What Happens to TSP After Leaving the Military?

When you leave an employer that offers a sponsored retirement account, you can no longer make additional deposits into that account. Whether you choose to take a payout (and possibly pay the associated penalty) or roll the funds over into a different qualified retirement account, letting them sit isn't usually the best option. However, with the Thrift Savings Plan, it almost always is.

When you leave the uniformed services, you are not required to take money out of your TSP account. In fact, as long as your balance remains above $200, you can leave your retirement funds in your account for as long as you would like. Note that if you would like to move your funds away from TSP, there are no fees or penalties associated with rolling money out of your account to an IRA or a 401(k) associated with a different job. However, once the balance of your TSP drops below $200, TSP will close your account permanently.

What else happens when leaving the uniformed services?

When you leave the service, you can choose to keep your TSP account open, or you can close it.

If you choose to maintain your TSP account, you can no longer make payroll contributions to your TSP account, even if you receive a military retirement pension. You are also unable to take new loans from your account balance, but if you have a loan balance at the time of separation, you can continue to repay the loan under the existing terms. You *can* still actively manage your account and make changes to your asset allocation. You can also roll over eligible funds (including funds from a traditional or Roth 401(k) or other eligible employer-sponsored plan and funds from traditional IRAs) into your account.

You will still be required to pay administrative expenses to cover the cost of maintaining your account. Keep in mind, however, that TSP administrative fees are significantly lower than those associated with other qualified retirement accounts.

Once you turn 59 ½ years old and have separated, you can begin receiving distributions from your TSP account without any tax penalties. That said, income tax planning may still be an important consideration. You can choose to receive payments in four different ways:

- **Fixed-Dollar Installments:** Choose an amount (at least $25) you want to receive in each monthly, quarterly, or annual payment. Payments will continue until your account balance reaches zero unless you cancel them.
- **Life Expectancy Installments**: TSP will compute your payment amount based on how often you want to receive a payment and your life expectancy. The initial payment amount is based on your age and account balance.
- **Single Withdrawal:** You can take out any amount of $1,000 or more in a single payment. TSP will process one withdrawal in a 30-day period.
- **Annuity:** TSP will purchase an annuity on your behalf with money from your account. Essentially, you pay now to receive monthly payments that last for either the rest of your life or the rest of your life and that of a joint annuitant. The money is no longer controlled by you, but payments are guaranteed. The minimum purchase amount for an annuity is $3,500. Once purchased, you cannot undo the decision.

Under the current tax code, once you reach 73 years old, you are also subject to required minimum distributions. (This age may be 75, depending on when you were born.) If you have been receiving payments that were set up using one of the methods listed above and are below the RMD amount, TSP will send you an additional check to make up for the difference.

If you decide to close your account, you have three options:

- Roll your TSP funds into an IRA
- Roll your TSP funds into a new employer's 401(k)
- Withdraw your TSP funds in full

Rollovers

You can roll your TSP balance completely or partially into an IRA or a new employer's 401(k). If you do not have a new employer, an IRA is likely to be your only option. If you do have a new employer, you may choose to roll your TSP funds into either your new 401(k) or an IRA – the decision may be dependent on the fees associated with each account, the investment options available, and the amount of money you are rolling over.

> **Note:** If you continue to work for the federal government, you will also have the opportunity to open a TSP account associated with your civilian career. These will remain two separate accounts unless you decide to roll one into the other to consolidate them.

Individuals who choose to roll their TSP balances over into another retirement account appreciate the simplicity that comes with having all of their funds in one location, which makes retirement planning and, eventually, taking distributions, simple. Employer-sponsored retirement accounts also allow participants to take loans from their account balance. However, the IRS requires loans to be repaid within five years (with the exception of loans for the purpose of purchasing a primary residence) with payments being made at least quarterly. If IRS conditions are not met, the loan may be treated and taxed as a distribution.

If you roll money out of your TSP, you may want to consider keeping $200 in the G Fund. Since the G Fund promises no negative returns, this would keep your account open. While that amount of money is unlikely to produce much income, keeping your account open allows you to return to it in the future (by rolling money back in) if you change your mind. Once closed, the benefit is gone forever.

Withdrawals

A complete withdrawal of TSP funds is unlikely to be your best financial option. You will be required to pay both taxes (on traditional contributions and their associated growth) and an early withdrawal penalty of 10% if you are less than 59 ½ years old. This could amount to a significant chunk of your TSP balance being immediately lost to taxes and fees. Further, once this money is withdrawn, it can no longer grow. Be sure to consider carefully whether this option is the best fit for you before making a complete withdrawal.

If you choose to make a withdrawal and then change your mind, you have 60 days to roll those funds over into an IRA. However, to rollover the entire amount, you will be required to contribute enough cash of your own to make up the tax (and any early withdrawal penalty) that was withheld when the funds were withdrawn.

What happens to funds still contained in a TSP account after the account owner passes away?

Unless you have designated an alternate beneficiary and/or contingent beneficiary, funds that remain in your account at the time of your death will be distributed as follows:

- If you are married, funds will be distributed to your spouse.
- If you are unmarried, funds will be distributed to your child or children equally. If you have a child who is deceased, their share of the account will be distributed equally to their descendants.
- If you are unmarried without children, funds will be distributed to your parents equally or your surviving parent.
- If you are unmarried, without children, and both of your parents have passed on, funds will be distributed to the appointed executor of your estate.
- If none of the above situations match your circumstances at your time of death, funds will be distributed to your next of kin as established by your estate.

Note that you cannot use your Last Will and Testament to dictate your wishes for remaining TSP funds; beneficiary designations must be made through TSP. You can make beneficiary designations online by logging in to your TSP account and following the instructions there.

> For more information about the Thrift Savings Plan – or other military or veterans benefits – email our educators at education@navymutual.org or give us a call at 888-298-4442.