



## Retirement planning and TSP

**R**egardless of whether you are a participant in the Civil Service Retirement System (CSRS) or Federal Employees Retirement System (FERS), you have the ability to enhance your retirement benefit by participating in the Thrift Savings Plan (TSP). A small amount of investment now will pay big dividends when you finally reach retirement age.

I have found that there is a lot of misunderstanding regarding TSP, and that is why the entire TSP handbook was included in the *NALC Retirement Manual*. Most employees think that they cannot touch their TSP funds until they are

age 59½. The fact is that you *can* obtain your TSP funds prior to that age if you are leaving federal service. If you retire from federal service after you reach age 55 there is no penalty on the TSP withdrawal, even if you are under age 59 and a half. If you separate from federal service *before* age 55, you may be subject to an early withdrawal penalty.

I include the answers to some of the more relevant questions concerning the TSP for your information. Should you need information on other TSP-related issues, please consult the *NALC Retirement Manual*, which should be in every branch library, or visit the website at [www.tsp.gov](http://www.tsp.gov).

**Q:** *Is there a penalty tax if you are under age 59½ ?*

**A:** If you receive a TSP distribution before age 59½ in addition to the regular income tax, you may have to pay an early withdrawal penalty tax equal to 10 percent of any portion of the distribution not transferred or rolled over. The additional 10 percent tax generally does not apply to payments that are:

- paid after you separate from service during or after the year you reach age 55;
- made because you are totally and permanently disabled;
- paid as substantially equal payments over your life expectancy;
- annuity payments;
- ordered by a domestic relations court;
- made because of death; or
- made in a year you have deductible medical expenses that exceed 7.5 percent of your adjusted gross income.

**Q:** *What is the required minimum distribution if you are over 70½ ?*

**A:** If you are over age 70½ and are separated from federal service, you must either withdraw your entire TSP account or begin receiving monthly payments by April 1 of the year following the year you turned 70½. This April 1 date is also the deadline for the TSP to start to distribute the IRS "required minimum distribution," a minimum amount of the money in your account which you must receive each year. For more information, see the TSP tax notice, "Important Tax Information About Your TSP Withdrawal and Required Minimum Distributions."

**Q:** *How can I make the maximum employee contribution and still receive the maximum agency matching contribution each year?*

**A:** Only FERS employee contributions are matched. To receive the maximum agency matching contribution, you must contribute

at least five percent of the basic pay you earn *each pay period* during the year. (The first five percent of your basic pay each pay period is matched dollar for dollar on the first three percent and 50 cents on the dollar for the next two percent.) To determine a dollar amount you can contribute each pay period so that your contributions are spaced out over all the (remaining) pay dates in the year, you may use the calculator on the TSP website ([www.tsp.gov](http://www.tsp.gov)).

**Q:** *How do I make catch-up contributions?*

**A:** Catch-up contributions can be made only through payroll deduction. This is because they are made before federal, and in most cases state, taxes are deducted. To make catch-up contributions, you must submit Form TSP-1-C, "Catch-Up Contribution Election" (or TSP-U-1-C, for members of the uniformed services), to your payroll or personnel office. Indicate the dollar amount you would like to contribute each pay period. You can obtain these forms from your agency or through the TSP website or you may submit the electronic version of the "Catch-Up Contribution Election" form. Check with your agency or service to see if it uses the electronic version.

**Q:** *What is the annual limit on catch-up contributions?*

**A:** Participants age 50 or older who elect to make catch-up contributions can contribute up to \$17,000 in 2005 (\$13,000 in regular employee contributions plus \$4,000 in catch-up contributions). The catch-up contribution limit will increase to \$5,000 in 2006. Your agency does not match your catch-up contributions. ☒

**Thrift Savings Plan open seasons have been eliminated as of July 1. This new law does not affect the waiting period new employees under FERS must serve before becoming eligible for agency contributions.**

**TSP toll-free number: 1-877-968-3778**