



# Thrift Savings Plan BULLETIN for Agency TSP Representatives

**Subject:** Thrift Savings Plan Employment Code

**Date:** July 19, 2005

This bulletin discusses the Thrift Savings Plan (TSP) “employment code” and “employment code date.” When the employment status of a TSP participant changes, the payroll office must submit to the TSP record keeper an Employee Data Record (06-Record) containing the employment code and the employment code date.

This bulletin also discusses the change to the tax reporting of an early withdrawal made by a participant who has separated on disability retirement. For more information about TSP tax reporting and the Internal Revenue Service (IRS) early withdrawal penalty, see the notice “Important Tax Information About Payments From Your TSP Account,” which is available from the TSP Web site.

## I. TSP Employment Codes

The TSP employment codes are:

- A. “S,” or separated from Federal service. The payroll office must submit an Employee Data Record containing an employment code of “S” when:
  - 1. A participant separates from Federal service for any reason. Alternatively, if a participant separates on a disability retirement that has been approved by the Office of Personnel Management (OPM), the payroll office may submit an employment code of “B.” However, as discussed in B below, the TSP no longer requires the payroll office to distinguish a disability retirement from any other type of separation.

*(continued on next page)*

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**Inquiries:** Questions concerning this bulletin may 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, or Chapter 9, Withdrawal Program.

**Supersedes:** This bulletin supersedes TSP Bulletin 94-20, Changes to TSP-Separation Codes, dated August 29, 1994.

2. A participant transfers to a position that is covered by a retirement system under which TSP participation is **not** authorized.<sup>1</sup>
3. A participant's erroneous FERS or CSRS retirement coverage is corrected to "FICA only." The "S" employment code should be submitted on the same Employee Data Record that corrects the retirement coverage to "FICA only."<sup>2</sup>

By law, employees covered by "FICA only" may **not** participate in the TSP. Consequently, such employees may not make or receive TSP contributions, receive a TSP loan, make TSP loan payments, or receive an in-service withdrawal. The employee may elect to withdraw the employee contributions and attributable earnings in the account. Alternatively, the employee contributions (and attributable earnings) that were made while the employee was erroneously covered by FERS or CSRS may remain in the TSP if the employee wishes.

The employee is not entitled to agency contributions (and attributable earnings) that were made while he or she was erroneously covered by FERS. These contributions will not be disbursed to the employee and must be removed from the account in accordance with our error correction regulations at 5 C.F.R. part 1605.

- B. "B," or retired on disability. If OPM has approved a participant's disability retirement, the payroll office may submit an Employee Data Record containing an employment code of "B." However, as discussed in A.1 above, it may also chose to report this type of separation by submitting an employment code of "S."

For TSP purposes, it is no longer mandatory to distinguish this type of separation from any other type of separation. The Federal Retirement Thrift Investment Board has reviewed the IRS standard for an exception to the early withdrawal tax penalty and has determined that this IRS standard is more stringent than the standard OPM uses to approve a disability retirement. Consequently, the TSP will not report an early withdrawal made by a participant who has separated on an OPM-approved disability retirement as an exception to the IRS standard.

This means that early withdrawals made by participants who have separated on disability retirement will be reported like early withdrawals made by other separated participants. This does **not** mean that participants who have separated on

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<sup>1</sup> See TSP Bulletin 00-11, dated April 26, 2000, for more information about the effect of transferring to such a position.

<sup>2</sup> 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.

disability retirement are not entitled to an exemption from the early withdrawal tax penalty. However, the IRS (and not the TSP) will make this determination, and participants must make the claim for an exemption directly with the IRS. To do so, participants must file IRS Form 5329, Additional Taxes on Qualified Plans (including IRAs) and Other Tax-Favored Accounts, and any other evidence of disability required by the IRS.

- C. “D,” or died in service. If a participant dies while still in Federal service, the payroll office must submit an Employee Data Record containing an employment code of “D.”
- D. “T,” or transferred to another Federal agency or payroll office. If a participant transfers to another Federal agency or payroll office, the losing payroll office must submit an Employee Data Record containing an employment code of “T.”
- E. “N,” or not separated. If a payroll office erroneously reports an employment code for a participant who is not separated, the payroll office may submit an employment code of “N” to correct the error. Alternatively, the payroll office may correct the error by submitting an Employee Data Record with nothing in the employment code field (see F below).

In addition, if an employment code of “D” is submitted for a participant who is not deceased, the participant’s agency must contact the record keeper (telephone number 504-255-5110) to inform the TSP of this error.

- F. Blank (i.e., nothing in the employment code field). In all other cases, the employment code on an Employee Data Record is blank.
  - 1. When a payroll office submits an Employee Data Record to establish the TSP account of a new or rehired FERS or CSRS employees, the employment code field on the record should be blank.
  - 2. When a participant transfers to another Federal agency or payroll office, the new payroll office should submit an Employee Data Record with nothing in the employment code field; this will overlay the “T” that had been submitted by the losing payroll office.

## **II. TSP Employment Code Dates**

- A. The employment code date reflects the effective date of the employment status.
  - 1. If the employment code is “S,” “B,” or “T,” the employment code date is the effective date of the separation, disability retirement, or transfer.

2. If the employment code is "D," the employment code date is the date of death.
  3. If the employment code is "N," the employment code date is 00/00/0000.
  4. If the employment code is blank (i.e, there is nothing in the field), the employment code date is blank also.
- B. The employment code date must be:
1. a valid calendar date,
  2. later than December 31, 1986, and
  3. earlier than the date that the TSP system processes the record (i.e., do not submit employment codes until the separation or transfer occurs).

If any one of these conditions is not met, the Employee Data Record will be rejected by the TSP system, and the payroll office must submit another Employee Data Record to report the change in employment status.



PAMELA-JEANNE MORAN  
Director  
Office of Benefits Services