



# Thrift Savings Plan BULLETIN

for Service TSP Representatives

**Subject:** Thrift Savings Plan In-Service Withdrawals

**Date:** July 9, 2003

The Federal Retirement Thrift Investment Board (Board) has revised the Thrift Savings Plan (TSP) booklet *TSP In-Service Withdrawals* and the forms that must be used to request in-service withdrawals to reflect the changes resulting from the implementation of the new record keeping system (e.g., in-service withdrawals are now disbursed every business day and participants now self-certify a financial hardship). These materials are available from the TSP Web site at [www.tsp.gov](http://www.tsp.gov) and are also attached to this bulletin.

This bulletin contains updated information about the in-service withdrawal program and describes actions that services must take to administer the six-month restriction on making TSP contributions which applies to participants who receive financial hardship in-service withdrawals.

## I. Types of In-Service Withdrawals

### A. Age-based in-service withdrawal

**Eligibility.** Employed participants who are age 59½ or older may withdraw all or any portion of their vested account balances.

**Minimum amount of withdrawal.** The minimum amount of an age-based in-service withdrawal is \$1,000 or the participant's entire vested account balance.

Participants may elect to receive a dollar amount (of \$1,000 or more) or their entire vested account balance. If participants elect a dollar amount that is greater than the vested account balance, they will receive their entire vested

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**Inquiries:** Questions concerning the provisions of this bulletin should be directed to the Federal Retirement Thrift Investment Board at **202-942-1460**.

**Chapter:** This bulletin may be filed in Chapter 8, Withdrawal Program.

**Supersedes:** This bulletin supersedes TSP Bulletin 02-U-10, Thrift Savings Plan In-Service Withdrawals, dated March 1, 2002.

account balance if it is at least \$1,000. If the vested account balance is less than \$1,000, participants should elect to receive the entire vested balance.

**Limit on number of age-based in-service withdrawals.** Participants may make only one age-based in-service withdrawal. In addition, a participant who makes an age-based in-service withdrawal may not make a post-employment partial withdrawal of his or her TSP account. (See the booklet *Withdrawing Your TSP Account After Leaving Federal Service* for more information about this new option.)

**Disbursement and tax consequences.** Age-based in-service withdrawals are disbursed as single payments and are taxable income for Federal income tax purposes in the year in which the payment is made. They are “eligible rollover distributions” and are subject to mandatory 20% Federal income tax withholding. They are not subject to the 10% early withdrawal penalty tax.

Participants may ask the TSP to transfer all or any part of the payment to a traditional IRA or an eligible employer plan. The amount the TSP transfers is not taxable income when it is transferred (it becomes taxable income when it is disbursed from the IRA or plan to which it was transferred), and consequently is not subject to income tax withholding when it is transferred.

Payments that are **not** transferred to a traditional IRA or eligible employer plan can be sent to a participant’s checking or savings account electronically by direct deposit.

If the account contains tax-exempt contributions, the disbursement will be made on a pro rata basis from both the taxable and tax-exempt balances; see the notice “Important Tax Information About TSP In-Service Withdrawal Payments” for more information.

B. Financial hardship in-service withdrawal

**Eligibility.** Employed participants (regardless of age) may withdraw their own contributions and attributable earnings from their TSP accounts if they have a financial hardship that results from at least one of the following four conditions: negative monthly cash flow, medical expenses (including household improvements needed for medical care), personal casualty losses, or legal expenses for separation or divorce. Participants must certify, under penalty of perjury, that they have a genuine financial hardship and that the amount requested does not exceed the actual amount of the financial hardship.

**Maximum and minimum amount of withdrawal.** The maximum amount of a financial hardship in-service withdrawal is the smaller of (1) the amount requested, which should not exceed the amount of the hardship, or (2) the participant’s contributions and attributable earnings.

The minimum amount of a financial hardship in-service withdrawal is \$1,000.

**Number of financial hardship in-service withdrawals.** There is no restriction on the number of financial hardship in-service withdrawals that a participant may make. However, after a participant receives a financial hardship in-service withdrawal, he or she may not apply for another financial hardship in-service withdrawal for a period of six months.

**Other restrictions.** Participants who receive financial hardship in-service withdrawals may not make any TSP contributions to their accounts for a period of six months. See Section III of this bulletin for more information about this restriction, including service responsibilities for administering it.

**Disbursement and tax consequences.** Financial hardship in-service withdrawals are disbursed as single payments and are taxable income for Federal income tax purposes in the year in which the payments are made.

A financial hardship in-service withdrawal cannot be transferred to a traditional IRA or eligible employer plan. The TSP will withhold 10% from the payment for Federal income tax unless the participant requests otherwise. In addition, financial hardship in-service withdrawals are subject to the 10% early withdrawal penalty tax if the participant is less than age 59½ at the time of the payment.

If the account contains tax-exempt contributions, the disbursement will be made on a pro rata basis from both the taxable and tax-exempt balances.

Payments can be sent to a participant's checking or savings account electronically by direct deposit.

See the notice "[Important Tax Information About TSP In-Service Withdrawal Payments](#)" for more information about the tax consequences of an in-service withdrawal.

## **II. In-Service Withdrawal Products and Forms**

Services should provide the in-service withdrawal booklet to participants upon request. Services may also provide the forms and tax notice to participants upon request, but we recommend that instead, they encourage participants to obtain these materials from the TSP Web site.

The Board will distribute a small supply of the June 2003 version of the in-service withdrawal booklet to services' central distribution points by mid-July 2003. The Board will not make an automatic distribution of the in-service withdrawal forms or tax notice. Services may have a representative from their central distribution point order the forms and tax notice or additional copies of the in-service withdrawal booklet by completing the Thrift Savings Plan Order Form (TSP-U-40).

A. Booklet

The booklet *TSP In-Service Withdrawals* contains information about the two types of in-service withdrawals, the rules, the application process, and the spousal requirements for each.

B. Application forms

**Age-based in-service withdrawal.** To apply for an age-based in-service withdrawal, participants must complete **Form TSP-U-75**, Age-Based In-Service Withdrawal Request.<sup>1</sup>

**Financial hardship in-service withdrawal.** To apply for a financial hardship in-service withdrawal, participants must complete **Form TSP-U-76**, Financial Hardship In-Service Withdrawal Request. When participants sign this form, they certify that they have a genuine financial hardship in the amount specified and they agree to the conditions for a financial hardship in-service withdrawal, including termination of their contributions for a six-month period.

C. Notice “Important Tax Information About TSP In-Service Withdrawal Payments”

This notice, OC 97-13, describes the tax rules that apply to in-service withdrawals and supplements the information contained in the in-service withdrawal booklet.

### III. Contribution Restriction Resulting From Financial Hardship In-Service Withdrawal

A. Restriction

Participants who receive financial hardship in-service withdrawals may not make any contributions to their TSP accounts for a period of six months, as described below.

B. Non-contribution period

This six-month period is called the “non-contribution period.” The non-contribution period begins on the day the financial hardship in-service withdrawal is disbursed and ends six months later.

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<sup>1</sup> Participants may begin and, in some cases, complete the withdrawal request on the TSP Web site. See the in-service withdrawal booklet for more information about using the Web site to make withdrawal requests.

C. TSP record keeper's responsibilities

1. After a financial hardship in-service withdrawal is disbursed, the TSP record keeper will notify the payroll office of the participant's non-contribution period by providing Report TSP 5501, Participants for Whom Financial Hardship In-Service Withdrawals Were Disbursed. (See TSP Bulletin 02-U-17, dated June 12, 2002, for more information about this report.)

The TSP record keeper will also notify the participant of the payment. The written notice will remind the participant of the six-month restriction on making contributions and provide the non-contribution period and the date that contributions may be resumed.

2. If the participant's payroll office submits contributions for pay dates within the non-contribution period, the TSP record keeper will not process the contributions. As explained in TSP Bulletin 02-U-17, the payroll office will receive Report TSP 1701, Error Report, to show the rejection of such contributions.
3. When the non-contribution period expires, the TSP record keeper will mail the participant an "eligibility notice." This notice will inform the participant of his or her eligibility to resume TSP contributions.

D. Participants' responsibilities

To resume contributions, a participant must complete the TSP Election Form (TSP-U-1) and submit it with the eligibility notice (described in C.3 above) or the payment notice (described in C.1 above) to his or her service.

This Form TSP-U-1 should be accepted even if it is outside a TSP open season. **However, the participant may not be eligible to resume contributions if he or she voluntarily terminated contributions and has not served the requisite waiting period to resume contributions,** as explained in E.3 below.

E. Services' responsibilities

1. The service must take the necessary steps to ensure that no contributions are made for any pay dates in the participant's non-contribution period.
2. If the participant's status code is "Y," the service must submit an employee data record (06-record) to change the status code to "T" and the status date to the effective date of the status code change.
3. If the participant's status code in the TSP system is currently "T," the service must ensure that contributions do not resume during the non-contribution period.

In addition, the participant may not be eligible to resume contributions at the expiration of the non-contribution period. By law, participants who

voluntarily terminate their contributions during an open season must wait until the next open season to resume contributions; participants who terminate their contributions outside an open season must wait until the second open season to resume contributions. If a participant's voluntary termination of contributions overlaps his or her non-contribution period, the participant cannot resume contributions until the appropriate open season or the expiration of the non-contribution period, **whichever is later**.

For example, if a participant's non-contribution period ends April 1, 2004, but the participant had elected to terminate contributions in August 2003, the participant is not eligible to resume contributions until June 2004 (the last month of the April 15 through June 30, 2004, open season, which is the second open season following the voluntary termination of contributions).

4. The payroll office must continue to submit loan payments for participants with outstanding loans.
5. After the non-contribution period expires, the service **must not** automatically resume the participant's TSP contributions. A participant **must** submit Form TSP-U-1 to resume contributions. Form TSP-U-1 should be accompanied by the eligibility or payment notice.<sup>2</sup>

The service must make the election on Form TSP-U-1 effective no later than the first full pay period after receiving the form, **unless** the participant is not otherwise eligible to resume contributions.

If the participant is not otherwise eligible to resume contributions, the agency cannot process Form TSP-U-1 and should return it to the participant with an explanation of why it is being returned.



PAMELA-JEANNE MORAN  
Deputy Director  
Office of External Affairs

Attachments: *TSP In-Service Withdrawals*  
Form TSP-U-75, Age-Based In-Service Withdrawal Request  
Form TSP-U-76, Financial Hardship In-Service Withdrawal Request  
Notice "Important Tax Information About TSP In-Service Withdrawal Payments"

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<sup>2</sup> If a participant submits Form TSP-U-1 during a TSP open season after the end of the non-contribution period, the participant is not required to submit the eligibility or payment notice. However, absent the notice, the open season election cannot be made effective before the first full pay period of the last month of the open season (i.e., June or December).