In-Service Withdrawals

Financial Hardship ◆ Age-Based "59½"

Table of Contents

Before You Make an In-Service Withdrawal

An in-service withdrawal is a withdrawal that you make from your Thrift Savings Plan (TSP) account while you are still actively employed in federal civilian service (CSRS or FERS) or the uniformed services.[1] There are two types of in-service withdrawals: financial hardship withdrawals and age-based "59½" withdrawals.

Note: You cannot make an in-service withdrawal from a beneficiary participant account. (A beneficiary participant account is a TSP account that is inherited by the spouse of a deceased TSP participant.)

Before making an in-service withdrawal, keep in mind that the TSP is a retirement savings and investment plan designed to help you save for your future. If you are covered by the Federal Employees' Retirement System (FERS) or are a member of the uniformed services covered by the Blended Retirement System (BRS),[2] the TSP is a critical component of your federal retirement benefits and may represent a significant part of your retirement income. Before you decide to withdraw money from your account while you are still employed, carefully consider the impact of your decision on your future well-being.

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1 CSRS refers to the Civil Service Retirement System, including CSRS Offset, the Foreign Service Retirement and Disability System, and other equivalent government retirement plans. These federal civilian employees were hired before January 1, 1984.

FERS refers to the Federal Employees Retirement System, the Foreign Service Pension System, and other equivalent government retirement plans. These federal civilian employees were hired on or after January 1, 1984.

For TSP purposes, members of the uniformed services include members of the Army, Navy, Air Force, Marine Corps, Coast Guard, Public Health Service, and the National Oceanic and Atmospheric Administration, as well as members of the Ready Reserve, including the National Guard.

If you are both a federal civilian employee and a member of the uniformed services, you may have two separate accounts. The information in this booklet applies to each account separately.

2 The Blended Retirement System is for members of the uniformed services who began service on or after January 1, 2018, and others who opted into the system.

Consequences of Making an In-Service Withdrawal

An in-service withdrawal affects your ability to accumulate savings and, in some cases, to defer taxes. This is because of the following:

- When you make an in-service withdrawal, you permanently reduce your TSP account by the amount you withdraw, and you also give up any future earnings on that amount. Once we process your in-service withdrawal, you cannot return or repay the money to your account, and you cannot convert your withdrawal to a loan.
- **You must pay federal and, in some cases, state income taxes on the taxable portion of your withdrawal.** If you make a financial hardship withdrawal before age 59½, you may also have to pay a 10% early withdrawal penalty tax. **Note:** You do not have to pay federal taxes on any tax-exempt or Roth contributions that are included in your withdrawal. But you do have to pay federal taxes on any *earnings* on these contributions if you have not met the conditions necessary for a qualified distribution.[3]

You should think about these consequences before making an in-service withdrawal. If you are in pay status and are eligible for a TSP loan, you may want to consider that option because it has certain advantages over a withdrawal. When you take a loan, it is not taxable income. Also, you repay your own TSP account for the amount of the loan (plus interest) and therefore continue to accrue earnings on the money you borrowed after you pay it back.

For more information about TSP loans, read the booklet *Loans*, which is available at tsp.gov or by calling the ThriftLine.

3 Roth earnings become qualified (i.e., paid tax-free) when the following **two** conditions have been met: (1) 5 years have passed since January 1 of the calendar year in which you made your first Roth contribution, **and** (2) you are age 59½ or older, permanently disabled, or deceased. **Note:** We cannot certify to the IRS that you meet the Internal Revenue Code's definition of disability when your taxes are reported. Therefore, you must provide the justification to the IRS when you file your taxes.

The chart below compares how taking a TSP loan or making an in-service withdrawal would affect your account.

	LOAN	IN-SERVICE WITHDRAWAL
Cost to You	$50 loan fee	Retirement savings permanently reduced by amount of withdrawal No future earnings on amount withdrawn
Effect on Taxes	None (unless loan is not paid back and a taxable distribution is declared*)	Immediate tax liability (unless age-based withdrawal is transferred to an IRA or eligible employer plan) Possible additional 10% early withdrawal penalty tax
Effect on Earnings	No earnings on amount of loan until funds are repaid	No earnings on amount withdrawn

* When a taxable distribution is declared, the Internal Revenue Service (IRS) considers the unpaid balance (including any accrued interest) of the loan to be taxable income.

Financial Hardship In-Service Withdrawals

A financial hardship withdrawal is a withdrawal you make while still employed because of genuine financial need. You must pay income tax on the taxable portion of your financial hardship withdrawal, and you may also have to pay a 10% early withdrawal penalty tax.[4]

Acceptable Reasons for Making a Financial Hardship Withdrawal

This section of the booklet explains the acceptable reasons for making a financial hardship withdrawal. These include negative cash flow and extraordinary expenses. Our online tool for requesting a hardship withdrawal provides a worksheet that helps you determine the amount of your hardship.

Negative Cash Flow

You have negative cash flow if your net income is less than your expenses on a recurring basis. If you believe you have negative monthly cash flow, use the worksheet you'll find in our online tool for hardship withdrawals to determine how much it is. To get an accurate answer using the worksheet, you'll need to have the following information:

Gross monthly income. Include your monthly pay before taxes and other deductions and any other monthly income, such as child support. Include your spouse's income as well. The online worksheet needs this total and the number of people in your family to determine a reasonable level of monthly expenses.

Net monthly income. Start with your gross monthly income and subtract the monthly federal paycheck deductions, such as tax withholding, Social Security, federal retirement deductions, etc.

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4 For more information, see the TSP tax notice *Important Tax Information About Payments From Your TSP Account*, available at tsp.gov.

Total fixed monthly expenses. Include your rent or mortgage; real estate tax; your homeowner's or renter's insurance; monthly household utilities; necessary household help due to illness or injury; and any expenses you pay for alimony, maintenance, or child support. You should also include any installment loan payments other than those related to a TSP loan. Do not include credit cards or charge accounts or any interest charges on them.

Extraordinary Expenses

Extraordinary expenses that are not part of your regular monthly cash flow can also contribute to your financial hardship. You may only include expenses that you have not yet paid and that will not be reimbursed to you. The following are extraordinary expenses you can include in your financial hardship:

Eligible medical expenses including the following:

- Any medical expense that you have not yet paid that would be eligible for deduction on your federal income tax return. The expense must have been incurred as the result of a medical condition, illness, or injury to you, your spouse, or individuals you can claim as dependents (individuals you can claim as dependents for federal income tax purposes at the time you request your financial hardship withdrawal).
- Expenses that you have not yet paid for household improvements needed because of a medical condition, illness, or injury to you, your spouse, or your dependents. Examples include the installation of structural improvements such as wheelchair ramps, railing and support bars, modified doorways and stairways, or elevators for people with heart conditions.

Eligible personal casualty losses including damage, destruction, or loss of property resulting from an identifiable event that is sudden, unexpected, or unusual. Such losses can be the result of earthquakes, hurricanes, tornados, floods, storms, fires, or similar causes. They can also be the result of property theft or automobile accidents that are not caused by your willful negligence or willfully destructive act.

Generally, eligible costs of repairs and replacement of personal casualty losses are those that are eligible for deduction on your federal income tax return (without taking into consideration the IRS limits on income, the fair market value of the property, or the number of events causing the casualty loss).

However, eligible personal casualty losses **do not** include

- loss of deposits when a bank or other financial institution becomes insolvent or bankrupt;
- losses to a business or income-producing property (even though such losses are deductible for federal income tax purposes); or
- damage from normal wear and tear, such as damage or destruction caused by termites or moths or progressive deterioration of your property.

Eligible legal expenses, limited to unpaid legal fees and court costs related to a separation or divorce from your spouse.

Legal expenses that **cannot** be used to justify a financial hardship include the following:

- Court-ordered payments to a spouse or former spouse and child support payments. However, if you are making a financial hardship withdrawal because of negative cash flow, such payments should be included in your calculation of expenses.
- Costs of obtaining prepaid legal services or other coverage for legal services.

TSP Rules for Making a Financial Hardship Withdrawal

The following rules apply to making a financial hardship withdrawal:

- You cannot withdraw less than $1,000.
- The money may only be taken from your own contributions (including money you may have transferred into the TSP from IRAs or eligible employer plans) and the earnings on those contributions.
- If you have both traditional money and Roth money available for a hardship withdrawal as described above, you may specify that your

withdrawal be taken only from your traditional balance or only from your Roth balance. If you don't specify, your withdrawal will be taken pro rata, which means it will have the same percentages of Roth and traditional as are in the eligible portion of your account balance. (See the TSP booklet *Summary of the Thrift Savings Plan* for more information about traditional money and Roth money.)

- Your withdrawal must be used **to cover a genuine** financial hardship (based on the reasons previously described) while you are actively employed by the federal government or the uniformed services.
- Your financial hardship withdrawal is limited to the amount of your financial need. When calculating the amount of your financial hardship, you cannot use any expenses that have already been paid or that are reimbursable to you from insurance or other sources.
- You cannot make another financial hardship withdrawal from your account for a period of 6 months from the time your payment is processed.
- You can make a financial hardship withdrawal only from an account that's associated with your active employment. So, for example, if you have a uniformed services account but have left the uniformed services and are now a federal civilian employee, you can only make a hardship withdrawal from your civilian TSP account. If both of your accounts are associated with your active employment (e.g., you're a federal civilian employee and a reservist), the rules explained here apply to each account separately.

Note: Contributions to your TSP account will continue unless you stop them. This was a rule change in 2019.

How to Apply for a Financial Hardship Withdrawal

Once you've read this booklet and the TSP tax notice *Important Tax Information About Payments From Your TSP Account* and are ready to request a withdrawal, log into My Account at tsp.gov. There you'll have access to an online tool to start your withdrawal.

When you've completed your request, you'll be asked to submit it online if possible. If your signature or your spouse's signature is required, you won't be able to complete the process entirely online. You'll be given a summary of your request, which you—and your spouse if necessary—will need to sign, have notarized, and then mail or fax to us. When we receive these properly completed pages, we'll be able to complete the transaction you began online.

When you request your financial hardship withdrawal, you will have to certify, under penalty of perjury, that you have a genuine financial hardship. Although you don't have to submit income information or documentation of expenditures with your financial hardship withdrawal request, you should retain such information and documentation for future reference.

Age-Based In-Service "59½" Withdrawals

If you are 59½ or older, you can make withdrawals from your TSP account while you are still employed. This is called an "age-based withdrawal" or "59½ withdrawal." You must pay income tax on the taxable portion of your withdrawal unless you transfer or roll it over to an IRA or other eligible employer plan.

TSP Rules for Making an Age-Based Withdrawal

The following rules apply to making an age-based withdrawal:

- You must be at least age 59½ to make an age-based withdrawal.

> We determine your age based on the date of birth reported by your employing agency or service. If that date is incorrect, you must ask your agency or service to change it.

- You can make up to four age-based in-service withdrawals per calendar year.
- You can only withdraw funds in which you are vested (i.e., funds you are entitled to keep, based on your years of service). Being vested means that you're entitled to keep your Agency/Service Automatic (1%) Contributions (and their earnings) after you work in the federal government or uniformed services for a certain number of years.[5] You're always vested in the rest of your account.
- You have a number of withdrawal options, depending on whether you have both traditional and Roth money in your account or just one type.[5]
  - **If you only have one type (traditional or Roth), you can**
    - withdraw a specific dollar amount from your vested account balance as long as it's at least $1,000, or
    - withdraw your entire vested account balance.

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5 See the TSP booklet *Summary of the Thrift Savings Plan* for more information about vesting and about traditional and Roth money.

- **If you have both traditional and Roth, you have those same two options, but you can also**
  - withdraw a specific dollar amount ($1,000 minimum) and request that it come only from your traditional balance or only from your Roth balance,
  - withdraw your entire vested traditional balance, or
  - withdraw your entire vested Roth balance.

Note that if you have both traditional and Roth money and you don't request traditional only or Roth only, your withdrawal will be taken pro rata from both. That means that your withdrawal will have the same proportion of traditional and Roth money as you have in your total vested account balance. Example: You have $100,000 in your vested account balance, including $80,000 traditional and $20,000 Roth. If you take a $10,000 withdrawal, $8,000 will come from your traditional balance and $2,000 will come from Roth.

- You can make an age-based withdrawal only from an account that's associated with your active employment. So, for example, if you have a uniformed services account but have left the uniformed services and are now a federal civilian employee, you can only make an age-based withdrawal from your civilian TSP account. If both of your accounts are associated with your active employment (e.g., you're a federal civilian employee and a reservist), the rules explained here apply to each account separately.
- You may be able to transfer or roll over all or part of your age-based withdrawal to a traditional IRA, a Roth IRA, or an eligible employer plan.[6] However, your eligibility to transfer or roll over, as well as how taxes are applied, depends on the type of money contained in your withdrawal (traditional or Roth) and the type of account that will receive your transfer or rollover. Depending on the type of plan you

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6 A **traditional IRA** is an individual retirement account described in IRC § 408(a) or an individual retirement annuity described in IRC § 408(b). The traditional IRA category does not include an inherited IRA, a Roth IRA, a SIMPLE IRA, or a Coverdell Education Savings Account.

A **Roth IRA** is an individual retirement account described in IRC § 408A.

An **eligible employer plan** is a plan qualified under IRC § 401(a) (including a § 401(k) plan, profit-sharing plan, defined benefit plan, stock bonus plan, and money purchase plan); an IRC § 403(a) annuity plan; an IRC § 403(b) tax-sheltered annuity; or an IRC § 457(b) plan maintained by a governmental employer.

move your money into, the funds you transfer or roll over may become subject to plan rules different from those that govern the TSP.

For more detailed information about transferring or rolling over your age-based withdrawal, see the TSP tax notice *Important Tax Information About Payments From Your TSP Account,* which is available at tsp.gov or by calling the ThriftLine.

How to Apply for an Age-Based Withdrawal

Once you've read this booklet and the TSP tax notice *Important Tax Information About Payments From Your TSP Account* and are ready to request a withdrawal, log into My Account at tsp.gov. There you'll have access to an online tool to start your withdrawal.

When you've completed your request, you'll be asked to submit it online if possible. If your signature or your spouse's signature is required or you're transferring any part of your withdrawal, you won't be able to complete the process entirely online. You'll be given a summary of your request, which you—and your spouse or financial institution if necessary—will need to sign, have notarized, and then mail or fax to us. When we receive these properly completed pages, we'll be able to complete the transaction you began online.

How In-Service Withdrawals Are Disbursed

Your withdrawal will be made pro rata from among the TSP funds in your chosen balance (traditional, Roth, or both). For example, if you choose to withdraw only from your traditional balance and your traditional balance consists of 50% C Fund, 25% F Fund, and 25% G Fund, your withdrawal will also be 50% C Fund, 25% F Fund, and 25% G Fund. In this case, the TSP funds that make up your Roth balance are not considered in deciding which of your funds to withdraw from.

If you have only one type (traditional or Roth) or you've chosen to withdraw from both types pro rata, your withdrawal will have the same percentages of TSP funds as are in your total available account balance.

Any amount distributed from a Roth balance will contain a proportional amount of Roth contributions and earnings. You cannot choose to receive only the contributions. This is only significant if your account includes nonqualified earnings, in which case you would have to pay taxes on a portion of your withdrawal. See more about this on page 2.

If you are a uniformed services member with tax-exempt contributions in your traditional balance, your withdrawal will contain a proportional amount of tax-exempt contributions as well. You cannot choose to receive only tax-exempt contributions. You will not have to pay taxes on the portion of your withdrawal made up of tax-exempt *contributions*. The *earnings* on tax-exempt contributions in your traditional balance, however, are not tax-exempt.

We disburse withdrawals each business day. You can log into My Account on tsp.gov or call the ThriftLine to find out the status of your withdrawal, including whether payment has been made. We will also notify you when the funds have been disbursed. Once your payment has been disbursed, you cannot return it. (See 5 C.F.R. § 1650.17(b).)

At your request, we will deposit your withdrawal directly into your checking or savings account via electronic funds transfer (EFT). Otherwise, we will mail your in-service withdrawal check—and any correspondence related to your withdrawal—to the address in your TSP account record. If you are transferring your age-based withdrawal to your IRA or eligible employer plan, we will mail the check to your IRA or plan.

You should expect that it will take up to 10 days from the time we receive your properly completed form until the time we send your check.

We can only process one request at a time from the same account. This includes both loan and withdrawal requests. Therefore, we will not accept your in-service withdrawal request if it is received while you already have a pending application for another type of in-service withdrawal or for a TSP loan.

Be sure to keep the address in your TSP record up to date, even if you're receiving your withdrawal through direct deposit. While you're still employed, only your agency or service can update your address.

Additional Points to Note

It is important to understand how your in-service withdrawal will be affected by taxes, account holds, and spouses' rights rules.

Taxes

You are responsible for paying taxes on the taxable portion of an in-service withdrawal. We report all TSP distributions to the Internal Revenue Service (IRS)—and to you—on IRS Form 1099-R, *Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.* We also withhold for federal income tax. However, you may waive withholding when you make a financial hardship withdrawal.

Different tax and withholding rules apply to financial hardship withdrawals and age-based withdrawals. For detailed information about relevant tax and withholding rules, read the TSP tax notice *Important Tax Information About Payments From Your TSP Account,* which is available at tsp.gov or by calling the ThriftLine.

Account Holds

Some situations may cause a hold to be placed on your account. Examples include the following:

- A court order that awards all or part of a TSP account to a current or former spouse (including a separated spouse)
- A legal process that enforces obligations to pay child support or alimony, or to satisfy judgments for child abuse
- A federal tax levy
- A criminal restitution order pursuant to the Mandatory Victims Restitution Act (MVRA)
- A hold we placed on your account because of suspected fraud
- A hold you requested to protect your account

We will not accept your withdrawal request until the matter that caused the hold is settled.

For more information about court orders, obtain the TSP booklet *Court Orders and Powers of Attorney* and the TSP tax notice *Tax Treatment of Thrift Savings Plan Payments Made Under Qualifying Orders*.

Spouses' Rights

Your spouse has certain rights with regard to your in-service withdrawal, even if you are separated from your spouse. Therefore, on your request for an in-service withdrawal, you must indicate whether or not you are married. If you are married, the following rules apply:

- **If you are a FERS participant or a member of the uniformed services,** the law requires your spouse's consent to your in-service withdrawal. If your spouse's whereabouts are unknown, or if exceptional circumstances make it impossible to obtain your spouse's signature, you must apply for an exception by completing Form TSP-16, *Exception to Spousal Requirements* (TSP-U-16 for members of the uniformed services).
- **If you are a CSRS participant,** we must notify your spouse before your in-service withdrawal can be completed. If you do not know the whereabouts of your spouse, you must apply for an exception on Form TSP-16, *Exception to Spousal Requirements*.

The criteria for supporting a claim of "exceptional circumstances" or "whereabouts unknown" are strict. The fact that there is a separation agreement, a prenuptial agreement, a protective order, or a divorce petition does not in itself support a claim of exceptional circumstances.

If you need to submit an *Exception to Spousal Requirements form*, you can obtain one at tsp.gov or by calling the ThriftLine. You must submit the form to us along with the documentation requested in it.

> We may pursue and prosecute any participant or other person who attempts to deprive a spouse of his or her rights by forging the spouse's signature, lying about the participant's marital status, or engaging in any similar acts.

Summary of In-Service Withdrawal Rules

	FINANCIAL HARDSHIP	AGE-BASED "59½"
Money you can withdraw	Your employee contributions and their earnings	Your vested account balance
Amount you can withdraw	$1,000 or more	$1,000 or more, or your entire vested balance
When you can withdraw	When you are currently in federal civilian or uniformed service and have a genuine financial hardship to which you can attest under penalty of perjury	At age 59½ or older
Acceptable reasons for withdrawal	Negative cash flow Eligible unpaid medical expenses Eligible unpaid personal casualty losses Eligible legal expenses for separation or divorce	No specific reason needed
Tax withholding	10% for federal tax on the taxable portion (can be waived or increased)	Mandatory 20% for federal tax on the taxable portion (can be increased) No withholding on taxable amounts transferred
Consequences	Taxable amount withdrawn becomes subject to tax for the year of the withdrawal Permanent reduction of retirement savings and future earnings 10% federal penalty tax if you are under age 59½ (exceptions apply)	Taxable amount withdrawn becomes subject to tax for the year of the withdrawal (unless transferred to an IRA or an eligible employer plan*) Permanent reduction of retirement savings and future earnings
Spouses' rights	For FERS and uniformed service participants: require spouse's notarized consent For CSRS participants: require TSP to notify spouse	
Frequency allowed	No limit, but a 6-month waiting period between withdrawals	Up to 4 per calendar year per active civilian or uniformed services account; no more than one in a 30-day period.

* The money you transfer to a traditional IRA or eligible employer plan will not be taxed until you withdraw it from that IRA or plan. However, any money you transfer from your traditional balance to a Roth IRA will be taxed for the year it is distributed from the TSP.

Contact Information

TSP Website:	tsp.gov
ThriftLine:	1-877-968-3778 (For calls outside the U.S., Canada, and most U.S. territories, use 404-233-4400.)
TSP Mailing Address:	Thrift Savings Plan P.O. Box 385021 Birmingham, AL 35238
Text Telephone (TDD):	1-877-847-4385
TSP Fax:	1-866-817-5023

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