Tips and Tidbits
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Question: What are Thrift Savings Program (TSP) Loans and In-Service Withdrawals?

Although TSP is designed to provide income after retirement, loans and in-service withdrawals offer means to access a TSP account while still employed. They serve different purposes and have unique rules. One primary difference is that while money drawn out as a loan must be repaid into the TSP account, money taken out as an in-service withdrawal may not be repaid. Thus, an in-service withdrawal permanently depletes the account while a loan does not.

TSP Loans. There are two types of TSP loans. General purpose loans are available with a repayment period of one to five years and documentation supporting the amount of the loan is not required. Residential loans, requested for the purchase of a primary residence, which can be a house, town house/condominium, shares in a cooperative housing corporation, boat, mobile home, or recreation vehicle, are available for a repayment period of one to fifteen years. The residential can only be used for the purchase or construction of a primary residence and requires documentation. Participants may have no more than one loan of each type at any one time. There is a $50 processing fee per loan which is deducted from the loan payout.

The minimum amount that can be borrowed is $1,000 and the maximum is based on the Internal Revenue Service (IRS) rules. The principle amount cannot exceed the smallest of the following: (1) The participant's contributions and earnings in the TSP account, not including any outstanding loan balance (IRS Contributions and Earnings Test); (2) Fifty percent of the participant's total vested account balance or $10,000, which ever is greater, minus any outstanding loan balance (IRS Vested Balance Test); or (3) Fifty thousand dollars minus the participant's highest outstanding loan balance, if any, in the last 12 months (IRS $50,000 Test).

An employee is eligible to borrow from his/her TSP account if s/he has at least $1,000 of contributions and associated earnings in the account, is a current Federal employee in pay status, has not repaid a TSP loan within the last 60 days, or did not have a taxable distribution declared on a loan within the last 12 months. The loan interest rate will be the G Fund rate at the time of application and there are no early payment penalties.

Loan repayments are typically made through payroll deductions. Loan payments cannot be suspended; however, the participant can reamortize the loan at any time or any number of times so long as the maximum term (5-year for general purpose loan or 15-year for the residential loan) is not exceeded. Should a loan payment be missed, it must be restored by the end of the following quarter since failure to do so may result in a tax penalty. A taxable distribution will be declared on any unpaid loan balance and result in 10% early withdrawal penalty tax if the employee is under 59½. Once a taxable distribution is declared, the loan is closed and the employee will not be allowed to repay it thus reducing future retirement income.

In-Service Withdrawals. There are two types of in-service withdrawals available: (1) age-based for employees age 59½ or older, and, a (2) financial hardship withdrawal for which documentation is required. In-service withdrawals are subject to state income taxes. Excise taxes also may apply in certain situations. Age-based withdrawals are subject to mandatory 20% federal income tax withholding unless the payment is transferred into an individual retirement account (IRA) or other qualified retirement savings plan. Financial hardship in-service withdrawals are not subject to mandatory 20% federal income tax withholding but those funds are not transferable to an IRA or similar tax-favored retirement savings plan and the withdrawals are subject to early withdrawal penalties.

With an age-based withdrawal, participants can make a one time withdrawal from the account of at least $1000 (unless the account is less than that amount in which case the total amount can be requested) up to the vested amount. Those making an age-based in-service withdrawal may not make a partial post-separation withdrawal.

Financial hardship withdrawals have no age limit but require the participant to demonstrate a hardship or financial need resulting from one of the following four conditions: a negative monthly cash flow, medical expenses, personal casualty losses, or legal expenses from a separation or divorce. The investor can withdraw their own contributions and the earnings on those contributions (but not agency automatic or matching contributions or associated earnings) up to the amount of the documented hardship.

There is no limit on the number of financial hardship withdrawals an individual can make; although, they can be no closer together than six months. TSP participants may not make contributions to the TSP for six months afterward starting after the disbursement was made. For FERS employees, this means losing agency matching contributions, although agency automatic contributions (1% of salary) will continue.

A financial hardship withdrawal taken under age 59½ is subject to a 10% early withdrawal penalty tax on the total amount received directly from the TSP, including any amount withheld for taxes.

Additional information regarding TSP loans or in-withdrawals may be found on the TSP website at www.tsp.gov , TSP Thriftline, 1-TSP-You First (1-877-968-3778), or you may contact your servicing HR Specialist.

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