



Thrift Savings Plan BULLETIN

for Agency TSP Representatives

Subject: Legislative Changes to the Thrift Savings Plan

Date: November 6, 1996

On September 30, 1996, the President signed P.L. 104-208, which makes a number of significant changes to the Thrift Savings Plan (TSP). Specifically, the legislation:

- Changes the definition of basic pay for TSP purposes;
- Adds two new investment funds;
- Eliminates the restrictions on loan purposes;
- Authorizes in-service withdrawals by participants who are age 59½ or older or for financial hardship;
- Changes the requirement that specifies when separated participants must make withdrawal elections;
- Eliminates \$3,500 automatic cashouts; and
- Authorizes “mixed” withdrawals by separated participants.

This bulletin summarizes the changes and the schedule for implementing them. The Federal Retirement Thrift Investment Board (Board) will provide more information about the changes in future TSP bulletins and in the *TSP Highlights*, the newsletter that accompanies Participant Statements. Also, the “Plan News” module of the ThriftLine will be updated monthly with information about the changes.

I. Definition of Basic Pay

The definition of basic pay for purposes of determining TSP contributions has been changed to conform exactly to the definition of basic pay for purposes of determining FERS or CSRS retirement deductions. Basic pay for TSP purposes has always

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Chapter: This bulletin may be filed in Chapter 2, General Information.

consisted of the same elements of pay as basic pay for retirement purposes, but basic pay for TSP purposes will now be administered consistent with 5 U.S.C. § 5547 (limitation on premium pay).

Basic pay for TSP (and retirement) purposes is defined in Section 8331(3) of title 5, United States Code (U.S.C.). **Effective immediately, agencies must determine TSP contributions using that statutory definition.**

II. New Investment Funds

Two additional investment funds will be established. One will track the Wilshire 4500 index, a small capitalization stock index, and the other will track the Europe, Australasia, and Far East (EAFE) index, an international stock index.

The new investment funds will be offered when the Board converts to a new recordkeeping system, presently estimated to be in two to three years.

III. Loan Program Change

The loan program has been changed to remove the restrictions on the purposes for which TSP participants can borrow from their accounts. Effective immediately, two types of TSP loans are available: general purpose loans and residential loans.

Participants are not required to submit documentation to support requests for general purpose TSP loans. If, however, participants are purchasing primary residences and want a residential loan, they must submit documentation. The repayment periods for TSP loans have not changed. The repayment period for a TSP loan to purchase a primary residence is from one to fifteen years; the repayment period for a general purpose TSP loan is from one to four years. In addition, **all other loan provisions remain unchanged.**

The Loan Application (Form TSP-20) and the Loan Booklet will be revised shortly. Until the new Form TSP-20 is available, participants should use the current Form TSP-20 to apply for any loan. Participants should not specify the loan type unless they are applying for residential loans. To request a general purpose loan, participants should leave item 13 on Form TSP-20 (loan purpose) blank.

IV. Withdrawal Program Changes

A. **In-service withdrawals.** The withdrawal program will be changed to provide for two types of in-service withdrawals. Both types of in-service withdrawals must be made as single payments, i.e., participants cannot elect

annuities or monthly payments. FERS participants must obtain their spouses' consent. Spouses of CSRS participants must be notified of the withdrawal.*

1. **Age-based.** Employed participants who are 59½ or older will be able to withdraw all or any portion of their vested account balances. (For FERS participants, this includes the agency contributions and associated earnings in their accounts.) Employed participants may make only one age-based withdrawal.
2. **Financial hardship.** Employed participants will be able to withdraw all or any portion of the Employee Contributions (and associated earnings) in their accounts for financial hardships.

These changes are expected to be available by October 1997.

- B. **Withdrawal elections.** Under the new law, separated participants must withdraw their TSP accounts (or begin receiving monthly payments) by April 1 of the year following the year in which they reach age 70½. Participants who separate after they reach age 70½ must withdraw their TSP accounts (or begin receiving monthly payments) by April 1 of the year following the year in which they separate. If a separated participant does not make a withdrawal election which can be implemented by the deadline, the TSP must purchase an annuity for the participant.

(This change eliminates the previous requirement for separated participants to make withdrawal elections by February 1 of the year following the later of two events: their sixty-fifth birthday or the tenth anniversary of the first contributions to their TSP accounts.)

Under the new law, no withdrawals will be required until early 1998. In early 1997, the TSP will send information about this withdrawal requirement to participants who are age 70½ or who will become age 70½ in 1997.

- C. **Automatic cashouts.** Although the law eliminates the required automatic cashouts of accounts of \$3,500 or less, it permits automatic cashouts of small accounts. By regulation, the TSP may establish an appropriate amount for disbursing accounts automatically. To receive larger accounts, participants will be required to submit withdrawal elections.

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

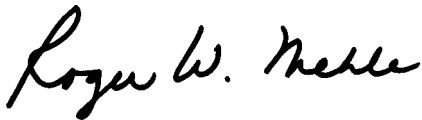
This change will be offered when the Board converts to a new recordkeeping system, presently estimated to be in two to three years.

- D. **Mixed withdrawals.** Separated participants will be able to withdraw their accounts by electing a combination of the current TSP withdrawal methods (e.g., a single payment and an annuity). In addition, separated participants will have a one-time opportunity to withdraw a portion of their TSP accounts as a single payment (if they have not already received an age-based in-service withdrawal) and make future withdrawal elections to receive the rest of their accounts.

This change will be offered when the Board converts to a new recordkeeping system, presently estimated to be in two to three years.

V. **Additional Information**

Additional information on each of these topics will be forthcoming in future bulletins.



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