

**New law suspends 2009 required minimum distributions:  
The impact on your TSP account.**

On December 23, 2008, President Bush signed P.L. 110-458, “The Worker, Retiree and Employer Recovery Act of 2008” which places a one year suspension on receiving a required minimum distribution payment from individual retirement accounts and defined contribution plans for 2009. The primary reason for the law is to reduce the impact of the economic downturn on retired Americans who might otherwise have to sell assets in their IRAs or 401(k) plans at a loss to satisfy their minimum distributions.

Please be aware that the recent legislation does not affect 2008 required minimum distributions. Furthermore, participants who turned 70½ in 2008 are still required to make a withdrawal election before April 1, 2009, otherwise their TSP account becomes subject to abandonment in August 2009. Also, participants who are 70½ or older and who are currently receiving monthly payments cannot stop their payments. However, we will be offering the opportunity to reduce them.

The link below provides you with detailed information on how the new law affects TSP participants who are separated from Federal service *and* who are or will turn 70½ or older by the end of this year. If you are not currently separated from service and will not be separated by December 31, 2009, the information in the link does *not* apply to you.

[New Law Affecting 2009 Required Minimum Distributions](#)

## Special 2009 RMD Notice

On December 23, 2008, President Bush signed into law P.L. 110-458 to help reduce the impact of the economic downturn on retired Americans. This law affects TSP participants who are separated from Federal service and who are or will turn 70½ or older by December 31, 2009. If you are not currently separated from service *and* will not be separated by December 31, 2009, this information does *not* apply to you. For all others in this age group, the new law places a one-year suspension on required minimum distribution payments (RMDs).

This new legislation applies only to 2009 RMDs; it does *not* affect 2008 RMDs that have already been made or must be made through April 1, 2009. This letter explains how the 2009 RMD rules and the rules governing the TSP apply to the following three groups of participants who are 70½ or older *and* separated from service:

### **Group I: Participants who are already receiving monthly payments**

All participants in this group, regardless of age, are required to continue receiving monthly payments once they begin. However, the TSP is allowing special changes in 2009 for participants who are 70½ or older and receiving monthly payments. You now have the following two options:

- If you are receiving monthly payments based on your *life expectancy*, you should already have received a letter from the TSP providing your new monthly payment calculation and your 2009 required minimum distribution amount. Because the new law suspends the 2009 required minimum distribution, we are allowing you to reduce your TSP payments by changing your distribution to a fixed dollar amount that is not less than \$25 per month. Use Form TSP-73, Change in Monthly Payments (TSP-U-73 if you are a member of the uniformed services), and indicate your desired dollar amount on the first line of Item 10 in Section II of the form. Participants who make this change for 2009 will be permitted to change back to payments based on life expectancy only during the annual change period at the end of this year.
- If you are receiving monthly payments of a *fixed dollar amount*, you may reduce that payment to not less than \$25 per month for 2009. You can change your monthly payment amount now by using Form TSP-73, Change in Monthly Payments (TSP-U-73 if you are a member of the uniformed services) and indicate the new dollar amount on the second line of Item 10 in Section II of the form. In the future, you may make a change to your monthly payments during the regular annual change period.

If you choose either of the two above-mentioned options, please write “2009 RMD Special Processing” in the left-hand margin in Section II of the form.

For more information, please refer to the TSP tax notice [“Special 2009 Tax Notice for Participants Age 70½ or Older.”](#)

**Group II: Participants who turned 70½ in 2008 and have not yet requested a TSP withdrawal**

If you are in this group, you are required by TSP rules to make a withdrawal election by April 1, 2009. You should already have received a letter from the TSP reminding you that it is important to make your withdrawal election prior to that date. Follow the instructions in that letter to make your withdrawal request. To see how your withdrawal will be treated in 2009, you should refer to the TSP tax notice [“Special 2009 Tax Notice for Participants Age 70½ or Older.”](#)

When your withdrawal is processed, the TSP will apply your 2008 required minimum distribution to your withdrawal. If you do not make an election by March 1, 2009, we will send you your 2008 required minimum distribution payment by check. However, you will not be subject to a required minimum distribution for 2009. If you request monthly payments, the required minimum distribution rules will apply again beginning in January 2010. For more information about required minimum distributions, see the TSP tax notice [“Important Tax Information About Your TSP Withdrawal and Required Minimum Distributions.”](#)

**Group III: Participants who are turning 70½ in 2009**

If you are in this group, the TSP requires that you make a withdrawal election by April 1, 2010. Previously, the IRS would have required you to satisfy your first-year required minimum distribution by that April 1 date as well. However, for 2009, the new law does not require you to do so. Please be aware that if you request monthly payments, you will be subject to the 2010 required minimum distribution rules beginning in 2010. For more information about required minimum distributions, see the TSP tax notice [“Important Tax Information About Your TSP Withdrawal and Required Minimum Distributions.”](#)

All forms and tax notices mentioned above can be found on the TSP Web site, [www.tsp.gov](http://www.tsp.gov). Look for the link titled “New Law Affecting 2009 Required Minimum Distributions” near the top of the Home page. If there are any further changes in the law, the TSP Web site will be updated to address them. You may also obtain the forms and notices from the TSP.

If you have any questions, call the ThriftLine number shown below. Callers outside the United States and Canada should call (404) 233-4400 (not a toll-free number). The TSP’s hours are Monday through Friday, 7 a.m. to 9 p.m. eastern time. You can also write to the TSP. Please include your daytime telephone number and TSP account number (or your Social Security number) on all correspondence so that we can identify your account.



## Special 2009 Tax Notice for Participants Age 70½ or Older

This tax notice pertains only to those TSP participants who are separated from Federal service **and** who are or will be 70½ or older by December 31, 2009. For those individuals, this notice only applies to the 2009 tax year.

Before you decide how to receive the money in your Thrift Savings Plan (TSP) account, you should review the important information in this notice. Although the TSP can assist you with your withdrawal, we cannot provide tax advice. Because tax rules are complex, you may wish to speak with a tax advisor before you make any withdrawal decisions.

You can find more specific information on the tax treatment of payments from qualified employer plans like the TSP in IRS Publication 575, *Pension and Annuity Income*, IRS Publication 590, *Individual Retirement Arrangements (IRAs)*, and IRS Publication 721, *Tax Guide to U.S. Civil Service Retirement Benefits*. (See page 4, Resources.)

### 1. Federal Income Tax Withholding

Your contributions to the TSP were tax-deferred. This means you have not yet paid taxes on your contributions, any agency contributions, or earnings. Instead, you will owe taxes when you receive a payment (distribution) from your account. We report all TSP distributions to the Internal Revenue Service (IRS), and to you, on IRS Form 1099-R, Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.

We must withhold for Federal income tax from payments we make to you unless you are allowed to request reduced or no withholding. For purposes of IRS withholding, there are three types of payments: **eligible rollover distributions, periodic payments, and non-periodic payments**. The chart on the next page describes the withholding rates and the rules that apply to each type of TSP payment. If you are eligible to change the standard withholding elections (for example, to fully cover your tax liability), you must file IRS Form W-4P, Withholding Certificate for Pension or Annuity Payments, **with** your withdrawal request.

Note that if you elect a “mixed withdrawal” (e.g., an annuity and a single payment), each type of distribution is treated separately and may be subject to different tax withholding rules.

We do not withhold for state or local income tax. However, we do report, on IRS Form 1099-R, all TSP distributions to your state of residence at the time of the payment (if that state has an income tax). You may need to pay state and local income taxes on your payment. See a tax advisor or state or local tax officials for specific information.

**Special note for members of the uniformed services:** TSP accounts for members of the uniformed services may include contributions from pay that is subject to the combat zone tax exclusion. That pay, earned in a combat zone, is exempt from Federal income tax. Consequently, TSP contributions from that pay are also tax-exempt. However, the earnings on those contributions are taxable when they are distributed. Therefore, if you receive a payment from an account that has both tax-deferred and tax-exempt contributions, your distribution will be paid in the same proportions as your tax-deferred and tax-exempt balances, and the TSP will report the tax-exempt portion separately on IRS Form 1099-R.

**Special note regarding annuities:** Payments you receive from an annuity that the TSP purchases for you are also subject to tax withholding. You will receive information from the annuity provider about making a withholding election.

Special 2009  
Tax Notice

# 2009 Tax Treatment of TSP Payments for Participants Age 70½ or Older

Type of TSP Payment	Type of Payment for IRS Purposes	May I Transfer or Roll Over the Payment? <sup>1</sup>	What Is the Withholding Rate?	May I Increase Withholding (using IRS Form W-4P)?	May I Decrease Withholding (using IRS Form W-4P)?	May I Waive Withholding (using IRS Form W-4P)?
Single payment full withdrawal after separation	Eligible rollover distribution	Yes	20% mandatory	Yes — complete line 3	No	No
Monthly payments for less than 10 years (requested dollar amount)	Eligible rollover distribution	Yes	20% mandatory	Yes — complete line 3	No	No
Monthly payments for 10 years or more (requested dollar amount)	Periodic payments	No	As if married with 3 dependents	Yes — complete line 2 to change exemption and line 3 for additional dollar amount	Yes — complete line 2	Yes — complete line 1
Monthly payments based on the IRS life expectancy table	Periodic payments	No	As if married with 3 dependents	Yes — complete line 2 to change exemption and line 3 for additional dollar amount	Yes — complete line 2	Yes — complete line 1
Automatic cash-out (less than \$200)	Eligible rollover distribution	Rollover only	None	Not applicable	Not applicable	Not applicable
Partial withdrawal after separation	Eligible rollover distribution	Yes	20% mandatory	Yes — complete line 3	No	No
Final single payment after a series of monthly payments	Eligible rollover distribution	Yes	20% mandatory	Yes — complete line 3	No	No
Loan taxable distribution — default by separation	Eligible rollover distribution	Rollover only (using personal funds)	We cannot withhold because the money was already paid to you	Not applicable	Not applicable	Not applicable
Court order payment to a current or former spouse	Eligible rollover distribution	Yes	20% mandatory	Yes — complete line 3	No	No
Court order payment not to a current or former spouse	Non-periodic payment	No	10%	Yes — complete line 3	No	Yes — complete line 1
Death benefit to a spouse beneficiary	Eligible rollover distribution	Yes	20% mandatory	Yes — complete line 3	No	No
Death benefit to a non-spouse beneficiary	Non-periodic payment	May only be transferred to an “inherited” IRA	10%	Yes — complete line 3	No	Yes — complete line 1
<b>Annuity purchase</b>	Not reported to the IRS by the TSP; payments will be reported for tax purposes by the annuity provider					

<sup>1</sup> There are rules, and in the case of Roth IRAs, certain restrictions, that determine a participant's eligibility to make the transfer or rollover. See “Transferring or Rolling Over Your TSP Distribution” on pages 3 for more information.

<sup>2</sup> Be sure to complete, sign, and date IRS Form W-4P, “Withholding Certificate for Pension or Annuity Payments,” before you submit it to the TSP with your withdrawal request.

## 2. Transferring or Rolling Over Your TSP Distribution

Some payments from the TSP may be transferred or rolled over to a traditional individual retirement account (IRA), an eligible employer plan, or a Roth IRA. Such payments, called “eligible rollover distributions,” are identified on the chart.

**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.

**A traditional IRA** is any IRA that is not a Roth IRA, a SIMPLE IRA, or an education IRA. Before-tax money that is transferred from the TSP to a traditional IRA is not subject to tax until it is withdrawn from the IRA.

**A Roth IRA** accepts only after-tax dollars, but provides tax-free growth. You are not eligible for a Roth transfer if either of the following conditions applies: (1) your modified adjusted gross income is over \$100,000 or (2) you are married and file a separate return. Further, you must pay taxes on the funds you transfer to a Roth IRA; the tax liability is incurred for the year of the transfer.

No IRA or eligible employer plan is required to accept a transfer or rollover. Before you decide to transfer or roll over your TSP account, you should find out whether your IRA or plan accepts transfers or rollovers, whether the IRA or plan has a minimum amount it will accept, and, in the case of a Roth IRA, whether you are eligible to make the transfer.

If your payment is an eligible rollover distribution, you may ask the TSP to transfer part or all of the payment directly to your IRA or plan. If you receive an eligible rollover distribution directly, you may deposit (roll over) the payment into your traditional IRA, eligible employer plan, or Roth IRA yourself. Depending on the type of plan, a withdrawal from it may be subject to different tax treatment and plan rules (such as different spousal consent rules) than a distribution from the TSP.

If you choose to have the TSP **transfer** part or all of your eligible rollover distribution:

- Your transfer to a traditional IRA or eligible employer plan will not be taxed in the current year and no income tax will be withheld. Your payment will be taxed when you withdraw it from the traditional IRA or the eligible plan.

- The entire amount of your transfer to a Roth IRA will be taxed in the current year. No income tax will be withheld at the time of the transfer. (You may need to pay estimated taxes to mitigate your tax liability.)

If the TSP pays an eligible rollover distribution **directly to you**, and you decide to do a “**rollover**” to a traditional IRA or eligible employer plan:

- You will receive only 80% of the taxable amount of the payment, because we are required to withhold 20% for Federal income tax.
- Your full payment will be taxed in the current year unless you roll over part or all of it within 60 days after you receive the payment.
- You can roll over all or part of the payment to your traditional IRA or plan. The amount rolled over will not be taxed until you take it out of the IRA or plan. However, if you want to roll over 100% of the payment, you must replace the 20% that was withheld with your own funds. If you roll over only the portion you received, you will be taxed on the 20% that was withheld and not rolled over.

You may be able to roll over your payment into a Roth IRA; the full amount rolled over will be taxed in the current year.

**Special note for members of the uniformed services:** TSP tax-exempt balances (i.e., tax-exempt contributions from pay earned in a combat zone) may be transferred or rolled over into a traditional IRA or a Roth IRA or transferred to certain eligible employer plans, but only if the IRA or plan certifies that it accepts tax-exempt balances. If the IRA or plan does not accept tax-exempt money, that amount will be paid directly to you. Check with your IRA trustee or plan administrator to see if the funds will be accepted.

## 3. Other Tax Rules

### *Repayment of plan loans*

If you separate from Federal service with an outstanding TSP loan and you do not repay the entire loan by the established deadline, we must declare a taxable distribution of your outstanding loan balance before we can process your withdrawal request.

To avoid current tax, you may deposit part or all of the taxable loan distribution amount into an IRA or an eligible employer plan — using your personal funds — within 60 days of the date of the taxable distribution.

This rollover rule does not apply to taxable loan distributions declared while you are still employed.

### *Changing your monthly payments*

Participants receiving monthly payments may change the amount annually. If you elect either to change the fixed dollar amount of your payments or to change from payments based on life expectancy to a fixed dollar amount, the withholding from your payment may change. The withholding rules will be determined according to whether your new payments are eligible rollover distributions or periodic payments (based on your account balance at the time the payment changes).

### *Required minimum distribution if you are over 70½*

If you are over age 70½ and are separated from Federal service, you must either withdraw your entire TSP account or begin receiving monthly payments by April 1 of the year following the year you turned 70½. In addition, this April 1 date is the deadline for the TSP to start to distribute the IRS “required minimum distribution,” a minimum amount of the money in your account which you must receive each year. **Note: This required minimum distribution has been waived for 2009 but will apply again in 2010.** For more information, see the TSP tax notice “Important Tax Information About Your TSP Withdrawal and Required Minimum Distributions.”

### *Special tax treatment if you were born before January 2, 1936*

If you were born before January 2, 1936, and you receive your entire account in a lump sum distribution, you can make a one-time election to calculate the amount of the tax on the distribution by using the 10-year tax option and using 1986 tax rates. The 10-year tax option often reduces the tax you owe. To learn more, see IRS Publication 575, *Pension and Annuity Income*.

### *Rules for nonresident aliens or beneficiaries of nonresident aliens*

Special tax withholding rules apply to TSP payments made to nonresident aliens and beneficiaries of nonresident aliens. To learn more, see the TSP tax notice “Tax Treatment of Thrift Savings Plan Payments to Nonresident Aliens and Their Beneficiaries.”

## **4. Resources**

TSP publications are available from the TSP Web site, [www.tsp.gov](http://www.tsp.gov), or from the TSP by calling the TSP toll free at 1-877-968-3778 (TDD: 1-877-847-4385). Outside the U.S. and Canada, please call 404-233-4400 (not toll free). You can also send a fax to 1-866-817-5023 or write to the TSP at the address on the TSP Web site.

IRS publications are available from your local IRS office, on the IRS Web site at [www.irs.gov](http://www.irs.gov), or by calling 1-800-TAX-FORMS.