Director of Retired Members

Thrift Savings Plan withdrawal methods

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The Thrift Savings Plan (TSP) makes a great retirement account for active employees and retirees alike. Active employees benefit from low fees and expenses. Although retirees continue to receive those same benefits, they also get to take advantage of the flexible withdrawal options. This column will review the withdrawal options and some of the considerations one may make.

The TSP has a publication titled *Distributions*, which is intended for all separated and beneficiary participants. It has a great introduction about considering the impacts of making withdrawals, planning your income during retirement, and the potential impact of even modest inflation over the years. I recommend that all retiring employees grab a copy of this publication, found at tsp.gov.

Active employees can make in-service withdrawals based on financial hardship or after age 59½. To qualify for a financial hardship, you would need at least one of the following: recurring negative monthly cash flow, medical expenses, personal casualty losses, legal expenses, and losses due to a major disaster declared by the Federal Emergency Management Agency. Age-based withdrawals can only be vested funds, must be at least $1,000, and limited to four withdrawals per calendar year. Remember that the TSP is your retirement vehicle, so in-service withdrawals should generally be a last resort.

For retirees or separated participants, there are three ways to make a withdrawal: installments, partial or total distributions, and annuity purchases. Each basic method has its own options and considerations.

Partial or total distributions are straightforward. They are a single transaction or withdrawal. Partial distributions must be at least $1,000. You can make partial distributions even while you are receiving installments, but of course a total distribution would stop any installments.

Installments are payments received monthly, quarterly or annually and will continue until you stop them or until you run out of money, though the minimum duration is one year. Installments can be either a fixed dollar amount greater than $25 that you specify, or payments based on IRS life expectancy tables. With life expectancy installments, the payment amount depends on your age and account balance at the time of the first installment. Then, each January, the installments will be recalculated on the same factors. This means that the payments will change from year to year depending on your current balance (which is influenced by how you have the money invested, how the market performs, and by the amount and frequency of your installments).

It's easy to make changes to installments. You can call or go online any time to change the dollar amount, change the frequency of payment, change the source of your installments (traditional, Roth or both), change from fixed dollar to life expectancy or vice versa.

A third option is to purchase an annuity through TSP's outside vendor. You can use any part of your account to do so, meaning you could use 50 percent of your account to purchase an annuity, and use the rest with fixed-dollar installments, for example. When purchasing an annuity, you are essentially giving up control of your money in exchange for a particular monthly payment for the rest of your life (or you and your joint annuitant if you purchase a joint annuity). Unlike partial distributions and installments, an annuity cannot be canceled or modified.

For those with both a traditional and Roth account, you can specify the source of your distributions. This is a newer feature and can provide more flexibility when planning and managing your tax liability. You can specify that your distribution comes from only your traditional account, only from your Roth account, or both.

Taxes are an important consideration when planning how to use your funds and they depend on the source (traditional or Roth) and method used. Those interested in learning more should start by consulting the TSP booklet *Tax Rules about TSP Payments* or check out IRS Publication 721, Tax Guide to *U.S. Civil Service Retirement Benefits*.

Once you retire, USPS will provide TSP with your separation date. This is vital so that you can proceed with any post-separation withdrawals. It can take up to 30 days for TSP to receive this notification. To initiate a withdrawal, log into My Account at tsp.gov or call the ThriftLine (877-968-3778).

Once you reach a certain age, you may need to take required minimum distributions (RMD). The particular age depends on your year of birth, but it is age 73 or higher if born after 1950. RMDs are calculated based on your age, traditional balance at the end of the previous year, and the IRS Uniform Lifetime Table.

The TSP remains a great choice with its low fees and flexible withdrawal options. Retirees who consider moving their money into the control of a financial planner should read my October 2023 column, "Financial planners."