



## TSP Withdrawal Options

### Welcome

- » Our audience today
- » Q&A – the ProFeds Support Team standing by
- » Handouts – available for download
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- » Stay until the end!

## TSP Withdrawal Options

### Your ProFeds Presenter



#### Chris Kowalik

- » ProFeds Founder
- » Developer of the FedImpact Retirement Workshop
- » Host of the FedImpact Podcast



#### Support Team

- » Standing by for your questions

## TSP Withdrawal Options

# TSP Withdrawal Options

## How to get money out of the Thrift Savings Plan in retirement.

## Agenda

- » **ACCESS:** How (and when) you can withdraw from your TSP funds
- » **RESTRICTIONS:** Limitations on withdrawal options in retirement
- » **TAXES:** Tax consequences to expect in retirement – good and bad!

## What this webinar will NOT cover



## When you need money from the TSP

### The Initial Questions You Need to Answer

- » **WHY:** Why do you need the money (ongoing, one-time)?
- » **WHAT:** What amount do you take?
- » **WHEN:** When can you access it and are there penalties?
- » **WHO:** Who is required to approve the withdrawal?
- » **HOW:** How is your withdrawal taxed?
- » **WHERE:** Where do you go to initiate the withdrawal?

## WHY do you need the money?

- » **Ongoing needs**
  - You need more regular income (cashflow) to maintain or upgrade your standard of living
- » **One-time needs**
  - Large capital purchases
  - Large debt payoff
- » **Move to the private-sector**
  - Transfer money from the TSP to a private-sector IRA account

## WHAT amount do you take?

- » **Determining the amount**
  - Remember that any amount you take means your account value goes down (so your dollars aren't working for you anymore)
- » **Accounting for taxes**
  - Be mindful of the tax obligation you have on any withdrawals from the Traditional TSP
  - Money moved from TSP to an IRA are not taxed at the time of transfer

## WHEN can you access (and are there penalties)?

- » **30-Day Hold**
  - You will not have access to your TSP money for at least 30 days after separating/retiring
- » **Early withdrawal penalties**
  - If at least age 59 ½, no penalty
  - If under age 59 ½, you may have a 10% penalty on any money you take from the TSP unless you meet special criteria

### Penalty-Free Access to TSP

- » Federal employees RETIRING/SEPARATING from federal service may access TSP funds without penalty if they meet these rules\*:
  - Regular employees:
    - retire/separate in the calendar year they turn age 55 (or older)
  - Special category employees (LEO, ATC, FF):
    - retire/separate in the calendar year they turn age 50 (or older),  
OR
    - retire/separate at any age (w/ at least 25 yrs of covered service)

\*There are other exceptions to the 59 ½ rule that can be found at: [TSP.gov/publications/tspbk26.pdf](https://www.tsp.gov/publications/tspbk26.pdf)

## WHO is required to approve the withdrawal?

- » **Court-Ordered benefits**
  - A former spouse will be paid their portion of TSP first
- » **Spouse of a CSRS retiree**
  - Your spouse will be notified when you take a withdrawal from the TSP
- » **Spouse of a FERS retiree**
  - Your spouse must provide written consent when you request the withdrawal from the TSP

## HOW is the withdrawal taxed?

- » **Traditional TSP withdrawals**
  - Withdrawals will be taxed in the year you receive them
- » **Roth TSP withdrawals**
  - Withdrawals will not be taxed as long as you're at least age 59½ & 5 years have passed since you first funded the Roth TSP
- » **Tax withholding methods**
  - What is withheld from the amount you withdraw

### Federal Tax Withholdings (2 Methods)

- » Mandatory 20% federal tax withholding on all payments paid directly to the participant
  - single payments of all or part of the account balance
  - monthly payments (to be paid out in < 10 years)
- » Withholding based on the assumption that the recipient is married and claiming 3 withholdings
  - monthly payments (computed by IRS life expectancy)
  - monthly payments (to be paid out in > 10 years)
  - payments received from an annuity product

## WHERE do you go to initiate the withdrawal?

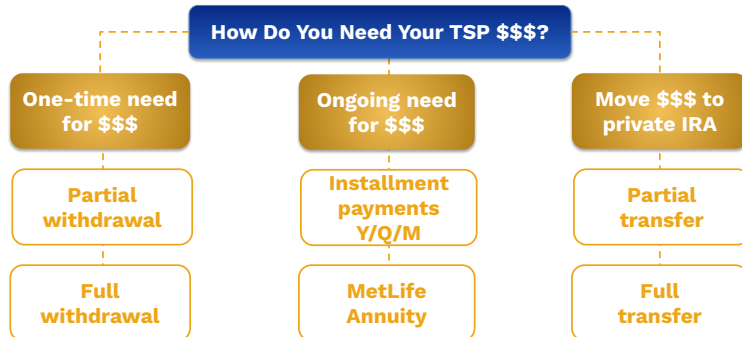
- » **No more paper forms**
  - The TSP no longer accepts paper withdrawal forms
- » **Must login to TSP.gov**
  - To initiate a withdrawal, you will use the TSP “wizard” that walks you through a series of questions
  - **BEWARE:** If you choose the wrong option in the wizard, the TSP will still process the request

### TSP Withdrawals

- » You start by logging into TSP.gov and following the online “wizard”
- » The wizard will only allow the kinds of withdrawals that you are eligible for at that time
- » If you are married, your spouse will provide their consent for the withdrawal via email (DocuSign)
- » If sending funds directly to a private carrier, you must wait 7 days to complete the transaction



### Withdrawal options available in the TSP



### TSP Withdrawal Options in Retirement

- » Partial withdrawal
  - Must be at least \$1,000
  - There is no limit to the number of partial distributions you can take
  - There must be at least 30 days between requests
  - You can take a partial withdrawal even if you're also receiving regular installment payments (Y, M, Q)

### TSP Withdrawal Options in Retirement

- » Full withdrawal
  - Once this withdrawal is processed, your account balance will be \$0
  - Your account will be closed and you will not be eligible to move money back into the TSP at a later time
  - If you are receiving regular installment payments (Y, M, Q), those payments will stop

### TSP Withdrawal Options in Retirement

- » Installment Payments
  - You can choose to receive automatic payments from the TSP either monthly, quarterly, or yearly
  - You can stop or make change the amounts at any time
  - Two methods of setting installment payments:
    - Fixed dollar amount: You choose the amount
    - Life expectancy: Calculated for you based on your account balance and age at the time your installments begin (and recalculated each year or when you take other withdrawals)

### TSP Withdrawal Options in Retirement

- » Life Annuity
  - An annuity is an exchange of a lump-sum value to receive guaranteed monthly income for the rest of your life
  - You can use all or part of your TSP to purchase an annuity through MetLife (TSP's current contract holder)
    - Single Premium Immediate Annuity
    - This is an irrevocable purchase (cannot be canceled/reversed)
    - Once purchased, it is completely separate from the TSP
  - NOTE: Most private annuities do not work like this

### TSP Withdrawal Options in Retirement

- » Partial or Full Transfer to an IRA
  - You can choose to move your TSP to a private-sector IRA account (mutual funds, money market, annuities, CDs, etc)
    - Traditional TSP to Traditional IRA
    - Roth TSP to Roth IRA
  - By maintaining a vested balance of \$200 or more, your account will stay open and you may move certain types of money into your TSP later if you wish

## Frequently Asked Questions



**Q:** *If I have an outstanding loan when I retire, do I have to pay it back before I can take more money from TSP?*

**A:** No. Even with an outstanding loan, you are still able to choose other withdrawal methods. However, if you stop repaying your TSP loan, it will be declared a taxable distribution!

**Q:** *I'm thinking of taking \$200,000 out of my TSP to pay off my house. Is there a downside to doing this?*

**A:** Yes - there is a huge downside! If you take \$200,000 from the Traditional TSP, it is treated as income in the tax year you receive it!

You may ask, "What if I take Roth TSP instead?"... Well you won't be taxed, but the whole purpose of the Roth TSP is for the money to grow in a tax-free environment (which you are stopping by withdrawing the money).

**Q:** *Some funds in the TSP are doing well and some are not. Can I pick which funds I take money from?*

**A:** No! TSP does not allow you to choose which funds (G, F, C, S & I) to take money from when you select your withdrawal options.

Money being withdrawn from TSP will be taken proportionally to how they are invested — regardless of fund performance.

**Q:** *Can I choose to pull Traditional or Roth money from my TSP?*

**A:** Yes - this is an important decision! The TSP now allows you to decide which side of your account (Trad or Roth) that you take funds from. Making this choice allows you more freedom to control your tax obligations each year in retirement.

**Q:** *I am already 60 and have taken an in-service withdrawal while working. Are my withdrawal choices limited now?*

**A:** No. Under previous rules, you would have been seriously restricted, but that is no longer the case. You have the same choices as everyone else does.

**Q:** *Does money I take from TSP affect how much I pay for Medicare Part B?*

**A:** Yes! Any money you receive from TSP (and many other sources) counts as income when Medicare determines how much your premium will be for Medicare Part B. Medicare looks at your Modified AGI from 2 years prior to set your premiums. Your premium could jump from \$174.70/mo to \$594/mo if you make too much in a given year!

**Q:** *If I don't need the money from TSP, can I just leave it there?*

**A:** Yes - kind of! If you are under age 73, you can choose to not take any money from your TSP. At age 73+, the IRS requires you to begin taking a percentage of your Traditional TSP account balance every year - regardless if you need it or not. Unfortunately, this will affect your tax obligation (and potentially your Medicare Part B premium, too)!



## TSP Withdrawal Options

### Some Notables

- » Your handling of withdrawals from the TSP will determine how long your account will last you in retirement
- » The TSP absolves themselves of any responsibility for the actions you choose to take with your money
- » Many of the withdrawal decisions in the TSP are irrevocable (or insanely painful to fix), so get it right
- » Don't be afraid to ask for help from a qualified professional who can offer an insightful perspective

## TSP Withdrawal Options



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U.S. Office of Personnel Management



"The most information I have ever received and heard in my ENTIRE military and federal years."  
L.B., Department of Defense



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  - One-on-one help available

» See all the details at:  
[FedImpact.com/Attend](https://FedImpact.com/Attend)

## TSP Withdrawal Options

### Handouts and Replay



- » Handouts
  - Download
  - Emailed
- » Replay
  - Link will be emailed to all registered participants

## TSP Withdrawal Options

### Next Webinar



- » Next webinar topic!
  - **TSP's Required Minimum Distributions (RMDs)**  
Discovering the real impact RMDs have on your TSP account value, taxes, other benefits & your heirs
- » Sign-up at:  
[FedImpact.com/Webinar](https://FedImpact.com/Webinar)

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