James Wealth Management

TSP Distributions

Thank you for reading the final article in our three part series all about the Thrift Savings Plan. In this article we will cover options to take money out of the TSP. We will detail how you can withdrawal while still working and after you leave government employment.

The first option to take funds from your TSP plan is to take a loan from the account. While you are working you can borrow money from your TSP account. The TSP offers a general-purpose loan and a primary residence loan. Each has a processing fee; general-purpose is $50 and primary residence is $100. The general-purpose loan can be used for anything and has a shorter repayment term of 12-60 months. If you take out a primary residence loan, you can make payments for 61-180 months. Documentation is required to take out a primary residence loan in order to prove that loan proceeds will be used for the purchase of your home, and not renovations or refinancing.

The minimum loan size is $1,000. The maximum loan amount depends on your contributions, investment earnings, TSP balance, and other outstanding loan balances. A loan can only be taken against dollars in the regular TSP, not a separate investment account through the mutual fund window referenced in part 2 of our TSP series.

The loan is repaid through payroll deduction and payments begin within 60 days. Each time a payment is made, the money gets reinvested into the funds you've selected. You can make extra payments towards the loan outside of payroll as well. If you leave government service after you take out a loan, you can set up a monthly payment, pay the loan off with other resources, or use your TSP balance to pay off the loan. If you choose to pay the balance of the loan with funds in your TSP, the amount paid is taxable to you. This could create an unexpected tax bill and will require careful planning. James can help you with this type of planning.

Understanding possible consequences of this option is important. When you take out the loan you are taking the money from your investments, and therefore missing potential market return. A loan could significantly impair your ability to retire if the growth you need is not provided. It is common for people to rationalize a TSP loan because they are borrowing their own money at a low interest rate, but it is very important to factor in the cost of lost returns in the account.

Another way to get money out of your TSP account is through an in-service withdrawal. For this option, you still work for the government, you are still in-service, and can permanently withdraw from your TSP without paying it back. There are several types of in-service withdrawals, but the one we see the most is an age 59.5 withdrawal. Once you reach 59.5 you can withdraw from your retirement accounts without penalty. The TSP allows you to take withdrawals just like you can from a Traditional IRA at that age. You can take as small as $1,000 or as much as the entire vested balance. We've had clients do a direct rollover into an IRA for James Investment Research to manage. These clients like the idea of someone else handling the investment choices, and an investment adviser representative also provides many more investment choices, such as individual stock. If you are still contributing to the TSP, your contributions will start growing the balance again.

The last option for withdrawing money from your TSP is after you separate from service. You can take money periodically as you need it, all at once, or in systematic withdrawals. The minimum amount of a withdrawal is $1,000, and the withdrawals have to be at least 30 days apart. A mandatory 20% income tax is withheld from a distribution and the remainder can be direct deposited into your bank account. To initiate the request, you log on to your My Account on tsp.gov. Some transactions can be completed entirely online. If you are married your spouse may need to sign and notarize the form before processing.

An IRA rollover is likely a good option if you are completing a total distribution. Most people who do this want to have more control over the money, including investing it in more ways, accessing it when and how they want, and making more specific withholding elections. For example, requiring a spouse's notarized signature can cause administrative delays. You also might want to withhold more or less than the required 20%. We also find that people want to consolidate their accounts when they get older to make them simpler to manage. It's easier to keep track of required minimum distributions if all the pretax dollars are in the same account and it is easier for your beneficiaries to administer after your passing.

The TSP also allows for systematic withdrawals. You can either set up recurring withdrawals from your TSP regularly or you can purchase an annuity with your TSP balance. The first option is called installment payments. You request the TSP to send you a set amount each month, quarter, or year. If you are unsure of how much you should withdraw, they have a calculator that will tell you how much to withdraw based on your life expectancy. It's important to note that it is possible for your TSP account to be depleted with installment payments. The payments will only continue if you have a TSP balance. There is some responsibility on you to make sure the investments are managed properly so you don't run out of money. You can adjust the payments as needed, giving you flexibility.

The other systematic withdrawal option is the purchase of an annuity. You can designate part of your TSP balance to provide annuity payments. There are many types of annuities but this type of annuity is like a pension. You give the insurance company a lump sum and then receive systematic payments for a period of time. It could be over your lifetime, your and your spouse's lifetime, or for a certain number of years. The annuity provides additional security, but less flexibility compared to the installment payments. You can't change the payment amount and might not be able to get the remaining balance out of the annuity.

We hope you've found this guide helpful. As you can see there is a lot to learn about the TSP. Our goal at James is to make complicated financial decisions easy. Contact us today to see how we can help.

- The James Team