Managing Your Account

For Beneficiary Participants

May 2017

Welcome to the Thrift Savings Plan!

The Thrift Savings Plan (TSP) is a retirement benefit that allows employees of the U.S. government and members of the uniformed services to increase their retirement income by participating in a long-term savings and investment plan. It is similar to "401(k)" plans available to many private sector employees.

When a TSP participant dies, his or her account is distributed according to Form TSP-3, *Designation of Beneficiary,* on file with the TSP, or, if no form is on file, according to the statutory order of precedence.

Since you are a spouse beneficiary of a deceased TSP participant's account, and your share of the balance in the TSP account is $200 or more, a **beneficiary participant account** has been established for you in your name. You will receive a "welcome letter" that will contain your unique 13-digit beneficiary participant account number and the identifying information the TSP has on file for you, including your deceased spouse's date of birth.[1] Please verify that all of the information contained in this letter is accurate. Contact the TSP if you need to correct any errors.

[1] Your deceased spouse's date of birth is required in order for us to calculate any minimum distributions required by the Internal Revenue Code (IRC).

Although you will not be able to make contributions to, borrow from, or transfer money into, your beneficiary participant account, the TSP offers a number of other great features:

- TSP administrative expenses are lower than the industry average. These low costs increase your savings potential.
- For tax purposes, there are two ways that the money used to establish your beneficiary participant account can be treated, depending on whether you have a traditional and/or a Roth balance in your account.
- If you have an existing civilian or uniformed services TSP account, you can move the money from your beneficiary participant account into that existing account.
- You have many investment options that provide broad diversification at remarkably low cost:
  - **Lifecycle Funds,** an automated investment tool which combines the TSP stock, bond, and government securities funds in professionally determined proportions based on when you expect to need your money; or
  - **Individual TSP Funds,** which you can combine in any way you choose.
- You can leave your money in the TSP, or you can choose from several withdrawal options.

To get the most out of the TSP, you need to make several important decisions about your account. This booklet will help you get started.

Getting Started

Your Beneficiary Participant Account Number

When your beneficiary participant account is established, you will receive a "welcome letter" that contains your unique 13-digit account number. This account number will be the TSP's primary means of identifying your account and cannot be changed. **Note:** Your beneficiary participant account number is **not** the same as your civilian or uniformed services TSP account number if you have an existing TSP account from your own employment with the federal government or uniformed services, or another beneficiary participant account, if you have one.

Web Password and ThriftLine PIN

Separately, you will receive a web password for accessing your account on the TSP website. When you log into your account for the first time using this password, you will be prompted to change it to one of your choice. You will also receive a Personal Identification Number (PIN), which you will need to access your account on the ThriftLine (1-877-968-3778), the TSP's automated voice response system. You will need your account number **and** either a web password or ThriftLine PIN to access your account through the website or the ThriftLine, respectively.

You can change your web password at any time through the My Account section of the TSP website. You can also change the ThriftLine PIN to one of your choice by accessing your account on the ThriftLine. Your change will take effect immediately.

Web User ID

Although you cannot change your beneficiary participant account number, you can create a customized web user ID (that is easy for you to remember) to log into your account through the TSP website. This user ID will not be valid for any other TSP purpose, but will help if you have difficulty remembering your 13-digit beneficiary participant account number. You can establish a user ID by accessing your account on the TSP website.

Requesting an Account Number, Web Password, or ThriftLine PIN

If you forget your beneficiary participant account number, you can use either the website or ThriftLine to request that it be mailed to you again. If you lose your web password, you can request a new one from the My Account section of the TSP website or receive one immediately by calling the ThriftLine and choosing option 3 to speak to a Participant Service Representative. If you make a written request, you must include your beneficiary participant account number (or Social Security number) and date of birth in your letter.

You should receive your remailed account number, new web password, or new PIN within 3-5 business days, but it may take longer if you are in a remote location or outside of the United States. In the meantime, you may not be able to access your account through the TSP website or through the ThriftLine.

Account Protection

Safeguard your beneficiary participant account number, web password, ThriftLine PIN, and customized web user ID to protect your account. The TSP is not responsible for losses resulting from the unauthorized use of your account number, web password, ThriftLine PIN, or web user ID. When using the TSP website, please ensure that your computer is protected against the latest viruses, Trojans, and keylogger software. Additional information about Internet security is available at tsp.gov/protect and on many other government websites such as: www.consumer.gov/idtheft or www.OnGuardOnline.gov. The TSP is not responsible for losses resulting from the use of a compromised computer.

Your Beneficiary Designation

In the event of your death, the funds in your beneficiary participant account cannot remain in the TSP. The funds will have to be distributed to the beneficiary(ies) you indicate on Form TSP-3, *Designation of Beneficiary*, or, if no form is on file, according to the order of precedence described on page 6. Form TSP-3 is enclosed with your "welcome letter" and is also available on the TSP website. If you wish, you can use this form to designate one or more persons, a trust, or another entity to receive the balance of your beneficiary participant account in the event of your death. **Note:** Death benefit payments from a beneficiary participant account must be distributed as cash payments. They cannot be transferred or rolled over into a traditional IRA, an eligible employer plan, a Roth IRA, or an inherited IRA.

When you make a beneficiary designation for your beneficiary participant account, you will receive a confirmation of your designation in the mail. Alternatively, if your designation is invalid and cannot be processed, you will be notified by the TSP.

If you do not designate beneficiaries for your account, in the event of your death, your account will be distributed in accordance with the following statutory order of precedence:

1. To your spouse
2. If none, to your child or children equally, with the share due any deceased child divided equally among that child's descendants
3. If none, to your parents equally or to your surviving parent
4. If none, to the appointed executor or administrator of your estate
5. If none, to your next of kin who is entitled to your estate under the laws of the state in which you resided at the time of your death

As used here, "child" means either a biological child or a child adopted by the participant. It does not include your stepchild unless you have adopted the child. Nor does it include your biological child if that child has been adopted by someone other than your spouse.

"Parents" does not include stepparents who have not adopted you.

A will or court order is not a substitute for a Designation of Beneficiary form and will not affect the disposition of your TSP account.

Be sure to keep your beneficiary designation up-to-date to reflect changes in your life, such as marriage, births, adoptions, divorce—even a change of address for your beneficiaries. Send a new Form TSP-3 to change a beneficiary designation or to update information.

For more information about the rules associated with death benefit payments made from a beneficiary participant account, read the TSP tax notice *Important Tax Information About Thrift Savings Plan Death Benefit Payments.*

Account Information

Your Beneficiary Participant Account Balance

Your account balance (expressed in both dollars and shares) is available in the My Account section of the TSP website and on the ThriftLine. Your account balance is updated at the end of each business day based on that day's closing share prices and any transactions processed that night.

Your Beneficiary Participant Statements

Your first quarterly statement will be mailed to you. After that, quarterly statements will be available only on the TSP website unless you make a request to continue receiving them in the mail. You can make this request on the TSP website or the ThriftLine.

You will also receive an annual participant statement at the beginning of each calendar year. That statement will provide a summary of your account activity for the previous year as well as other information about your account. You should review and verify all the information on this statement.

Check all your statements to ensure that:

- your personal information (name, address, date of birth, etc.) is correct, and
- transactions (e.g., interfund transfers or withdrawals) have been properly recorded.

Correcting Your Beneficiary Participant Account Information

To correct personal information (e.g., address), notify the TSP directly or make the change in the My Account section of the TSP website.

To update your beneficiary information or to change your beneficiary(ies), complete a new Form TSP-3, *Designation of Beneficiary,* and mail the form directly to the TSP.

Tax Treatment of Traditional and Roth Balances

Participants designate how their contributions will be treated for tax purposes when they sign up to contribute to the TSP. Therefore, your beneficiary participant account may have two balances, depending on the type of contributions your deceased spouse made: traditional (pre-tax) and/or Roth (after-tax).

- ***Traditional (pre-tax) Contributions*** are deposited into the traditional balance of your TSP account and are **not** taxed when you contribute them. The money grows in the account tax-deferred, but you will have to pay federal income taxes on these contributions and their earnings when you withdraw them.
- ***Roth (after-tax) Contributions*** are deposited into the Roth balance of your TSP account and **are** taxed when you contribute them. You will not have to pay federal income taxes on Roth contributions when you withdraw them. The earnings on these contributions are tax-free when withdrawn, as long as 5 years have passed since January 1 of the calendar year in which your deceased spouse first made a Roth TSP contribution.

Special note about tax-exempt money: If your deceased spouse was a member of the uniformed services, he or she may have made contributions from pay that was subject to the combat zone tax exclusion. These contributions are never subject to tax. However, if these contributions were made to the **traditional balance** of the TSP account, the **earnings** associated with them are taxable when withdrawn. Tax-exempt contributions made to a **Roth balance** are treated the same as other Roth contributions for tax reporting purposes. This means that the earnings associated with these contributions are distributed tax-free as long as 5 years have passed since January 1 of the calendar year in which your deceased spouse first made a TSP Roth contribution.

Combining Accounts

If you have an existing TSP account from your own employment with the federal government or the uniformed services, you can move your beneficiary participant account into your existing TSP account.[2] The money that you move will be treated as an employee contribution, but it will not be subject to the Internal Revenue Code (IRC) annual elective deferral limit.

If your beneficiary participant account contains tax-exempt money in a **traditional balance**, that money cannot be transferred into a civilian TSP account. If you decide to combine the accounts, the tax-exempt funds will be paid directly to you. However, tax-exempt contributions in a **Roth balance** can be transferred to the Roth balance of your existing account.

If both accounts contain a Roth balance, the Roth Initiation Date (the date of the first Roth contribution) that will apply to your combined account is the earlier of the two. If only one of the accounts has a Roth balance, the Roth Initiation Date associated with that account becomes the date for your combined account.

If you would like to combine accounts, submit Form TSP-90, *Withdrawal Request for Beneficiary Participants*. Call the ThriftLine (1-877-968-3778) and speak to a Participant Service Representative for specific instructions on how to use the form for this purpose.

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[2] You cannot move an existing TSP account into your beneficiary participant account. If you have more than one beneficiary participant account, you cannot combine them.

Investing in the TSP

When your beneficiary participant account is first established, its balance is no longer invested according to any previously selected investment allocation. Instead, the entire balance is invested in the Lifecycle (L) Fund targeted most closely to the year you turn 62 or the L Income Fund if you are age 62 or older. Your money will remain in this fund unless you make a different investment choice.

The TSP offers you two approaches to investing your account:

- **Lifecycle Funds** (L Funds)
- **Individual TSP Funds** (G, F, C, S, and I Funds)

Lifecycle (L) Funds

The L Funds offer an easy option for those participants who do not have the time, experience, or interest to manage their TSP investments.

The L Funds are "Lifecycle" funds that are invested according to a professionally determined mix of stocks, bonds, and securities based on various time horizons. (A time horizon is the date when you expect to withdraw your money.) L Funds with more distant time horizons (for example, L 2040 and L 2050) are focused on growth, and therefore are invested more aggressively, with higher percentages in foreign and domestic stocks and lower percentages in government securities. As each L Fund matures, its mix gradually shifts to more conservative investments with a higher percentage of government securities and lower percentages of stocks. This more conservative mix is designed to preserve assets while still providing protection against inflation. (Detailed information about each L Fund is available on the TSP website.)

Each L Fund is automatically rebalanced, generally each business day, to restore the fund to its intended investment mix. Each quarter, the fund's asset allocation is adjusted to slightly more conservative investments. When an L Fund reaches its time horizon, it will roll into the L Income Fund, and a new fund will be added with a more distant time horizon.

The TSP offers five L Funds based on time horizon:

- **L 2050**
- **L 2040**
- **L 2030**
- **L 2020**
- **L Income**

The most optimal L Fund is the one that most closely matches your time horizon, that is, the year you expect to start withdrawing money from your TSP account. For example, if your target date is 2045 or later, the L 2050 Fund is designed to match that time horizon.

If you are currently receiving income from your TSP account or plan to start withdrawing in the very near future, consider the L Income Fund. It is designed to focus primarily on preserving the assets in your account.

If your entire account is in one of the L Funds, you will not have to worry about rebalancing it based on your time horizon.

Detailed information about each L Fund is available on the TSP website.

Individual TSP Funds

The TSP has five individual investment funds:

Government Securities Investment (G) Fund—invested in short-term, U.S. Treasury securities that are specially issued to the TSP (government securities with no risk of loss)

Fixed Income Index Investment (F) Fund—invested in a bond index fund that tracks the Bloomberg Barclays U.S. Aggregate Bond Index (U.S. investment-grade corporate, government, and mortgage-backed securities)

Common Stock Index Investment (C) Fund—invested in a stock index fund that tracks the Standard & Poor's 500 (S&P 500) Stock Index (primarily large U.S. companies)

Small Capitalization Stock Index Investment (S) Fund—invested in a stock index fund that tracks the Dow Jones U.S. Completion Total Stock Market Index (medium to small U.S. companies)

International Stock Index Investment (I) Fund—invested in a stock index fund that tracks the MSCI EAFE (Europe, Australasia, Far East) Stock Index (primarily large companies in more than 20 developed countries)

Visit the TSP website for detailed fund descriptions and information on fund performance.

If you choose your own investment mix from the G, F, C, S, and I Funds, remember that your investment allocation is one of the most important factors affecting the growth of your beneficiary participant account. If you prefer this "hands-on" approach, keep the following points in mind:

- ***Consider both risk and return.*** Over a long period of time, the F Fund (bonds) and the C, S, and I Funds (stocks) have higher potential returns than the G Fund (government securities). But stocks and bonds also carry the risk of investment losses, which the G Fund does not.

- ***You need to be comfortable with the amount of risk you expect to take.*** Your investment comfort zone should allow you to use a "buy and hold" strategy so that you are not chasing market returns during upswings, or abandoning your investment strategy during downswings.

- ***You can reduce your overall risk by diversifying your account.*** The five individual TSP funds offer a broad range of investment options, including government securities, bonds, and domestic and foreign stocks. Generally, it's best not to put "all of your eggs in one basket."

- ***The amount of risk you can sustain depends upon your investment time horizon.*** The more time you have before you need to withdraw your account, the more risk you can take. (This is because early losses can be offset by later gains.)

- ***Periodically review your investment choices.*** Check the distribution of your account balance among the funds to make sure that the mix you chose is still appropriate for your situation. If not, rebalance your account to get the allocation you want.

Deciding on Your Approach

The TSP investment options are designed for you to choose *either* the L Fund that is appropriate for your time horizon ***or*** a combination of the individual TSP funds that will support your personal investment strategy. However, you are permitted to invest in any fund or combination of funds. Just keep in mind that the L Funds are made up of the five individual TSP funds (G, F, C, S, and I). If you invest in an L Fund as well as in the individual funds, you will duplicate some of your investments, and your allocation may not be what you wanted.

Implementing Your Investment Choice

Once you have decided on your investment approach—professionally designed (L Funds) or self-directed (individual TSP funds)—you can make an ***interfund transfer (IFT)***. An IFT is a transaction that allows you to redistribute all or part of your beneficiary participant account balance among the different TSP funds. For each calendar month, your **first two** IFTs can redistribute money in your account among any or all of the TSP funds. After that, for the remainder of the month, your IFTs can **only** move money into the Government Securities Investment (G) Fund (in which case, you will increase the percentage of your account held in the G Fund by reducing the percentage held in one or more of the other TSP funds). The transfer is counted in the calendar month we process it, not in the month you submit it. **Note:** If you have a traditional and a Roth balance, any IFTs you make will apply to both balances. You cannot make a separate IFT for each balance.

You can request an IFT in the My Account section of the TSP website, using your beneficiary participant account number (or customized web user ID) and web password, or you can request an IFT through the ThriftLine, using your beneficiary participant account number and PIN (see “Getting Started” on page 3). You can also call the TSP, and a representative will help you make the request.

Withdrawing Your Beneficiary Participant Account

Types of Withdrawals

If you decide to withdraw your money, you have a number of options:

- ***Make a partial withdrawal.*** You may make a one-time, single-payment, partial withdrawal, and leave the rest of your account balance in the TSP until you decide to make a full withdrawal.
- ***Make a full withdrawal.*** You have three ways to start receiving income from your entire beneficiary participant account balance:
  - TSP monthly payments
  - An annuity (purchased for you from the TSP's annuity vendor at a minimum of $3,500)[3]
  - A single payment

  You can combine any of these three full withdrawal options.

If you have both a traditional (non-Roth) and a Roth balance in your TSP account, your withdrawal will be paid proportionally from both balances. Similarly, if you have tax-exempt money in your traditional balance, your

[3] If you have both a traditional (non-Roth) and a Roth balance in your TSP account, the $3,500 minimum amount will apply to both balances separately. You cannot select just one balance for your annuity purchase, and you cannot select more than one type of annuity.

withdrawal will be disbursed proportionally from taxable and nontaxable amounts.

You can also have the TSP transfer part or all of certain types of withdrawals to a traditional IRA, an eligible employer plan, or a Roth IRA. For more details, see the instructions on Form TSP-90, *Withdrawal Request for Beneficiary Participants,* available on the TSP website under Forms & Publications.

When considering your withdrawal options, use the calculators on the TSP website to estimate the amount of annuity payments or TSP monthly payments you might receive. You should also read the booklet *Your TSP Account: A Guide for Beneficiary Participants* and the TSP tax notice *Important Tax Information About Payments From Your TSP Account* for detailed information about these choices.

Required Minimum Distributions (RMDs)

Your beneficiary participant account is subject to the Internal Revenue Code's (IRC) Required Minimum Distribution (RMD) rules. These rules require you to receive a certain portion of your account each year based on your life expectancy. The RMD rules apply to both traditional (non-Roth) and Roth balances in your account.

The date on which you must begin receiving RMDs depends on whether the deceased participant died **before** or **on/after** his or her "required beginning date." The required beginning date is defined as April 1 of the year following the year a participant reaches age 70½, or separates from government service, whichever is later.

For example, if a separated participant was born on June 1, 1945, he or she would turn age 70½ on December 1, 2015, the required beginning date would be April 1, 2016.

In the year in which the RMD is due, the TSP will calculate and send it to you. You do not have to notify us. However, you must ensure that the birth date information we have for your deceased spouse is correct.

For more information about the IRC required minimum distribution rules, read the TSP tax notice *Tax Information About TSP Withdrawals and Required Minimum Distributions for Beneficiary Participants.*

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