



# Thrift Savings Plan

# BULLETIN for Service TSP Representatives

**Subject:** Catch-Up Contributions for TSP Participants Age 50 or Older  
(Uniformed Services)

**Date:** February 1, 2006

On November 27, 2002, the President signed Public Law 107-304, which permits eligible Thrift Savings Plan (TSP) participants who are age 50 or older to make tax-deferred “catch-up” contributions from their taxable basic pay to their TSP accounts. These contributions are a supplement to the participant’s regular employee contributions and do not count against the Internal Revenue Code’s 402(g) limit (\$15,000 in 2006) or 415(c) limit (\$44,000 in 2006). However, the catch-up contributions have their own annual limit (the “annual catch-up limit”) and eligibility criteria.

This bulletin describes the catch-up contributions program and the actions services must take to implement this new benefit. Although essentially the same as TSP Bulletin 03-U-4, this bulletin supersedes that bulletin to clarify eligibility requirement specified in Section I.B and V.G.

## I. Eligibility for Catch-up Contributions

- A. Catch-up contributions are supplemental contributions available to TSP participants who are age 50 or older. Therefore, unlike makeup contributions under the error correction situations, there is no “lookback” provision to see what the participant could have contributed but did not. Eligible participants simply have the right to contribute the additional funds up to the annual catch-up contribution limit.
- B. Participants are eligible to make catch-up contributions if:
  1. They are in pay status. Because these contributions are made by payroll deductions, participants must be currently employed and receiving pay; and

*(continued on next page)*

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**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.

**Supersedes:** This bulletin supersedes TSP Bulletin 03-U-4, Catch-Up Contributions for TSP Participants Age 50 or Older, dated February 7, 2003.

2. They are at least 50 years old in the year the catch-up contributions are made (even if the participant's birthday is December 31 of that year); and
3. They are not in the 6-month non-contribution period following the receipt of a financial hardship in-service withdrawal; and
4. They certify that they will make (or have made) the maximum regular contribution by the end of (or for) the relevant year.<sup>1</sup>

## II. Annual Catch-up Contribution Limits

- A. Catch-up contributions are not subject to the Internal Revenue Code's elective deferral or 415(c) limits. However, catch-up contributions have their own limit, and the limit for 2006 is \$5,000.<sup>2</sup>
- B. As with regular employee contributions, the catch-up contribution limit applies to the year that is recorded on the pay date that is specified on the submission by the service. This means that if a contribution with a December 31, 2005, pay date is posted to the account on January 2, 2006, it applies against the 2005 limit. Services are responsible for ensuring that they do not submit catch-up contributions for their members, which exceed the yearly catch-up limit. The TSP record keeper will reject any portion of a contribution that exceeds this limit. For makeup and late catch-up contributions, the "as of" date, not the date the contribution is posted, is used to determine the year of the catchup contribution limit. For example, if a makeup or late payment with an "as of" date of November 30, 2003 is posted to the account on January 1, 2006, it applies to the 2003 limit. (See Section VII below).

## III. Tax Treatment of Catch-up Contributions

- A. Like regular employee contributions, catch-up contributions are made on a pre-tax basis, which means that they are taken from the member's taxable basic pay before Federal and, in almost all cases, state income taxes are calculated. **Because these contributions must be made with pre-tax dollars, catch-up contributions cannot be made from basic pay that has been excluded from taxation due to service in a combat zone.**
- B. Because these contributions are taken from "before-tax" dollars, catch-up contributions **cannot** be made by check; they must be made through payroll deduction.

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<sup>1</sup> Uniformed Services members must make this certification when they make the catch-up contribution election. Because participants may have been or may be participants in another plan like the TSP during the calendar year, participants, not services, are responsible for ensuring that they will meet this requirement. In 2006 and thereafter, the maximum regular employee contributions will be the applicable I.R.S. elective deferral (402g) limit.

<sup>2</sup> After 2006, this amount will be subject to increases to reflect inflation.

#### IV. Service Contributions

Catch-up contributions are **not** eligible for matching contributions.

#### V. Catch-up Contribution Elections

- A. Elections for catch-up contributions are separate from the member's election for regular employee contributions. The participant can make or change a catch-up contribution election at any time beginning in or after the year in which he or she turns age 50.
- B. The Board has designed [Form TSP-U-1-C, Catch-up Contribution Election](#), for this purpose. Services may also use an electronic version of this form to support their on-line employee services systems (e.g., MyPay, CG HRMS).

Form TSP-U-1-C is available on the TSP Web site, [www.tsp.gov](http://www.tsp.gov). Services may also order the form based on their anticipated needs.

- C. Catch-up contribution elections are made in whole dollar amount which must be deducted from the member's basic pay each pay period until the annual catch-up limit is reached or the contributions must be terminated, as discussed in G below. Participants may elect any whole dollar amount up to the yearly limit. However, catch-up contributions for one year cannot continue into the following year (except in cases of error correction as described below). **Because the annual limit changes each year, the participant must make a new election each year.**
- D. Participants may make elections to begin, change, or stop catch-up contributions at any time. However, participants must make new elections for each calendar year. Elections should be made effective no later than the beginning of the first full pay period following the services receipt of the election.
- E. If a participant is currently contributing to both a civilian and uniformed services TSP account, he or she can make separate catch-up contributions to each account so long as the combined total for both accounts does not exceed the annual catch-up limit. The Board will check for excess contributions at the end of each year and refund any excess contributions directly to the participant. However, services are required to ensure that the contributions they submit do not exceed the annual catch-up limit.
- F. A participant who makes catch-up contributions to another plan like the TSP in the private-sector must ensure that the combined contributions to both plans do not exceed the annual catch-up limit. If such a participant contributes in excess of the annual catch-up limit, he or she may request a refund of the excess contributions directly from the TSP. This process is similar to that used if a member exceeds the elective deferral limit.

#### G. Termination of Catch-up Contributions

1. Participants may stop their catch-up contributions at any time. The termination of catch-up contributions does not affect the participant's regular contributions.
2. If the participant receives a financial hardship in-service withdrawal, his or her catch-up contributions must stop along with any regular employee contributions.
3. Catch-up contributions must stop after the last pay date of the year to which the contribution election.

### VI. Catch-up Contribution Allocations

- A. Catch-up contributions will be invested based on the participant's contribution allocation on file with the TSP at the time they are posted to the account. That is, catch-up contributions will be invested based on the same allocation as the participant's regular contributions.
- B. Participants should be reminded that contribution allocations must be made with the TSP using the TSP Web site, ThriftLine, or Form TSP-U-50, Investment Allocation.

### VII. Error Correction

- A. In general, the same error correction rules apply to catch-up contributions as apply to regular employee contributions. These are described in 5 C.F.R. 1605. The following summarizes these rules.
- B. Makeup Contributions.
  1. Generally, there are only a few instances in which participants would be able to make up catch-up contributions. These include situations in which a service error prevents a participant from making an election to contribute to his or her TSP account, or in which a service fails to implement a contribution election properly submitted by a participant.
  2. The rules for making up missed catch-up contributions are the same as those for regular employee contributions. Participants are **not** eligible for breakage on these catch-up contributions. However, the "as of" date for the makeup catch-up contribution should be provided on the current catch-up contribution record so that the contributions can be attributed to the correct year.
- C. Late contributions.

Similarly, we anticipate that there will be a few instances of late catch-up contributions. The two most likely scenarios are cases in which the contribution was deducted from the participant's pay but not deposited timely into his or her TSP

account, and cases involving back pay awards. Under the Board's error correction regulations, the participant is entitled to breakage on contributions not posted within 30 days of the "as of" date that is reported on the late catch-up contribution record (see Section XI below).

D. Negative adjustments.

As with regular contributions, services are required to remove erroneous contributions. These include situations in which, because of service error, catch-up contributions in excess of the amount elected by the participant are contributed to the participant's account, or contributions are made on behalf of a participant who did not elect to make contributions. Negative adjustments of catch-up contributions will reduce the amount of money applied against the annual catch-up limit. Services must not adjust a catch-up contribution to resolve a problem with a regular employee contribution.

### **VIII. Miscellaneous Pay Issues**

A. Order of Processing

Catch-up contributions should be processed after all regular employee contributions are processed. Depending on service specifications, catch-up contributions may be processed before or after TSP loan payments. However, participants must make TSP loan payments, and catch-up contributions may not prevent these deductions.

B. Insufficient pay

If the participant's elected catch-up contribution amount exceeds the participant's net pay for the pay period, no catch-up contribution should be made for the pay period.

### **IX. Tax Reporting**

Catch-up contributions are included with the regular employee contributions on the IRS Form W-2, Wage and Tax Statement. If this amount exceeds the year's elective deferral limit, the Internal Revenue Service will confirm the participant's age using the Social Security Administration's date of birth for that participant. Services are not required to distinguish between regular and catch-up contributions on IRS Form W-2.

### **X. Records Retention**

Information regarding catch-up contribution elections must be retained by the services for reference purposes in the same manner as information regarding

regular contribution elections. When participants transfer between services, change services, or are moved to another payroll office, the gaining service payroll office should initiate any catch-up contributions the same way as it does with employee contributions.

## **XI. Submitting Catch-up Contributions to the TSP Record Keeper**

### **A. Form TSP-U-2, Certification of Transfer of Funds and Journal Voucher**

Services should report catch-up contributions the same way that they report regular employee contributions. That is,

- The number of current and makeup catch-up contributions will be included in Block 11.
- The number of late catch-up contributions will be included in Block 13.
- The number of negative adjustment records pertaining to catch-up contributions will be included in Block 15.
- The total number of catch-up contribution records will be included in Block 17.
- The total dollar amount of current, makeup, and late catch-up contributions will be included in Block 18.
- The total dollar amount of any negative adjustment records for catch-up contributions will be included in Block 23.
- These dollar amounts will also be included in Blocks 22, 27, and 28.

### **B. 06-Record, Employee Data Record**

There is no change to this record or the data submitted on it. No changes have been made to the existing TSP Status Codes.

### **C. 87-Record, Catch-up Contributions — Current Payment (Tax-deferred)**

1. This record is the equivalent of the 17-Record for regular contributions. It is used to submit current and makeup catch-up contributions.
2. Determining the “as of” date:
  - a. If the record is reporting current catch-up contributions, the “as of” date should be blank.
  - b. If the record is reporting makeup catch-up contributions, the “as of” date must be completed to show the pay date for which the contributions should have been made.

It is critical that this “as of” date be correct because the TSP system will use this date to determine the year against which the catch-up contributions will be applied for purposes of the annual catch-up limit. This date will not be used to calculate lost earnings.

D. 89-Record, Catch-up Contributions — Late Payment (Tax-deferred)

1. This record is the equivalent of the 47-Record for regular contributions. It is used to submit late catch-up contributions, including those associated with a back pay award. (It is unlikely that catch-up contributions will be affected by other retroactive pay adjustments since elections are in whole dollars, not a percentage of pay.)
2. Determining the “as of” date:
  - a. All late catch-up contribution payment records must contain an “as of” date.
  - b. If the record is reporting late catch-up contributions, the “as of” date is the pay date for which the contributions were originally deducted from pay (but were not reported on time or not processed because of service error, as the case may be).
  - c. It is critical that the “as of” date be correct because the TSP system will use this date to determine lost earnings (breakage) on the catch-up contributions and to determine the year against which the catch-up contribution will be applied for the purposes of the annual catch-up limit.

E. 30-Record, Catch-up Contributions — Negative Adjustment (Tax-deferred)

1. This record is the equivalent of the 27-Record for regular contributions. It must be used to remove erroneous catch-up contributions that had been previously reported. Services may remove all or any part of a catch-up contribution previously submitted.
2. Determining the attributable pay date:
  - a. All negative adjustments must contain the attributable pay date.
  - b. If the catch-up contributions to be removed were originally reported as current catch-up contributions, the attributable pay date is the “current pay date” which was in the header record for the earlier payroll submission (and in item 4 of the journal voucher that accompanied the submission).
  - c. If the catch-up contributions to be removed were originally reported as makeup or late catch-up contributions, the attributable pay date is the “as of” date that was originally reported on the makeup or late catch-up contribution record.

F. Trailer Record

The catch-up contributions should be included in the “Employee Contributions Total” and the “Total Number of Payment Records” fields; and the negative adjustments in the “Employee Contributions Adjustment Total” and the “Total Number of Adjustment Records” fields.

## **XII. Payroll Reports Affected by Catch-up Contributions**

- A. Catch-up contributions are incorporated into the payroll processing reports as described in the TSP bulletin Payroll Office Reports Produced by TSP Record Keeping System.
- B. Report TSP 1702, Payroll Office Recap of Journal Voucher Processing
1. Catch-up contributions are included in the “Employee” source for the Payments and Negative Adjustment sections.
  2. In the Transaction Counts section, catch-up contributions are included as appropriate under “Number of Current Payment Records” (current and makeup contributions), “Number of Late Payment Records” (late contributions), and “Number of Negative Adjustment Records” (negative adjustments).
  3. Note that services will not be able to ascertain from this report the disposition of their catch-up contribution records versus their regular contribution records. However, since both sources of contributions are from the member’s pay, the primary concern should be if the records reject. (See Report 1701 below.)
- C. Report TSP 1701, Error Report
1. This report identifies records that were not processed and those that were processed but contained suspect data. The report shows the rejected or suspect record and the error code(s) for the error(s).
  2. Rejected or suspect catch-up contribution records will be identified using the “Rcd Type” field on the report.
- D. Report TSP 1703, Analysis of Payroll Office Errors
- This report provides a count of the errors and the number of times they occurred in the submission. The errors for the catch-up contributions will be included in these counts.
- E. Report TSP 31504, Summary Report of Negative Adjustments Processed — Accounting Reconciliation Only
1. This report is an accounting reconciliation tool that shows the negative adjustment amount returned to the payroll office.



2. The catch-up contributions will be included in the employee source row of the Summary section.
  3. Catch-up contribution records will be identified in the Detail section using the "Rcd Type" field.
- F. Report TSP 5014, Breakage by Service Accounting Number
1. This report shows the total breakage amount that was charged to the payroll office and matches the information provided on Report TSP 1702.
  2. Catch-up contributions will not be discretely identified on this report.



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