05-U-8

Thrift Savings Plan BULLETIN for Service TSP Representatives

Subject: Elimination of Percentage Restrictions on Employee Contributions to the Thrift Savings Plan

Date: July 27, 2005

Members of the uniformed services may make contributions to the Thrift Savings Plan (TSP) from basic pay, incentive pay, special pay, or bonus pay, as discussed in TSP Bulletin 05-U-2, Uniformed Services Participation in the TSP. However, the contributions that can be made from basic pay are currently limited to 10% of the basic pay earned for the pay period. Beginning in January 2006, this 10% limitation will be lifted, and all contributions to the TSP will be limited only by the restrictions imposed by the Internal Revenue Code (I.R.C.), as discussed in Section II below.

This bulletin contains instructions for determining the amount of TSP contributions that can be deducted from the basic pay a uniformed services member earns each pay period after the current percentage limitation is lifted.

I. Determining Employee Contributions

A. Determine the amount of the employee contribution for the pay period by multiplying the elected percentage by the basic pay earned for the pay period. Do not include in this multiplication any pay earned that is not basic pay (e.g., a bonus).

B. Determine all mandatory deductions AND TSP loan payments that must be made for the pay period. If services have set other voluntary deductions ahead of TSP contributions, determine those deductions also.

C. If the amount of the employee contribution (computed as explained in A above) is less than the resulting pay for the pay period after the deductions described in B above have been subtracted, the TSP employee contribution is the amount computed, subject to the I.R.C. limits discussed in Section II.

(continued on next page)

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 5, Establishing and Maintaining Accounts.

If the amount of the employee contribution (computed as explained in A above) is greater than the resulting pay for the pay period after the deductions described in B above have been subtracted, the TSP employee contribution is the resulting pay, subject to the I.R.C. limits discussed in Section II. The payroll office may also reduce the contribution by a small amount, as discussed in D below.

D. If, due to constraints of the payroll system, the entire amount of the resulting pay cannot be reported as a TSP employee contribution, the payroll office may reduce the employee contribution by an additional amount not to exceed $20. (NOTE: This reduction is not a requirement and, depending upon the payroll system, will not be necessary.)

Example 1: A participant elects to contribute 100% of basic pay to the TSP. The participant's basic pay for the pay period is $4,000. The other deductions which must be taken from this pay total $400. The resulting pay is $3,600, and it is the TSP contribution for the pay period.

However, if due to the constraints of the payroll system, the entire $3,600 cannot be reported as a TSP contribution, the payroll system may reduce this contribution by an amount up to $20 (e.g., the contribution may be reduced to $3,580). If it does this, the participant would receive a small amount of basic pay for the pay period (e.g., $20).

Example 2: A participant elects to contribute 90% of basic pay to the TSP. The participant's basic pay for the pay period is $4,000. Thus, the computed TSP contribution is $3,600. However, the other deductions that must be taken from the pay include a TSP loan payment and total $600. Consequently, the resulting pay is $3,400, and it is the TSP contribution for the pay period.

However, if due to the constraints of the payroll system, the entire $3,400 cannot be reported as a TSP contribution, the payroll system may reduce this contribution by an amount up to $20, and the contribution would become an amount between $3,380 and $3,399.99.

II. Limits Imposed by the Internal Revenue Code

A. Elective deferral limit

Section 402(g) of the I.R.C. limits the amount of income a participant may elect to defer under all cash or deferred arrangements (e.g., the TSP) during a tax year. For 2006, the elective deferral limit is $15,000.

This limit, however, does not apply to contributions made from pay that is tax-exempt. In addition, it does not apply to catch-up contributions that may be made by participants who are age 50 or older. As discussed in TSP Bulletin 03-U-4, Catch-Up Contributions for TSP Participants Age 50 and Older, catch-up contributions allow eligible participants to make additional contributions to the TSP each year, and have a separate I.R.C. limit.

B. Section 415(c) limit

Section 415(c) of the I.R.C. limits the amount of total employee and employer contributions to a participant's TSP account each year. For 2005, this limit is the lesser of $42,000 or 100% of compensation.

This limit applies to both tax-deferred and tax-exempt contributions made to a TSP account. However, as discussed in TSP Bulletin 03-U-4, it does not apply to catch-up contributions.

C. The TSP system will not process TSP contributions that would cause a participant to exceed either the elective deferral limit or the 415(c) dollar limit. Service payroll systems must reduce a participant's contribution during a pay period in which either of these limits is reached to an amount that will meet but not exceed the limit. In addition, after either of the limits is reached, the payroll systems must not deduct employee contributions for the remainder of the year.

PAMELA-JEANNE MORAN
Director
Office of Benefits Services