a package of legislative changes that would provide withdrawal flexibility for TSP participants and shared the package with members of Congress. We are very appreciative of Senators Portman and Carper and Congressmen Cummings and Meadows for introducing legislation based on our suggestions last spring. And we're pleased that Congress passed and the President signed this bill.

### ***If the law has been passed, why are the new options not yet available, and why could it take up to two years for them to become available?***

It might seem like a simple thing to start allowing something that's currently not allowed, but there's a lot to be done to make these changes happen.

There are substantial programming changes and form revisions to be made just to make it possible for participants to take advantage of the new options. And there are many publications and web pages that will need to be changed to reflect our new policy and new procedures. By the way, in addition to the changes made by the new law, we're also adding the ability to specify how much of your withdrawal should be Roth and how much should be traditional; withdrawals currently come out pro rata from both sources.

Also, as a government agency, we have to publish any policy decisions that are necessary to implement new legislation in publicly accessible regulations. So we have to publish new regulations in order to allow the new options. We also have to have a public comment period and take the time to consider comments before we make final regulatory changes.

We asked Congress for these new withdrawal options, so rest assured that we're motivated to enact them as soon as possible. We intend to have the changes in place before the two-year deadline but don't yet have a specific date to announce.

### ***Why didn't you start working on this before the new law was passed?***

We did. But it would have been inefficient to spend the substantial resources necessary for this project before knowing whether the bill would become law or what exactly would be included in it. We were as prepared as we could prudently be for the passage of the law and are working to make this transition as quickly as possible while ensuring that the processes work correctly and in the best interest of our participants.

<sup>2</sup> 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.

***What happens if my deadline for withdrawing my account arrives or I want to use one of the new withdrawal options before the FRTIB has implemented the changes?***

Nothing changes until new regulations are put in place, so you are limited to the current withdrawal options. You can elect monthly payments—as low as \$25 per month—and leave your balance in the TSP until the new options are available. We will announce it widely—including in this space, social media, tsp.gov, email, etc.—when the new options become available.

***Can I withdraw money from my TSP account now, before the changes are made?***

You continue to have the same withdrawal options that you had before the law was passed. See whichever of these TSP booklets applies to your situation for more information: *Withdrawing Your TSP Account After Leaving Federal Service* or *In-Service Withdrawals*.

***If I've already begun receiving monthly payments from my TSP account, or elect to begin receiving payments before the new rules are implemented, 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 ones 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*.