

## Three (or More) Helpings of the TSP

By Tammy Flanagan

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My [column last week](#) on Thrift Savings Plan withdrawals attracted several responses like this one:

I do not understand what the following statement from your column is saying: “If you want to take out money on an ‘as-needed’ basis, the TSP doesn’t offer the ability to take more than three partial distributions.” Would really appreciate an explanation!

Or this:

I was aware of the ability to take two partial distributions, but how do you take the third?

Many people think that there is only one partial TSP withdrawal available after you separate from federal service and that you then must take a full withdrawal. But to every rule, there are exceptions.

Here are three ways -- and maybe four -- that you can take partial withdrawals after your federal service has ended.

### **Partial Withdrawal No. 1**

There is a post-separation, one-time partial distribution. This allows separated employees to withdraw a portion of their TSP balance and leave the remainder invested until later. Use [Form TSP-77](#) for the withdrawal.

There’s also an option for employees who stay in federal service beyond age 59 ½ to exercise this one-time partial distribution as an “[age-based in-service withdrawal](#)” by using [Form TSP-75](#). If you make this choice, then you will not be permitted to do a post-separation partial withdrawal.

### **Partial Withdrawal No. 2**

When you’re ready to withdraw all of the money from your account, you may exercise a [full withdrawal](#) by selecting from a variety of withdrawal options. One of these involves a second single payment. This is your second chance for a partial distribution. The only condition is that if you are going to elect a single payment of, say, 50 percent (it can be any percentage up to 100 percent) of your remaining balance, then you will need to make a choice between monthly payments and/or a life annuity with the remaining 50 percent. (You could choose to do both--some as a series of monthly payments and the remainder as a life annuity.)

You can make a full withdrawal online or by using [Form TSP-70](#). TSP has an online wizard that will help you with your withdrawal request. Based on your answers to a series of questions, it will prefill the appropriate sections of your form and help you avoid mistakes that could cause your request to be delayed or rejected.

### **Partial Withdrawal No. 3**

If you chose a series of monthly payments, you can stop them later and cash out the remaining balance or transfer it to an IRA -- or a little of both. To learn more about TSP post-separation withdrawal options, see the TSP publication [Withdrawing your TSP After Leaving Federal Service](#). Use [Form TSP-79](#) to request a final single payment from your TSP account. This will close your account.

#### **Possible Partial Withdrawal No. 4**

There is technically a fourth partial withdrawal that can be used prior to retirement and will not count against your one-time post-separation partial withdrawal. If you have an outstanding TSP loan at separation and don't repay it in full within 90 days, a taxable distribution of the outstanding balance will be declared. To avoid this distribution and possible tax penalties, you may be able to roll the amount of the distribution into an IRA or eligible employer plan within 60 days of it being declared. You will not be able to withdraw your TSP account until your loan is closed by either payment in full or taxable distribution.

For more information about loan repayments after leaving federal service, see this [TSP tax notice](#). The option to not repay an outstanding TSP loan balance should be approached with caution, due to the possibility of a tax penalty for early distribution and the overall tax consequences of a lump sum payout of your TSP account. To learn more about TSP loans, see [this publication](#).

#### **Required Minimum Distributions**

Keep in mind that under IRS rules, you must begin receiving required minimum distribution payments in the calendar year when you become age 70 1/2 and are separated from service. The TSP will calculate these distributions for you based on your account balance and your age if you have money left in your TSP account when these distributions are required.

Be sure to keep your address current with the TSP using [Form TSP-9](#), so you will be notified when you must make a selection for full withdrawal as the required minimum distribution deadline draws near. If you do not make a withdrawal choice by the required deadline, your account balance will be forfeited to the TSP. You can reclaim your account, but your balance will not accumulate earnings after it is forfeited.

Although your withdrawal options are somewhat limited within the TSP, there may be more choices than you're aware of. No matter which option you exercise, remember that withdrawing from your TSP account after your separation may have significant tax consequences. It's important to understand these before you make a choice you may not be able to rescind later.

Although the TSP webinar series that I'm presenting with certified financial planner Micah Shilanski has sold out, it's included in an annual webinar pass providing access to a full year of sessions on retirement planning. To learn more, [click here](#).

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