



# Thrift Savings Plan BULLETIN for Service TSP Representatives

**Subject:** Pension Protection Act of 2006 — New Benefit for Non-Spouse Beneficiaries of Thrift Savings Plan Accounts

**Date:** December 27, 2006

The Pension Protection Act of 2006, signed August 17, 2006, provides a new benefit for non-spouse beneficiaries of 401(k) plans, including the Thrift Savings Plan (TSP). Effective with death benefit payments made in 2007, the law now allows non-spouse beneficiaries to transfer their death benefit payments to an inherited individual retirement account (IRA). Because disbursements from inherited IRAs can generally be made over the lifetimes of the beneficiaries, these accounts can reduce the tax burden of the death benefit payment.

Please note that this new benefit is not exactly the same as the one provided for spouse beneficiaries. Spouse beneficiaries can transfer (directly), or receive and roll over, a TSP death benefit payment to their traditional IRA or eligible employer plan (including the TSP). The transfer option for non-spouse beneficiaries is more restrictive.

The TSP will implement this new provision in January 2007. However, we strongly recommend that beneficiaries discuss this new option with their tax or financial advisors or IRA providers before deciding upon it. Inherited IRAs must be specifically titled as such (and established in the name of the deceased TSP participant, not in the beneficiary's name), and there are specific time frames for beginning distributions. In addition, inherited IRAs may have other restrictions if the deceased participant was age 70½ and was already subject to the Internal Revenue Service's (IRS) required minimum distribution rules. There may be severe tax consequences if the inherited IRA is not set up correctly. Therefore, beneficiaries should ensure that their inherited IRAs are correctly established before the death benefit payments are disbursed.

We have added information about this new benefit to the TSP Web site, [www.tsp.gov](http://www.tsp.gov). The booklet [\*TSP Death Benefits\*](#) and the [death benefits tax notice](#) have also been updated. Copies of both publications are attached for reference. We have also developed a new form, TSP-U-81, Death Benefits Election for a Beneficiary Other Than a Spouse, which will be sent to non-spouse beneficiaries prior to the payment of their death benefits. (This form is not

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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 10, Death Benefits.

attached; it is issued only by the TSP.) The 2006 edition of IRS Publication 590, *Individual Retirement Arrangements*, will likely provide more information about transferring death benefit payments for non-spouse beneficiaries to inherited IRAs. In the meantime, the 2005 version discusses the rules governing inherited IRAs.

**Agency/Service responsibilities:** Many agencies and services provide assistance to the beneficiaries of deceased TSP participants. You should provide the updated booklet and (upon request) the tax notice to these beneficiaries or refer them to the TSP Web site. We will also send the tax notice and appropriate payment election form to the beneficiaries when we notify them of the pending death benefit payments.

A handwritten signature in cursive script that reads "Pamela-Jeanne Moran".

PAMELA-JEANNE MORAN  
Director  
Office of Participant Services

Attachment: Booklet, *TSP Death Benefits*  
Tax Notice, "Important Tax Information About Thrift Savings Plan  
Death Benefit Payments"