Thrift Savings Plan Basics

Whether you are new to the military or are taking the time to dive into retirement planning, it's important that you understand the basics of the Thrift Savings Plan. It seems complex upon first glance, but we have the answers to your most frequently asked questions here.

What is the Thrift Savings Plan?

The **Thrift Savings Plan**, or TSP, is a defined-contribution retirement plan that is accessible only to federal employees and members of the uniformed services. It is similar to 401(k) plans that may be offered by civilian employers and offers low-expense retirement investment options. As with any retirement account, it is critical to consistently contribute to your TSP – the value of your account in retirement will be determined by your contributions to the account while working (or any money that you roll over) and the performance of the investment options within the account.

How do I open a TSP?

If you are covered by the Blended Retirement System (which you are if you joined the uniformed services on or after January 1, 2018 or if you opted-in to the Blended Retirement System between January 1, 2018 and December 31, 2018), you were automatically enrolled in a TSP after 60 days of service.

If you are not covered by the Blended Retirement System, you must make a contribution through payroll to establish your account.

Does it have a traditional and Roth component?

Yes. Money put into a traditional TSP account will have taxes deferred, meaning you will not pay any taxes on that income when it is transferred into your TSP account. When the money is withdrawn after you reach age 59 ½, you will be required to pay taxes on both the contributions and the earnings. When money is contributed to a Roth TSP account, it will be taxed during the year of the contribution. However, this money grows tax free and there will be no taxes paid on any earnings withdrawn in retirement. You may elect to put money into both traditional and Roth TSPs, which are respectively taxed as described.

How do contributions work?

You can contribute any whole percentage of your pay, up to the annual dollar limit set by the IRS – in 2021, it is $19,500. If you are a BRS employee, your agency or service will contribute an amount equal to 1% of your basic pay each pay period to your TSP account. You will begin receiving this contribution after 60 days of having an open TSP account.

If you joined the uniformed services between August 1, 2010, and September 30, 2020, your contributions were automatically set at 3% of your basic pay each period – with the money going into a traditional TSP account. If you joined the service after October 1, 2020, your contributions are automatically set at 5%. You can log in to your **myPay** or **Direct Access** account to make changes to your contribution amount or account allocation.

You are immediately vested in all money that you contribute to the account, meaning that you will not lose any money when you separate. You will become vested in Service Automatic (1%) Contributions after two years of service. This means that, if you were to separate before completing two years of service, the automatic contributions and any earnings on them would be forfeited back to the TSP.

Does my branch of service match any of my contributions?

If you are a BRS participant, you will receive matching contributions from your agency or service based on your regular employee contributions once you are eligible. Unlike automatic contributions, matching contributions are not subject to vesting requirements.

BRS members begin receiving matching contributions after completing two years of service. Matching contributions range from 1–4% depending on your contribution percentage.

If you were to pass away before separating from the service, no matter how long you had your TSP account, you are considered vested in all of the money in the account. For this reason, it is important to designate a beneficiary on your TSP account.

Are there any rules specific to TSP accounts?

Unlike most employer-sponsored retirement accounts, you can keep your TSP after you separate from the military provided it has an account balance of at least $200. While your payroll contributions to the account will end upon your separation, qualified retirement accounts can still be rolled into your TSP after you leave the military.

You will not be able to open another TSP account once you separate unless you reenter federal service. Loans on your TSP account balance are not available once you leave service.

There are also special rules regarding combat zones. If you are in a Combat Zone Tax Exclusion area or a Direct Support Area, any money you contribute to your TSP – regardless of whether the account is traditional or Roth – is invested tax-free. If you elect to contribute to your traditional TSP account, contributions will be tax-free when you withdraw them, though you will have to pay taxes on any earnings. Roth contributions made in a combat zone or direct support area will remain tax-free as usual.

Further, the IRS contribution limit for TSP increases when in a combat zone or direct support area. For example, the limit for 2021 will increase to $58,000. However, there are still limits for the total Roth contribution. You can only contribute up to the IRS limit (currently $19,500) to your Roth TSP. The remaining contributions would need to be categorized as traditional. This increase remains for the entire tax year, not just while you are deployed.

What are my investment options in the TSP?

The TSP account offers five funds for you to choose from. Each fund offers different investment strategies as well as varying levels of risk and return. Lifecycle funds offer professional management based on your time horizon – or when you plan to use the money. Log in to your TSP account to choose your investment options.

Are there any downsides to TSP accounts?

As with any employer-sponsored account, regular contributions to your account must cease when you leave or retire from the military.

And, as with any investments, there are market risks and your account could lose value. Understanding your risk tolerance and diversifying your TSP account through various investment strategies can reduce your risk, but not fully eliminate it.

If you withdraw from your TSP account before you are retirement eligible (at age 59 ½), you will be subject to a 10% penalty. You may also have to pay taxes on money withdrawn from your traditional TSP account. Certain hardship withdrawals may be permitted without penalty if you are in a qualifying situation.

Do TSP accounts support rollovers?

Yes, but remember that one of the biggest advantages of TSP is the low maintenance fees compared to IRAs and other employer-sponsored retirement accounts. There are no fees or penalties to roll money into or out of your TSP account from/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.

If you want to roll money into a different retirement account but wish to keep your TSP account active – for instance, you may wish to roll money *into* the TSP from a 401(k) in the future – you must maintain a balance of over $200. The easiest way to do this is to transfer that amount into the 'G' fund of TSP, which is a fund that is guaranteed not to lose money no matter what the stock market does. This will keep you above the $200 cutoff and maintain your account.

What happens if I pass away and there is still money in the account?

Unless you have designated an alternate beneficiary by submitting form TSP-3, 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, then 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.

How do I receive payments from the account?

Once you turn 59 ½ years old, or earlier in some instances, and become retirement eligible *and* have left the service, 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 is zero unless you stop 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 payment 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 the rest of your life. The money is no longer controlled by you, but payments are guaranteed. The minimum purchase amount for an annuity is $3,500.

Required minimum distributions (RMDs) will begin on both traditional and Roth TSP accounts during the calendar year in which you turn 72 years old and are separated from the military. If you have been receiving payments (that you set up using one of the methods listed above) but they are below the RMD amount, your TSP will send you an additional check to make up for it.

Have questions? We have answers. If you are interested in purchasing your own **annuity** outside of TSP or simply want to learn more about Navy Mutual products and services, give us a call at **800-628-6011** or set up an appointment to speak with a representative **here**.