05-17

Thrift Savings Plan BULLETIN for Agency TSP Representatives

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

Date: November 30, 2005

The percentage limitations on Thrift Savings Plan (TSP) employee contributions will be lifted in 2006. Effective in January 2006, employee contributions to the TSP will be limited only by the restrictions imposed by the Internal Revenue Code (see Section IV). This bulletin supersedes TSP Bulletin 05-10 to allow agencies the flexibility to implement this change either the first pay date or the first full pay period in January. No other information in the superseded bulletin has been modified.

The percentage limitations on agency contributions to the TSP accounts of FERS[1] participants are not affected by this change and remain the same. That is, agency automatic (1%) contributions are equal to one percent of the participant's basic pay for the pay period, and agency matching contributions may be up to four percent of the participant's basic pay for the pay period.

This bulletin defines basic pay for TSP purposes and includes instructions for determining employee contributions when the percentage limitations on these contributions are lifted.

I. Definition of Basic Pay

Basic pay for TSP purposes is the amount of pay based on the rate fixed by law or administrative action for the position held by an employee; it includes the elements of pay specified in 5 U.S.C. § 8331(3). Basic pay for TSP purposes is the same as basic pay for Federal civilian retirement purposes, and is the same amount used to determine the mandatory FERS or CSRS[2] retirement deductions.

(continued on next page)

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[1] FERS refers to the Federal Employees' Retirement System, the Foreign Service Pension System, and other equivalent retirement systems.

[2] CSRS refers to the Civil Service Retirement System, including CSRS Offset, the Foreign Service Retirement and Disability System, and other equivalent retirement systems.

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 6, Establishing and Maintaining Accounts.

Supersedes: This bulletin supersedes TSP Bulletins 05-10, Elimination of Percentage Restrictions on Employee Contributions to the Thrift Savings Plan, dated July 27, 2005

II. Determining Basic Pay for TSP Purposes

A. The following elements of pay must be included in the determination of basic pay for TSP purposes:

- Locality-based comparability pay as authorized by 5 U.S.C. § 5304
- Environmental differential for prevailing rate employees as authorized by 5 U.S.C. § 5343(c)(4)
- Night differential for prevailing rate employees as authorized by 5 U.S.C. § 5343(f)
- Premium pay for standby time as authorized by 5 U.S.C. § 5545(c)(1)
- Premium pay for law enforcement officers as authorized by 5 U.S.C. § 5545(c)(2). (This is administratively uncontrollable overtime.)
- Availability pay for criminal investigators as authorized by 5 U.S.C. § 5545a
- Physicians' comparability allowance as authorized by 5 U.S.C. § 5948
- Overtime compensation for customs officers as authorized by 5 U.S.C. § 8331(3)(G)
- Additional compensation paid to employees serving in the Republic of Panama as authorized by 22 U.S.C. § 3657

B. The following elements of pay and types of payments are not basic pay for TSP purposes:

- Other overtime pay
- Bonuses
- Allowances
- Foreign and domestic post differential for General Schedule, and foreign post differential for prevailing rate employees
- Severance pay
- Retroactive pay granted to a retired or deceased employee pursuant to a wage survey
- Lump-sum payment for leave
- Voluntary separation incentive payment (buyout)
- Payments made by the Office of Workers' Compensation Programs (OWCP benefits)

III. Determining Employee Contributions

A participant may elect to contribute to the TSP any whole percentage of the basic pay he or she earns each pay period (i.e., 1 to 100 percent). A participant may also elect to contribute a specific whole dollar amount each pay period.

A. If a participant elects a percentage of pay:

1. 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).

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

   As explained in TSP Bulletin 87-15, Order of Precedence for Thrift Savings Plan Deductions, the General Accountability Office (GAO) confirmed that deductions for TSP contributions fall into the category of "other voluntary deductions," and agencies may determine the order of precedence for other voluntary deductions.

3. If the amount of the employee contribution (computed as explained in 1 above) is less than the resulting pay for the pay period after the deductions described in 2 above have been subtracted, the TSP employee contribution is the amount computed, subject to the I.R.C. limits discussed in Section IV.

   If the amount of the employee contribution (computed as explained in 1 above) is greater than the resulting pay for the pay period after the deductions described in 2 above have been subtracted, the TSP employee contribution is the resulting pay, subject to the I.R.C. limits discussed in Section IV. The payroll office may also reduce the contribution by a small amount, as discussed in 4 below.

4. 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 that 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.

B. If participant elects a whole dollar amount:

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

2. If the whole dollar amount elected is greater than the resulting pay for the pay period after the deductions described in 1 above have been subtracted, no employee contribution is made for the pay period. Consequently, if FERS, the employee receives no agency matching contribution for the pay period.

IV. 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.[3]

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[3] As discussed in TSP Bulletin 04-17, Elective Deferral Limits for 2005 and 2006, after 2006, the increase in this limit will be indexed to the annual cost-of-living adjustment referred to in the Internal Revenue Code.

This limit does not apply to agency contributions made to the accounts of FERS participants. 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 03-4, 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 contributions (employee, agency automatic (1%) and agency matching) that may be made to a participant's TSP account each year. This limit also includes the mandatory retirement deductions that must be taken for the FERS basic annuity or the CSRS annuity, but it does not include catch-up contributions to the TSP. For 2005, this limit is the lesser of $42,000 or 100% of compensation.

However, contributions to a civilian TSP account should not reach the annual dollar limit due to the elective deferral limit on employee contributions, the percentage limits on agency contributions, and the percentage limit on the mandatory retirement deduction for the FERS basic annuity or the CSRS annuity.

C. The TSP system will not process employee contributions that would cause a participant to exceed the annual elective deferral limit.[4] Agency payroll systems must reduce a participant's employee contribution during a pay period in which the limit is reached to an amount that will meet but not exceed the limit. After the limit has been reached, agency payroll systems must not deduct employee contributions for the remainder of the year. In addition, if FERS, the employee cannot receive agency matching contributions for the remainder of the year.

V. Special Situations

A. Reemployed annuitants

TSP contributions for eligible reemployed annuitants are based upon the basic pay before it is offset (reduced) by the annuity. For FERS employees, all sources of contributions must be determined using the basic pay before the offset. To determine the eligibility of reemployed annuitants to participate in the TSP, see TSP Bulletin 05-2, Participation in the TSP.

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[4] Also, the TSP system will not process contributions that would cause a participant to exceed the 415(c) **dollar** limit, but it is unlikely that contributions to a civilian TSP account would reach this annual limit.

B. Employees who return to duty or pay status pursuant to 38 U.S.C. Chapter 43

As discussed in TSP Bulletin 02-7, Thrift Savings Plan Participation of Individuals Who Return to Civilian Service or Pay Status Following Military Service, certain employees may make up and receive TSP contributions missed as a result of military service. TSP contributions during the period of separation or nonpay status are based upon the basic pay the employee would have received had he or she not separated or entered nonpay status to perform military service.

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