

Effect of Nonpay Status on TSP Participation

This fact sheet is for civilian employees who are placed in nonpay status (e.g., furlough or leave without pay) for one or more pay periods and for members of the uniformed services who do not receive pay each month (e.g., members of the Ready Reserve who do not drill each month and therefore do not receive pay each month).¹ It does not apply to employees who are in nonpay status performing an assignment with a state or local government agency under the provisions of the Intergovernmental Personnel Act (IPA) or to employees who are in nonpay status serving as full-time officers or employees of a union. (If you are in nonpay status for one of these reasons, see your personnel or benefits office for information about your TSP participation.)

Can I contribute to my TSP account if I am in nonpay status?

No. Employee contributions to TSP accounts must be made as deductions from civilian or uniformed services pay. Therefore, if you are in nonpay status for one or more full pay periods, you cannot contribute to your TSP account during that time.

If you are a civilian employee in nonpay status to perform military service and you have a uniformed services TSP account, you may make contributions to that account. Your contributions will be deducted from your uniformed services pay. In addition, when you return to civilian pay status, you may be entitled to make up TSP contributions to your civilian account. See the fact sheet “TSP Benefits That Apply to Members of the Military Who Return to Federal Civilian Service” for more information about making up TSP contributions.

What if I am receiving Workers’ Compensation?

Workers’ Compensation benefits are payments made by the Department of Labor’s Office of Workers’ Compensation Programs (OWCP) and, by law, are not payments

from which TSP contributions may be made. Consequently, while you are in nonpay status, you can neither contribute to your TSP account nor make loan payments from OWCP benefits.

I am a FERS² participant. Will I receive agency contributions if I am in nonpay status?

No. Agency Automatic (1%) Contributions are calculated based on basic pay earned during each pay period. Agency Matching Contributions are calculated based on employee contributions from that basic pay. Consequently, if you are not earning basic pay for a particular pay period, you will not receive either type of agency contribution for that pay period.

Can I make interfund transfers and contribution allocations if I am in nonpay status?

Yes. An interfund transfer is the movement of some or all of your **existing** account balance among the TSP investment funds. Therefore, you may make interfund transfers.

¹ Most uniformed services members will never be in nonpay status.

² FERS refers to the Federal Employees’ Retirement System, the Foreign Service Pension System, and other equivalent Government retirement plans.

A contribution allocation affects the investment of **future** contributions (and loan payments) made to your account. You may make a contribution allocation while in nonpay status, but until future deposits are made to your account, your contribution allocation will have no effect.

Can I take a TSP loan while I am in nonpay status?

No. When the TSP issues you a loan, you are required to repay it via payroll deductions. Therefore, if you are not receiving pay, you will not be eligible for a TSP loan.

What if I already have a TSP loan and I am placed in nonpay status?

Because TSP loan payments are made through payroll deductions, a period without pay will result in missed payments unless you make direct payments from your own funds, as described in the answer to the next question.

If you go into approved nonpay status, the Internal Revenue Service (IRS) allows your TSP loan payments to be suspended for up to one year of the nonpay period. However, interest will accrue while your payments are suspended, so you may want to make loan payments from your own funds directly to the TSP.

A special rule applies if you are a civilian entering nonpay status to perform military service. In that case, you will be permitted to suspend payments on your loan until you return to pay status, even if your civilian nonpay status lasts longer than one year. (You cannot repay your civilian TSP loan by having loan payments deducted from your uniformed services pay.) However, to suspend your loan payments for more than one year, you (or your agency) must provide the TSP with proper documentation of your nonpay status.

When you begin your period of nonpay status, you, your agency, or your service must submit one of the following to the TSP:

- Form TSP-41 (for civilians) or Form TSP-U-41 (for members of the uniformed services), Notification to TSP of Nonpay Status; **or**
- Form SF-50, Notification of Personnel Action; **or**
- A letter on agency or service letterhead, signed by an appropriate agency official, or your commander

or adjutant, and containing your name, date of birth, and Social Security number; the beginning date of the nonpay status; and the signature and title of the agency or service representative providing the information; **or**

- A copy of your military orders.

If, during your period of nonpay status, you receive miscellaneous civilian basic pay (e.g., for medical, annual, or military leave or for a retroactive salary payment) in an amount large enough to cover a loan payment, your agency may deduct a loan payment from that pay.

If you are on approved leave without pay to work full time for an employee organization under which your TSP contributions may continue, or if you are on an IPA assignment, your loan payments must continue.

See the chart at the end of this fact sheet for a summary of the rules that apply to people in nonpay status who have TSP loans.

Can I make direct payments on my loan from my personal funds while I am in nonpay status?

Yes. If you are in nonpay status (either as a civilian or as a member of the uniformed services) and you want to continue making payments, you can do so by sending a personal check or money order to the TSP. Be sure to write your Social Security number and loan number on your check or money order and send it with a TSP Loan Payment Coupon. The coupon is available from the TSP Web site (www.tsp.gov) or from the TSP Service Office.

Any loan payments received by the TSP during the nonpay period will be taken into account when the loan is reamortized.

What happens to my loan when I return to pay status?

When you return from nonpay status, you or your agency or service must notify the TSP of your date of return. You can send Form TSP-41 or TSP-U-41, Form SF-50, or a letter from your agency or service, as described above. If you were on active military duty, you may submit Form DD214, Certificate of Release or Discharge from Active Duty, instead.

Your TSP loan payments must resume when you return to pay status. If your loan payments have not

been kept up to date, your loan will be reamortized automatically when your agency or service informs the TSP that you have returned to pay status.

If your loan payment amount at that time is sufficient to repay your loan in full by the maximum time limit (5 years for a general purpose loan; 15 years for a residential loan), your loan payment amount will not be changed. However, if your loan payment amount is not sufficient to repay the loan in full by the maximum time limit, it will be increased to repay the loan within that limit.

If you are a civilian TSP participant and you went into nonpay status to perform military service, the maximum term of your loan will be extended by the length of your military service.

What if I am in nonpay status for more than one year?

Unless you are in nonpay status to perform active military duty, your TSP loan payments must resume at the end of one year of nonpay status, even if you still have not returned to pay status. Once your nonpay status continues for more than one year, you must make loan payments directly to the TSP from your personal funds. If you do not make direct payments to keep your loan up to date, your loan will be reamortized automatically following the expiration of your one-year limit on suspended payments.

If you do not keep up your loan payments on your reamortized loan, the unpaid balance (including any accrued interest) will be declared a taxable distribution. When this happens, the IRS will treat the distribution as taxable income, and, if you are under age 59½, you may be subject to an additional 10 percent early withdrawal penalty tax. Once a taxable distribution has been declared, your loan will be considered closed, and you will not be permitted to repay it. For 12 months following the date of the taxable distribution, you will also be ineligible to apply for another loan from the account in which your loan was in default.

Can I make an in-service withdrawal while I am in nonpay status?

Yes. While you are in nonpay status, you can request an in-service withdrawal. There are only two types of in-service withdrawals: age-based withdrawals for participants who are age 59½ or older, and withdrawals for financial hardship. If you request a financial hardship withdrawal, you must be able to certify (under penalty of perjury) to your financial need and to the amount of that need. Funds withdrawn while you are in service are taxable, and an early withdrawal penalty tax may apply. Read the booklet *TSP In-Service Withdrawals* for information and rules pertaining to in-service withdrawals.

Can I make a post-employment withdrawal while I am in nonpay status?

No. While you are in nonpay status, you are still a civilian employee or a member of the uniformed services. You are not eligible to make a post-employment withdrawal until you separate from civilian service or the uniformed services.

Understanding TSP Nonpay Status Rules

TOPIC	What you need to know . . .	
	If you are in nonpay status for reasons other than military service	If you are nonpay status to perform military service
Effect of Length of Nonpay Status on TSP Loans	You are allowed to miss loan payments for up to one year of nonpay status.	You are allowed to miss loan payments throughout the entire time you are in nonpay status if the nonpay status is due to military service.
Accrual of Interest	Interest continues to accrue on your loan during the nonpay period.	Interest continues to accrue on your loan during the nonpay period.
Making Loan Payments	Payments are not required during a nonpay period of less than one year. If you want to make loan payments, use a Loan Payment Coupon and send payments directly to the TSP.	Payments are not required during a nonpay period. If you want to make loan payments, use a Loan Payment Coupon and send payments directly to the TSP.
Recalculating Your Loan (i.e., reamortizing your loan)	If your loan is not up to date, the TSP will recalculate your loan when you return to pay status or following the expiration of your one-year time limit, whichever comes first.	If your loan is not up to date, the TSP will recalculate your loan when you return to pay status. The maximum time allowed to pay off your loan will be extended by your period of military service.
Effect of Recalculation on Your Loan Payments	If it is determined that your current loan payments will not pay off your loan by the maximum repayment period, your loan payments will increase and you will be notified of the new payment amount.	If it is determined that your current loan payments will not pay off your loan by the revised maximum repayment period, your loan payments will increase and you will be notified of the new payment amount.
Resuming Loan Payments	If loan payments do not resume through payroll deductions when you return to pay status or after a reamortization following the one-year limit, you must submit payments (along with Loan Payment Coupons) yourself to keep your loan from going into default.	If loan payments do not resume through payroll deductions when you return to pay status and your loan has been reamortized, you must submit payments (along with Loan Payment Coupons) yourself to keep your loan from going into default.
Defaulting on a Loan	If you miss payments after you return to pay status or your loan has been reamortized and you default on your loan, a taxable distribution will be declared and you will be subject to tax on the outstanding loan balance (including any accrued interest). You may also be subject to an early withdrawal penalty tax.	If you miss payments after you return to pay status and you default on your loan, a taxable distribution will be declared and you will be subject to tax on the outstanding loan balance (including any accrued interest). You may also be subject to an early withdrawal penalty tax.
Returning to Pay Status	You or your agency must notify the TSP when you return to pay status and provide the ending date of your nonpay status. (See fact sheet Effect of Nonpay Status on TSP Participation for documentation requirements.)	You or your agency must notify the TSP when you return to pay status and provide documentation with the beginning and ending dates of your military service.