



# Thrift Savings Plan

# BULLETIN for Service TSP Representatives

**Subject:** Uniformed Services Participation in the TSP

**Date:** January 26, 2005

Public Law 108-469, signed into law on December 21, 2004, eliminates TSP open seasons and the restrictions on contribution elections which are tied to open seasons. The Federal Retirement Thrift Investment Board will implement this law July 1, 2005. Consequently, beginning July 1, 2005, participants may make TSP contribution elections at any time. There will be one more TSP open season which will begin April 15 and end June 30, 2005. Eligibility to make TSP contribution elections will be subject to the current rules until the close of this final open season.

This bulletin discusses this statutory change, and it also explains how members of the uniformed services may make contribution elections, contribution allocations, and beneficiary designations. On July 1, 2005, this bulletin will supersede TSP Bulletin 01-U-3, Uniformed Services Participation in the TSP, dated July 19, 2001.

## I. Definitions

- A. **Active duty uniformed services members** means uniformed members of the Army, Navy, Air Force, Marine Corps, Coast Guard, Public Health Service, and the National Oceanic and Atmospheric Administration who are serving in a full-time active duty status.<sup>1</sup>
- B. **Basic pay** means basic pay payable under section 204 of title 37 and compensation received under section 206 of title 37 of the United States Code (U.S.C.). Section 204 pay is pay earned for active duty; section 206 compensation (e.g., drill pay for inactive duty for training (IDT)) is pay earned by members of the Ready Reserve (to include the National Guard).

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<sup>1</sup> The Department of Defense, in conjunction with the other uniformed services organizations, will define active duty and eligible reserve members of the uniformed services, and will be responsible for categorizing personnel accordingly for TSP purposes.

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

**Chapter:** This bulletin may be filed in Chapter 3, Eligibility.

**Supersedes:** Effective July 1, 2005, this bulletin supersedes TSP Bulletin, 01-U-3, Uniformed Services Participation in the TSP, dated July 19, 2001.

- C. **Bonus pay** means bonus pay (e.g., enlistment and reenlistment bonuses), as defined in chapter 5 of title 37, U.S.C. Although bonus pay is generally a type of special pay, it is addressed separately for contribution election purposes because different TSP rules apply to it.
- D. **Contribution election** means a request by a member to start contributing to the TSP, to change the amount of TSP contributions made each pay period, or to terminate TSP contributions.
- E. **Contribution allocation** means the apportionment of a member's future contributions and loan payments among the TSP investment funds.
- F. **Incentive pay and special pay** mean incentive pay (e.g., flight pay, submarine pay, hazardous duty pay) or special pay (e.g., medical and dental officer pay, hardship duty pay, career sea pay) as defined in chapter 5 of title 37, U.S.C. Bonus pay, which is generally a type of special pay, is defined in paragraph C above.
- G. **Interfund transfer** means the reapportionment of a member's existing account balance among the various TSP investment funds.
- H. **Member** means a member of the uniformed services serving on active duty or in the Ready Reserve in any pay status.
- I. **Ordinary contributions** means member contributions that are made from compensation not subject to the Federal income tax exclusion in 26 U.S.C. § 112 (applicable to compensation for active service in a month in which a member serves in a combat zone).
- J. **Pay entry basic date** means the date a uniformed services member becomes eligible to receive basic pay.
- K. **Reservist** means a member of the Ready Reserve (including the National Guard) in any pay status.
- L. **Separation from service**, for TSP purposes, means (1) discharge of a member from active duty or the Ready Reserve or (2) transfer of a member to inactive status or to a retired list pursuant to any provision of title 10, U.S.C. The discharge or transfer may not be followed, before the end of the 31-day period beginning on the day following the effective date of the discharge, by resumption of active duty, an appointment to a civilian position covered by the Federal Employees' Retirement System, the Civil Service Retirement System, or an equivalent retirement system, or continued service in or affiliation with the Ready Reserve.<sup>2</sup>

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<sup>2</sup> Reserve component members serving on full-time active duty who terminate their active duty status and subsequently participate in the drilling reserve are said to "continue" in the Ready Reserve. Active component members who are released from active duty and subsequently participate in the drilling reserve are said to "affiliate" with the Ready Reserve.

- M. **Service** means the Army, Navy, Air Force, Marine Corps, Coast Guard, Public Health Service, and National Oceanic and Atmospheric Administration.
- N. **Servicing payroll office** means the payroll office responsible for the member's pay activities, including the deduction of TSP contributions and loan payments from that member's pay.
- O. **Tax-exempt contributions** means member contributions that are made from compensation subject to the Federal income tax exclusion at 26 U.S.C. § 112 applicable to compensation for active service in the month in which a member serves in a combat zone.

## II. Contribution Rules

- A. Contributions from the various types of pay

Members may elect to contribute from basic pay (which, as defined in Section II above, includes IDT drill pay), incentive pay, and special pay, subject to the applicable dollar limitations of the Internal Revenue Code (I.R.C.).<sup>3</sup> Members use Form TSP-U-1 to show how much they want to contribute each pay period from each category of pay. The amount they decide to contribute from each category of pay must be expressed on Form TSP-U-1 as a whole percent. All contributions are deducted directly from the appropriate type of pay and submitted to the TSP record keeper by the servicing payroll office.

- 1. Incentive pay, special pay, and bonus pay

A member who is contributing to the TSP from basic pay may also make contributions from one to one hundred percent of any incentive pay, special pay, or bonus pay that the member receives.

- 2. Matching contributions

The law allows the Secretaries of the uniformed services to designate critical specialties as eligible for matching contributions. Members serving in these specialties who agree to serve on active duty for 6 years will be eligible for matching contributions from their services. The matching contributions apply only to amounts contributed from a member's basic pay. These contributions are matched dollar-for-dollar on the first three percent of pay the member contributes each pay period, and 50 cents on the dollar on the next two percent of pay the member contributes each pay period.

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<sup>3</sup> Section 402(g) of the I.R.C. limits the amount of income an employee may elect to defer under all cash or deferred arrangements (e.g., the TSP or a 401(k) plan) during a tax year. For 2005, this "elective deferral limit" is \$14,000; for 2006, it will be \$15,000. This limit does not apply to tax-exempt contributions. However, section 415(c) of the I.R.C., which limits the amount of total employee and employer contributions to the participant's TSP account each year (to the lesser of \$42,000 (for 2005) or 100% of compensation), applies to both tax-deferred and tax-exempt contributions.

**Percentages That May Be Contributed to a Member's Account  
(Critical Specialties Only)**

Member Contributes	Service Match	Total Contribution
0%	0%	0%
1%	1%	2%
2%	2%	4%
3%	3%	6%
4%	3.5%	7.5%
5%	4%	9%

B. Making contribution elections

1. Members may make elections to contribute from basic pay, incentive pay, special pay, or bonus pay. However, a member must elect to contribute from basic pay to be eligible to contribute from incentive pay, special pay, or bonus pay. If a member elects to terminate contributions from basic pay, contributions from incentive pay, special pay, or bonus pay must also stop.
2. Beginning July 1, 2005, uniformed services members may make contribution elections to start, change, stop, or resume TSP contributions at any time. Services must make a properly filed TSP contribution election effective no later than the first full pay period after it has been filed.<sup>4</sup>
3. Until July 1, 2005, the current rules for making TSP contribution elections apply. These rules are described in Section III of TSP Bulletin 01-U-03. There will be one more TSP open season, April 15 through June 30, 2005, and elections made during this final open season must be processed as described in TSP Bulletin 01-U-03.

**III. Investment Decisions**

- A. Members may invest in any of the TSP investment funds. To direct the investment of future deposits to their accounts (i.e., contributions and as applicable, loan payments and transfers from qualified trusts), members must make contribution allocations. To change the investment of their existing account balances, members must make interfund transfers.

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<sup>4</sup> Participants who make in-service financial hardship withdrawals may not make TSP contributions for a six-month period following the withdrawal. Consequently, these participants may not make TSP contribution elections for any pay date falling within the noncontribution period. See TSP Bulletin 03-U-14, dated July 9, 2003, for more information about this restriction.

## B. Contribution allocations

1. To make a contribution allocation, a member must file a request directly with the TSP by using the TSP Web site ([www.tsp.gov](http://www.tsp.gov)) or the ThriftLine (the TSP's automated telephone service at 1-877-968-3778), or by submitting Form TSP-U-50 to the TSP record keeper.

**Until a member makes a contribution allocation, his or her contributions will be invested in the G Fund.**

2. Members may make contribution allocations at any time. The number of contribution allocations that members may request is unlimited, but only one contribution allocation can be effective on a given business day. Generally, a contribution allocation will be made effective within two business days of the request (if it is made electronically) or of the TSP record keeper's receipt of the form (if it is made on Form TSP-U-50).
3. A contribution allocation remains in effect until the member makes a different contribution allocation. A contribution allocation does **not** affect the investment of the money already in a member's account.<sup>5</sup>

## C. Interfund transfers

1. To request an interfund transfer, members must use the TSP Web site or the ThriftLine, or submit Form TSP-U-50 to the TSP record keeper. Interfund transfers do **not** affect the investment of future deposits to members' accounts.<sup>6</sup>
2. Members may make interfund transfers at any time. Interfund transfer requests made on the Web site or the ThriftLine by noon (eastern time) will generally be made effective as of close of business that day. If the request is made after the noon deadline, it will generally be made effective as of close of business the next day.

## D. Resources and information

The TSP Web site and the *Guide to TSP Investments* contain more information about the TSP investment funds, contribution allocations, and interfund transfers.

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<sup>5</sup> If a member is also serving on an appointment in the Federal civil service and is participating in the TSP under that civilian appointment (e.g., the member is a reservist and also a civilian employee), the member must make a separate contribution allocation to change the investment of contributions (and, if applicable, loan payments) to that civilian account. Likewise, the contribution allocation the member makes for his or her civilian account will **not** be used to invest uniformed service contributions.

<sup>6</sup> If a member has a separate TSP account as a result of an appointment in the Federal civil service, an interfund transfer request will apply to the specific (uniformed services or civilian) account. To change the investment of both account balances, the member must request separate interfund transfers.

#### **IV. Designating a Beneficiary**

- A. Members may designate beneficiaries to receive their TSP account in the event of their death. To do so, members must complete Form TSP-U-3, Designation of Beneficiary, and send it to the TSP Service Office at the address on the back of the form.<sup>7</sup>
- B. Members are not required to file Form TSP-U-3; if a member does not have a valid Form TSP-U-3 on file with the TSP, the member's account will be distributed after the member's death according to the statutory order of precedence at 5 U. S. C. § 8424(d), which is delineated on the back of Form TSP-U-3.
- C. Mentioning a TSP account in a will (or another document, such as a prenuptial agreement) has no effect on the disposition of the member's account after the member's death. Members may, however, use Form TSP-U-3 to designate an estate or a trust to receive all, or a portion of, their TSP accounts.

#### **V. Member Responsibilities**

- A. Making contribution elections
  - 1. Members must file contribution elections with their services. They may use Form TSP-U-1, or if their services have developed an automated method for making TSP contribution elections, they may be required to file contribution elections electronically.
  - 2. A contribution election stays in effect until the member files another contribution election to change or terminate the election. For example, if a member elects to contribute from bonus pay, the member's contribution election will cover future installments or any other bonus to which the member becomes entitled. If this is not what the member intends, the member must make a subsequent election to terminate or change his or her bonus election.
  - 3. Members may obtain Form TSP-U-1 from their service's TSP representative or by downloading a copy from the Uniformed Services Forms & Publications section of the TSP Web site.

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<sup>7</sup> If a member has a TSP account as a result of a civilian appointment, the member must submit Form TSP-3, Designation of Beneficiary, to the TSP Service Office to designate a beneficiary (or beneficiaries) for that civilian account. The designation made on Form TSP-U-3 will not apply to the civilian account and vice versa.

B. Making investment decisions

1. Members are responsible for making investment decisions. Neither the services nor the Federal Retirement Thrift Investment Board provides investment advice. Consequently, members are strongly encouraged to read the *Fund Investment Sheets* or the *Guide to TSP Investments* before making an investment decision. Both the Fund Information Sheets and the *Guide to TSP Investments* are available from the TSP Web site.
2. After the TSP notifies members that their accounts have been established, members may make contribution allocations and interfund transfers (investment decisions) as discussed in Section III above. Until a member makes a contribution allocation, his or her contributions will be invested in the G Fund.
3. A member who also has a separate civilian TSP account (e.g., because the member is a reservist and also a civilian employee) must make contribution allocations and interfund transfer requests for each account separately.

C. Confirming the implementation of requests

Members are responsible for confirming that their contribution elections have been properly executed by their servicing payroll office and that their contribution allocations and interfund transfers have been properly executed by the TSP record keeper. Errors must be reported promptly to the payroll office or the record keeper, as appropriate, in order for them to be corrected.

D. Maintaining the accuracy of personal information

On an ongoing basis, members are responsible for notifying their service's TSP representative of any changes in their personal data, e.g., changes of address, so that these changes can be reported to the TSP.

E. Designating a beneficiary

1. Members are responsible for designating beneficiaries to receive their TSP account in the event of their death as discussed in Section IV above.
2. If a member wishes to change or cancel a beneficiary designation, the member must submit another Form TSP-U-3 to the TSP record keeper. Members should keep this in mind whenever their personal situation changes (e.g., as a result of marriage, birth or adoption of a child, or divorce).
3. A member's TSP participant statement will show whether the member has submitted Form TSP-U-3 and, if so, the date the most recent form was signed by the member.
4. A member who also has a separate civilian TSP account (e.g., because the member is a reservist and also a civilian employee) must make a separate beneficiary designation for that account.

## VI. Service Responsibilities

- A. The services are responsible for the following actions:
1. Providing information to members regarding the TSP, including notifying new members of their opportunity to make a TSP contribution election. The attachment to this bulletin is a sample notice that may be used for this purpose.
  2. Processing contribution elections as filed by their members.
  3. Submitting personal information for their members to their payroll offices.
  4. Notifying the servicing payroll office when a member is eligible to receive matching contributions.
- B. The services are responsible for the following TSP activities on an ongoing basis:
1. Providing members with information about the benefits of the TSP, including distributing TSP booklets, forms, and other materials.
  2. Responding to questions from members about TSP benefits and about the TSP contributions (and loan payments, if any) that are being deducted from their pay. This includes answering questions relating to the tax characterization of these contributions (ordinary or tax-exempt).
  3. When members elect to terminate contributions, reporting the type of pay from which contributions are to be stopped.
  4. Notifying the servicing payroll office when a member's personal information (e.g., his or her address) changes. **Note:** While the member is in the uniformed services, all TSP correspondence and disbursements relating to the uniformed services account will be sent to the member at the address of record provided by the service.
  5. Notifying the servicing payroll office when a member's employment changes. An employment change occurs when a member:
    - a. Separates (employment code S) from the uniformed services (as defined in Section II above) except as a result of a disability retirement,<sup>8</sup> or
    - b. Dies in service (employment code D).

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<sup>8</sup> If a member retires on disability retirement that has been approved by the appropriate uniformed services official, the payroll office may submit an employment code of "B." However, for TSP purposes, it is no longer mandatory to distinguish this type of separation from any other type of separation. The Board has reviewed the IRS standard for an exception to the early withdrawal penalty and has determined that the IRS standard may be more stringent than the services' standard. Consequently, the TSP will no longer report an early withdrawal made by a participant who has separated on disability as an exception to the IRS standard. If the participant believes he or she is entitled to the exception, he or she must make the claim directly with the IRS by filing IRS Form 5329, Additional Taxes on Qualified Plan (including IRAs) and Other Tax-Favored Accounts, and any other evidence of disability required by the IRS.

6. Notifying the servicing payroll office of errors affecting members' TSP accounts and correcting data submissions as appropriate. (For example, if an employment code, as cited above, is submitted in error, the employment code must be corrected; if the member has not transferred, separated, or died in service, an employment code of "N" (not separated) must be provided.)

Services will compensate their members for earnings lost as a result of certain service/payroll office errors, as required by 5 U.S.C. 8432a.



PAMELA-JEANNE MORAN  
Director  
Office of Benefit Services

Attachment: [Sample Letter to be Provided by Services to New Members](#)

Please note the information in [square brackets] must be filled in by the member's service as indicated. Instructions to the member's service are set forth in {curly brackets}.

### **SAMPLE LETTER TO BE PROVIDED BY SERVICES TO NEW MEMBERS**

As a member of the [insert Service name], you are eligible to participate in the Thrift Savings Plan (TSP). The TSP is a retirement savings and investment plan for Federal civilian employees and for uniformed service members.

Your TSP contributions are deducted from the pay you earn each pay period and are tax-deferred for purposes of Federal and, in most cases, state income tax. Earnings attributable to your contributions grow tax free until you withdraw them.

Making TSP contributions. You may make an election to begin contributing to your TSP account at any time. To make a contribution election, complete the enclosed Form TSP-U-1, Election Form, and return it to [insert office name] by [insert date]. *{If members may, or must, make electronic contribution elections, revise this sentence accordingly.}*

You must specify a whole percentage of basic pay up to [\*]% that you want to contribute each pay period. If you elect to contribute from basic pay, you may also elect to contribute from incentive pay or special pay (including bonus pay). You may elect to contribute from one to one hundred percent of the incentive pay, special pay, or bonus pay that you receive. If you believe you may become entitled to incentive pay, special pay, or bonus pay, you may elect now to make contributions from them, and this election will take effect when you receive that pay.

Your TSP election remains in effect until you submit another contribution election or you separate from service. To change or stop this election, you must make a new contribution election. For example, if you elect to contribute from bonus pay, your election will cover future installments or any other bonuses to which you become entitled. If this is not your intent, you will need to make another contribution election to terminate or change your contributions from bonus pay.

Allocating contributions. You may invest your contributions in any of the five TSP investment funds. To direct the investment of the contributions that will be made to your account each pay period, you must request a contribution allocation by using the TSP Web site ([www.tsp.gov](http://www.tsp.gov)) or the ThriftLine (1-877-968-3778), or by mailing Form TSP-U-50, Investment Allocation, to the TSP record keeper. If you use the Web site or the ThriftLine,

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\* In 2005, members of the uniformed services may contribute up to 10% of the basic pay they earn each pay period to the TSP. In 2006, the limit will be lifted and members will be subject only to the limits of the Internal Revenue Code.

you will need your TSP Personal Identification Number (PIN). Your contribution allocation will remain in effect until you request a different allocation.

The TSP record keeper will notify you when your account is established; this notification will include your 4-digit TSP PIN. After you receive this notification, you may request a contribution allocation at any time. **Until you request a contribution allocation, your contributions will be invested in the Government Securities Investment (G) Fund.** (Note: If you have a TSP account as a result of a civilian appointment, you will receive a different PIN to access your uniformed services account. You must make separate contribution allocations for each account.)

Changing the investment of your account balance. You may also use the TSP Web site, the ThriftLine, or Form TSP-U-50 to request an interfund transfer. An interfund transfer will change the way money already in your account is invested. You may request an interfund transfer at any time. Please note that an interfund transfer is different from a contribution allocation, which changes only the investment of future contributions to your account. If you want to change the investment of both your account balance and future contributions to your account, you must request both an interfund transfer and a contribution allocation.

Additional information. The TSP Web site contains detailed information about the TSP as well as all TSP products and forms. When you enter your TSP PIN, you can also obtain information about your account. You may want to visit the site before you make a contribution election.

Questions. If you have any questions about the TSP and your participation, contact [insert Service contact and other information, as appropriate.]