Government Executive

Furloughs and Your Retirement

By Tammy Flanagan

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Well, it's furlough time -- or, as my friend Herb Hayes calls it, "furl-ouch." Suddenly, every day feels like a snow day. But where I live in Northern Virginia, the sun is shining and it's as hot as a summer day in mid-July. When government shutdowns happen, it is not as much fun to have a day off as some people seem to think. The emotions are many: fear (will I be paid?), curiosity (how is everyone handling the situation?), and anger (why would our government allow this to happen?).

While I'm not currently a federal employee, I am a government contractor who also is affected, because there are no employees at work to attend my pre-retirement seminars. I always try to look on the bright side of any situation, but there are many people -- feds as well as those who depend on the government to stay in business -- that will not see any bright side to this situation.

Among the many concerns that federal employees have right now is what will happen to their Thrift Savings Plan investments. Here are a few TSP tips and facts to consider in a shutdown scenario:

Read this TSP fact sheet: Impact of a Federal Government Shutdown on the Thrift Savings Plan. It says that investment activity will continue. Share prices and account balances will continue to be updated every business day. Loans and withdrawals will continue to be disbursed.

Check out another fact sheet, Sequestration and Your TSP Account, if you're wondering how to free up some of the money sitting in your TSP account to cover your day-to-day expenses.

Remember that furloughed employees cannot contribute to their TSP accounts during a shutdown, and agency contributions also stop. (More information is here.) If you're thinking about stopping contributions or decreasing the amount that you are saving after you return to work, keep in mind that traditional TSP contributions affect your tax withholding. If you reduce your pre-tax contributions, then you are increasing your taxable income by the same amount. Also, remember that FERS employees receive matching agency contributions on the first 5 percent of salary contributed each pay period. Try not to go below a 5 percent contribution, so you don't lose the agency match.

Even though you may be in an intermittent loss of pay status, you can borrow from your TSP to cover some of your expenses during a furlough. A short-term break in pay would still allow a TSP participant to begin payment by payroll deduction within 60 days of the loan issue date. If the shutdown went beyond 60 days, then the participant would be responsible for making loan payments. Loans are not considered in default until you've missed 2 ½ payments.

You can also apply for a hardship withdrawal, but you will not be able to make any TSP contributions for six months after receiving your payout. You also will have to pay income tax on the taxable portion of any withdrawal and possibly a 10 percent early withdrawal penalty as well.

The government cannot take money from your TSP account, because this money is held in trust for its participants. If the Treasury Secretary determines that the government securities G Fund cannot be fully invested without exceeding the federal debt limit, Treasury can suspend investments for all or part of the G Fund on a daily basis, but is required to make the fund whole after the debt limit has been increased. TSP Director Greg Long has sent a message to plan participants explaining the effect of the debt ceiling on the G Fund. He'll be a guest on the "For Your Benefit" radio show on Federal News Radio at 10 a.m. ET on Monday, Oct. 7.

If you want to contribute the full elective deferral limit of $17,500 for 2013 and have selected a percentage amount to be withheld from your pay check for your TSP contributions, you may not reach the full $17,500 due to furloughs. If you need to change the amount of your TSP contribution each pay period, you can submit a new election form or use your agency's online service to make changes to your allotment. Remember that FERS employees only receive matching contributions from their salary if there are employee contributions. If you "max out" the elective deferral limit before the last pay period, you will lose your matching agency contributions.

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http://www.govexec.com/pay-benefits/retirement-planning/2013/10/furloughs-and-your-retirement/71314/