05-15

Thrift Savings Plan
BULLETIN for Agency TSP Representatives

Subject: Catch-up Contributions for TSP Participants Age 50 and Older

Date: October 19, 2005

On November 27, 2002, the President signed Public Law 107-304, which permits eligible Thrift Savings Plan (TSP) participants who are age 50 or older to make tax-deferred "catch-up" contributions from their basic pay to their TSP accounts. These contributions are a supplement to the participant's regular employee contributions and do not count against either the statutory contribution percentage limitations (i.e., in 2005, 15% for employees covered by the Federal Employees' Retirement System and 10% for employees covered by the Civil Service Retirement System)[1] or the Internal Revenue Code's elective deferral limit (e.g., $14,000 in 2005). However, the catch-up contributions have their own annual limit (the "annual catch-up limit") and eligibility criteria.

This bulletin describes the catch-up contributions program and the actions agencies must take to implement this program. Although essentially the same as TSP Bulletin 03-4, this bulletin supersedes that bulletin to clarify eligibility requirements specified in Sections I.B and V.G and miscellaneous pay issues specified in Section VIII.A.

I. Eligibility for Catch-up Contributions

A. Catch-up contributions are supplemental contributions available to TSP participants who are age 50 or older.

Therefore, unlike makeup contributions under the Uniformed Services Employment and Reemployment Rights Act (USERRA) or other error correction situations, there is no "lookback" provision to see what the participant could have

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

Inquiries: Questions concerning this bulletin should be directed to the Federal Retirement Thrift Investment Board at **(202) 942-1460**.

Chapter: This bulletin may be filed in Chapter 6, Establishing and Maintaining Accounts.

Supersedes: This bulletin supersedes TSP Bulletin 03-4, Catch-up Contributions for TSP Participants Age 50 and Older, dated February 7, 2003.

contributed but did not. Eligible participants simply have the right to contribute the additional funds up to the annual catch-up contribution limit.

B. Participants are eligible to make catch-up contributions if:

1. They are in pay status. Because these contributions are made by payroll deductions from basic pay, participants must be currently receiving basic pay. They cannot be separated from service or in nonpay status; and

2. They are at least 50 years old in the year the catch-up contributions are made (even if the participant's birthday is December 31 of that year); and

3. They are not in the 6-month non-contribution period following the receipt of a financial hardship in-service withdrawal; and

4. They certify that they will make (or have made) the maximum regular employee contributions by the end of (or for) the relevant year.[2]

II. Annual Catch-up Contribution Limits

A. Catch-up contributions are not subject to the Internal Revenue Code's elective deferral limits. However, they are limited as follows:

Year	Maximum Contribution
2005	$4,000
2006 and thereafter	$5,000[3]

B. The catch-up contribution limit applies to the year that is recorded as the pay date on the submission by the agency. This means that if a contribution with a December 30, 2005, pay date is posted to the account on January 3, 2006, it applies against the 2005 limit. Agencies are responsible for ensuring that they do not submit catch-up contributions for their participants which exceed the yearly catch-up contribution limit. The TSP record keeper will reject any contributions that exceed

[2] Participants must make this certification when they make the catch-up contribution election. If the Catch-Up Contribution Election Form is used, the participant's signature in Section II is the certification. If the election is electronic, the certification statement contained in Section II of the election form must be signed electronically. Because TSP participants may have been or may be participants in another plan like the TSP during the calendar year, the participants, **not the employing agencies,** are responsible for ensuring that they meet this requirement. In 2006 and thereafter, the maximum regular employee contributions will be the applicable I.R.S. elective deferral limit.

[3] After 2006, this amount will be subject to increases to reflect inflation.

this limit (as is currently done for regular employee contributions that exceed the elective deferral limit). For makeup and late catch-up contributions, the “as of” date, which is the pay date the contributions should have been made, is used to determine the year of the catch-up contribution limit. For example, if a makeup or late payment with an “as of” date of November 30, 2003, is posted to the account on November 2, 2005, it applies to the 2003 limit. (See Section IX below).

III. Tax Treatment of Catch-up Contributions

A. Like regular employee contributions, catch-up contributions are made on a pre-tax basis, which means that they are taken from the participant’s basic pay before Federal and, in almost all cases, state income taxes are calculated.

B. Because these contributions are taken from “before-tax” dollars, they **cannot** be made by check; they must be made by payroll deduction.

IV. Agency Contributions

Catch-up contributions are **not** eligible for matching contributions. There are no Agency Automatic (1%) Contributions associated with catch-up contributions.

V. Catch-up Contribution Elections

A. Elections for catch-up contributions are separate from a participant’s election for regular employee contributions. Eligible participants may make catch-up contribution elections at any time, just as eligible employees now may make “regular” contribution elections at any time.

B. The Board has designed Form TSP-1-C, Catch-Up Contribution Election, for this purpose. Agencies may also use an electronic version of this form to support their on-line employee services systems (e.g., Employee Self-Service, PostalEase).

Form TSP-1-C is available from the TSP Web site, www.tsp.gov. Agencies may also order the form based on their anticipated needs.

C. Catch-up contribution elections are made in whole dollar amounts which must be deducted from the participant’s basic pay each pay period until the annual catch-up limit is reached or the contributions must be terminated, as discussed in G below. Participants may elect any whole dollar amount up to the yearly limit. However, catch-up contributions for one year cannot continue into the following year (except in cases of error correction as described below). **Because the annual limit changes each year, the participant must make a new election each year.**

D. Participants may make elections to begin, change, or stop catch-up contributions at any time. However, participants must make new elections for each calendar year. Elections should be made effective no later than the beginning of the first full pay period following the agency's receipt of the election.[4]

E. Effective date vs. pay date

Although catch-up contribution elections (like regular contribution elections) are made effective the beginning of a pay period, the catch-up contributions (like regular contributions) are reported by pay date. The pay date, which is established by the agency, represents the date employees receive payment for a particular pay period and, as such, is the date TSP contributions (deductions from pay) are made.

For example, assume an agency's pay period begins December 11 and ends December 24, 2005; the agency's established pay date is 11 days after the close of a pay period; and a participant who will turn age 50 in 2006 makes a catch-up contribution election that is accepted by the agency on December 9, 2005. Although the **effective date** of the election is December 11, 2005, the **pay date** for the first pay period from which deductions will be made is January 4, 2006. Thus, the catch-up contributions will be made in 2006 and will apply to the 2006 limit. (This is also how regular employee contributions are treated for purposes of applying the annual elective deferral limit; the year of the pay date is the year to which the contributions are attributed.)

Generally, catch-up contribution elections are for the calendar year of the date the participant (physically or electronically) signs the election. However, if the election is signed in December and the pay date associated with the effective date is in January, the catch-up contributions are for the next calendar year (as illustrated above). If however, an agency cannot process such an election, the agency may ask the participant to submit another election in January (or later) so that the contributions are made in the year of the date the election is signed.

F. If a participant is currently contributing to both a civilian and a uniformed services TSP account, he or she may make separate catch-up contributions to each account but the combined total may not exceed the annual catch-up limit. The TSP will check both accounts to determine if the combined total exceeded the annual catch-up limit at the end of each year and will contact the participant

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[4] We received an inquiry from an agency representative who wanted to allow participants to make deferred elections, e.g., make an election in February but specify that it not be made effective until a pay date in August. If agencies have the capability to process deferred elections and want to allow their participants to make such elections, they may do so. However, we are not **requiring** agencies to allow deferred elections, and we are not changing our regulations or election forms which state that properly filed elections should be made effective no later than the first full pay period after they are received. In addition, if agencies allow deferred elections and then receive claims from participants alleging that the elections were not processed as specified, the agencies must determine if an error occurred.

directly if excess contributions have been made. However, agencies are required to ensure that the contributions they submit do not exceed the annual catch-up limit.

G. Termination of Catch-up Contributions

1. Participants may stop their catch-up contributions at any time. The termination of catch-up contributions does not affect the participant's regular contributions.

2. If the participant receives a financial hardship in-service withdrawal, his or her catch-up contributions must stop along with any regular employee contributions.

3. Catch-up contributions must stop after the last pay date of the year to which the contribution election applies. As discussed in C above, participants must make new elections each year.

VI. Catch-up Contribution Allocations

A. Catch-up contributions will be invested based on the participant's contribution allocation on file with the TSP at the time they are posted to the account. That is, catch-up contributions will be invested like the participant's regular contributions.

B. Participants should be reminded that contribution allocations must be made with the TSP using the TSP Web site, the ThriftLine, or Form TSP-50, Investment Allocation.

VII. Error Correction

A. In general, the error correction rules and procedures that apply to catch-up contributions are the same as those that apply to employee contributions. These are described in 5 C.F.R. part 1605. The following summarizes these rules.

B. Makeup contributions

1. Generally, there are only a few instances in which participants would be able to make up catch-up contributions. These include situations in which an agency error prevents a participant from making an election or in which an agency fails to implement a properly submitted election. A participant who is reemployed under the Uniformed Services Employment and Reemployment Rights Act (USERRA) may also make up any catch-up contributions he or she did not make as a result of being called to military service. (If the participant made catch-up contributions to his or her uniformed services account while on active duty, he or she may not make additional catch-up contributions in excess of the annual catch-up contribution limit.)

2. The rules for making up missed catch-up contributions are the same as those for regular employee contributions. Participants are **not** eligible for lost earnings (breakage) on these catch-up contributions. However, the "as of" date for the makeup catch-up contribution should be provided on the current catch-up contribution record so that the contributions can be attributed to the correct year.

C. Late contributions.

Similarly, we anticipate that there will be a few instances of late catch-up contributions. The two most likely scenarios are cases in which the contribution was deducted from the participant's pay but was not submitted timely, and cases involving back pay awards. Under the Board's error correction regulations, the participant is entitled to breakage on contributions not posted within 30 days of the "as of" date that is reported on the late catch-up contribution record (see below).

D. Negative adjustments.

As with regular contributions, agencies are required to remove erroneous contributions. These include situations in which, because of agency error, catch-up contributions in excess of the amount elected by the participant are contributed to the participant's account, or contributions are made on behalf of a participant who did not elect to make contributions. Negative adjustments of catch-up contributions will reduce the amount of money applied against the annual catch-up limit. Agencies must not adjust a catch-up contribution to resolve a problem with a regular employee contribution.

VIII. Miscellaneous Pay Issues

A. Order of processing

Catch-up contributions should be processed after all regular employee contributions are processed. Depending upon agency specifications, catch-up contributions may be processed before or after TSP loan payments. However, participants must make TSP loan payments, and catch-up contributions may not prevent deductions for TSP loan payments.

B. Insufficient pay

If the participant's elected catch-up contribution amount exceeds the participant's net pay for the pay period, no catch-up contribution should be made for the pay period. This is the same rule as for regular employee contribution elections that are expressed as a dollar amount.

IX. Tax Reporting

A. Catch-up contributions are included with the regular employee contributions on IRS Form W-2, Wage and Tax Statement. If this amount exceeds the year's elective deferral limit, the Internal Revenue Service will confirm the participant's age using the Social Security Administration's date of birth for that participant. Agencies are not required to distinguish between regular and catch-up contributions on IRS Form W-2.

B. See Bulletin TSP-98-21, Changes to the Error Correction Procedures, dated June 19, 1998, for guidance on handling catch-up contributions which, due to error correction, are contributed in years other than the one to which they are attributable.

X. Records Retention

Information regarding catch-up contribution elections must be retained by the agencies for reference purposes in the same manner as information regarding regular contribution elections. When participants transfer between agencies, the gaining agency should initiate any catch-up contributions just as it initiates regular contributions. (Form TSP-19, Transfer of Information Between Agencies, has been revised to include information on catch-up contribution elections; see TSP Bulletin 05-5, dated June 27, 2005.)

XI. Submitting Catch-up Contributions to the TSP Record Keeper

A. Form TSP-2, Certification of Transfer of Funds and Journal Voucher

Agencies report catch-up contributions the same way that they report regular employee contributions. That is:

- The number of current and makeup catch-up contributions will be included in Block 11.
- The number of late catch-up contributions will be included in Block 12.
- The number of negative adjustment records pertaining to catch-up contributions will be included in Block 13.
- The total number of catch-up contribution records will be included in Block 14.
- The total dollar amount of current, makeup, and late catch-up contributions will be included in Block 15.
- The total dollar amount of any negative adjustment records for catch-up contributions will be included in Block 19.
- These dollar amounts will also be included in Blocks 18, 22, and 23.

B. 06-Record, Employee Data Record

There is no change to this record or to the data submitted on it. No changes have been made to the existing TSP Status Codes.

C. 86-Record, Catch-up Contributions — Current Payment

1. This record is the equivalent of the 16-Record for regular contributions. It is used to submit current and makeup catch-up contributions.

2. Determining the "as of" date:

   a. If the record is reporting current catch-up contributions, the "as of" date should be blank.

   b. If the record is reporting makeup catch-up contributions, the "as of" date must be completed to show the pay date for which the contributions should have been made.

   It is critical that this "as of" date be correct because the TSP system will use this date to determine the year to which the catch-up contributions must be applied for purposes of the annual catch-up limit.

D. 88-Record, Catch-up Contributions — Late Payment

1. This record is the equivalent of the 46-Record for regular contributions. It is used to submit late catch-up contributions, which include those associated with a back pay award. (It is unlikely that catch-up contributions will be affected by other retroactive pay adjustments since elections are in whole dollars, not a percentage of pay.)

2. Determining the "as of" date:

   a. All late catch-up contribution payment records must contain an "as of" date. The "as of" date is the pay date for which the contributions were originally deducted from pay (but were not reported on time or not processed because of agency error, as the case may be).

   b. It is critical that the "as of" date be correct because the TSP system will use this date to determine the breakage on the catch-up contributions and to determine the year to which the catch-up contributions will be applied for the purposes of the annual catch-up limit.

E. 29-Record, Catch-up Contributions — Negative Adjustment

1. This record is the equivalent of the 26-Record for regular contributions. It is used to remove erroneous catch-up contributions that had been previously reported. Agencies may remove all or any part of a catch-up contribution previously submitted.

2. Determining the attributable pay date:

   a. All negative adjustments must contain the attributable pay date.

   b. If the catch-up contributions to be removed were originally reported as current catch-up contributions, the attributable pay date is the "current pay date" which was in the header record for the earlier payroll submission (and in Item 4 of the journal voucher that accompanied the submission).

   c. If the catch-up contributions to be removed were originally reported as makeup or late catch-up contributions, the attributable pay date is the "as of" date that was reported on the makeup or late payment record.

F. Trailer Record

The catch-up contributions should be included in the "Employee Contributions Total" and the "Total Number of Payment Records" fields; and the negative adjustments in the "Employee Contributions Adjustment Total" and the "Total Number of Adjustment Records" fields.

XII. Payroll Reports Affected by Catch-up Contributions

A. Catch-up contributions are incorporated into the payroll processing reports, which are described in the TSP bulletin, Payroll Office Reports Produced by New Record Keeping System.

B. Report TSP 1702, Payroll Office Recap of Journal Voucher Processing

1. Catch-up contributions are included in the "Employee" source for the Payments and Negative Adjustment sections.

2. In the Transaction Counts section, catch-up contributions are included as appropriate under "Number of Current Payment Records" (current and makeup contributions), "Number of Late Payment Records" (late contributions), and "Number of Negative Adjustment Records" (negative adjustments).

3. Note that agencies will not be able to ascertain from this report the disposition of their catch-up contribution records versus their regular contribution records. However, since both sources of contributions are from employee pay, the primary concern should be if the records reject. (See Report 1701 below.)

C. Report TSP 1701, Error Report

1. This report identifies records that were not processed and those that were processed but contained suspect data. The report shows the rejected or suspect record and the error code(s) for the error(s).

2. Rejected or suspect catch-up contribution records are identified using the "Rcd Type" field on the report. The listing of error codes in the corresponding messages can be found on the TSP Web site (Info for TSP Representatives/ Payroll Information).

D. Report TSP 1703, Analysis of Payroll Office Errors

This report provides a count of the errors and the number of times they occurred in the submission. The errors for the catch-up contributions are included in these counts.

E. Report TSP 31504, Summary Report of Negative Adjustments Processed — Accounting Reconciliation Only

1. This report is an accounting reconciliation tool that shows the negative adjustment amount returned to the payroll office.

2. The catch-up contributions are included in the employee source row of the Summary section.

3. Catch-up contribution records are identified in the Detail section using the "Rcd Type" field.

F. Report TSP 5014, Breakage by Agency Accounting Number

1. This report shows the total breakage amount that was charged to the payroll office and matches the information provided on Report TSP 1702.

2. Catch-up contributions are not discretely identified on this report.

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