

Important Information Regarding Transfers From the Thrift Savings Plan to Eligible Retirement Plans

The purpose of this Fact Sheet is to provide information about moving money from the Thrift Savings Plan (TSP) to eligible retirement plans. A plan administrator (or trustee or custodian) may rely on the information contained in this Fact Sheet to complete the transfer of a TSP participant's account.

What is the TSP?

The TSP is a defined contribution, cash or deferred arrangement (CODA), similar to CODAs described in § 401(k) of the Internal Revenue Code (I.R.C. or Code). The Federal Employees' Retirement System Act of 1986, Public Law 99-335 (FERSA), established the TSP, which is administered by the Federal Retirement Thrift Investment Board (Agency), an independent Federal agency. FERSA has been codified primarily in chapter 84 of Title 5, United States Code (U.S.C.).

How is the TSP treated under the I.R.C.?

I.R.C. § 7701(j) states that the TSP is to be treated as a trust described in § 401(a) which is exempt from taxation under § 501(a). (See also 5 U.S.C. § 8440.) Thus, our "determination letter" is statutory in nature, and the TSP is a qualified trust. A plan administrator (or trustee or custodian) can complete the transfer of a TSP participant's account based on the I.R.C.'s description of the TSP.

Is the TSP subject to all of the rules applicable to a qualified trust?

No. The TSP is a Government plan, as defined in § 414(d) of the I.R.C. Thus, it is not subject to the joint and survivor annuity rules found in sections 401(a)(11) and 417 of the I.R.C. Nor is the TSP subject to the "top heavy plan" provisions of § 416. (See I.R.C. § 401(a)(10)(B)(iii).)

Who are the participants in the TSP?

Federal civilian employees participate in the TSP under either the Federal Employees' Retirement System (FERS) or the Civil Service Retirement System (CSRS).¹ Members of the uniformed services² may also participate in the TSP.

How are contributions made to a participant's TSP account?

Contributions are made by payroll deduction. Actively employed participants can elect to contribute, on a pre-tax basis, as much as they want up to the Internal Revenue Service (IRS) dollar limits. FERS participants are also eligible for agency contributions.

Can there be any after-tax or non-taxable funds in a participant's account?

Yes. Members of the uniformed services may contribute tax-exempt pay (earned while serving in a combat zone) to their accounts. Such contributions are also exempt from Federal income taxes when they are subsequently distributed from those accounts. However, all earnings are taxable when they are distributed from a TSP account.

¹ FERS refers to the Federal Employees' Retirement System, the Foreign Service Pension System, and other equivalent Government retirement plans. CSRS refers to the Civil Service Retirement System, including CSRS Offset, the Foreign Service Retirement and Disability System, and other equivalent Government retirement plans.

² These are: the Army, Navy, Air Force, Marine Corps, Coast Guard, Public Health Service, and National Oceanic and Atmospheric Administration.

The TSP makes all payments from a uniformed services account on a *pro rata* basis from taxable and tax-exempt balances. If an account includes contributions from tax-exempt pay, a payment from the account will include taxable and tax-exempt amounts. If an IRA or plan does not accept tax-exempt balances, the tax-exempt portion of an intended transfer will be paid directly to the participant.

Civilian TSP participants may not contribute after-tax funds to their accounts.

Are any TSP distributions considered “eligible rollover distributions”?

Yes. The following TSP distributions are eligible rollover distributions:

- A single payment of part or all of an account after the participant separates from service
- All automatic cashouts (i.e., payouts of accounts that contain less than \$200)
- Equal monthly payments expected to be paid out in less than 10 years (unless payments are computed using the IRS life expectancy table)
- A final single payment made after a series of equal payments
- Amounts paid to a participant after the complete withdrawal of a TSP account (e.g., a late contribution to a participant’s account)
- An age-based in-service withdrawal
- Death benefits paid to the spouse
- Amounts paid to a current or former spouse under a qualifying court order or legal process

Is the TSP authorized to make transfers to eligible retirement plans?

Yes. Participants may transfer money from their TSP accounts to an eligible retirement plan (as defined in I.R.C. § 402(c)(8)). See 5 U.S.C. § 8433(c)(2). An eligible retirement plan can be either an IRA or an eligible employer plan.³

³ For TSP purposes, an **IRA** is currently defined as any IRA that is **not** a Roth IRA, a SIMPLE IRA, or a Coverdell Education Savings Account (formerly known as an education IRA). However, beginning in 2008, participants will also be able to transfer TSP accounts into a Roth IRA.

An **eligible employer plan** includes a plan qualified under section 401(a) of the Internal Revenue Code, such as a section 401(k) plan, profit-sharing plan, defined benefit plan, stock bonus plan, and money purchase plan; a section 403(a) annuity plan; a section 403(b) tax-sheltered annuity; and a section 457(b) plan maintained by a governmental employer.

How is a transfer made?

Transfers are made daily by the issuance of a U.S. Treasury check to the transferee plan or IRA. The Employer Identification Number of the TSP is 52-1529691. A participant’s financial institution or plan administrator must certify that the plan will accept the funds and provide transfer information on the participant’s withdrawal request (e.g., Request for Full Withdrawal form or Request for Partial Withdrawal When Separated form).

Does the amount transferred include excess deferrals?

No. If a participant exceeds his or her § 402(g)(1) or § 415(c) annual limit, the excess amounts are distributed to the affected participant in the appropriate correction year.

Is any portion of the distribution attributable to an unpaid TSP loan?

No.

Does any portion of the distribution represent “P.S. 58 costs”?

No. “P.S. 58 costs” (the cost of life insurance) cannot be part of the distribution.

Are any amounts in a TSP account attributable to contributions on behalf of a “key employee”?

No. The TSP is a Government plan, as defined in § 414(d) of the Code. I.R.C. § 401(a)(10)(B)(iii) provides that a Government plan is exempt from § 416 of the Code, which deals with “key employees.”

What is the “total” or “fair” market value of a TSP account?

The “total market value” or “fair market value” is the dollar amount of the distribution from the participant’s TSP account.

Where can I get more tax information about TSP distributions?

More information on the taxability of TSP distributions is available in the TSP tax notice “Important Tax Information About Payments From Your TSP Account,” which is available from the TSP Web site (www.tsp.gov).