In-Service Withdrawals

Financial Hardship and Age-59½

Thrift Savings Plan

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Before You Make an In-Service Withdrawal

An in-service withdrawal is a withdrawal that you make from your Thrift Savings Plan (TSP) account while you are still actively employed in federal civilian service (CSRS or FERS) or the uniformed services.[1] There are two types of in-service withdrawals: financial hardship withdrawals and age-59½ withdrawals.

Note: You cannot make an in-service withdrawal from a beneficiary participant account. (A beneficiary participant account is a TSP account that is inherited from a deceased TSP participant.)

Before making an in-service withdrawal, keep in mind that the TSP is a retirement savings and investment plan designed to help you save for your future. If you are covered by FERS or are a member of the uniformed services covered by the BRS,[2] the TSP is a critical component of your federal retirement benefits and may represent a significant part of your retirement income. Before you decide to withdraw money from your account while you are still employed, carefully consider the impact of your decision on your future well-being.

Consequences of Making an In-Service Withdrawal

An in-service withdrawal affects your ability to accumulate savings and, in some cases, to defer taxes. This is because of the following:

- When you make an in-service withdrawal, you permanently reduce your TSP account by the amount you withdraw, and you also give up any future earnings on that amount. Once we process your withdrawal, you cannot

1 CSRS refers to the Civil Service Retirement System, including CSRS Offset, the Foreign Service Retirement and Disability System, and other equivalent government retirement plans. These federal civilian employees were hired before January 1, 1984.

FERS refers to the Federal Employees Retirement System, the Foreign Service Pension System, and other equivalent government retirement plans. These federal civilian employees were hired on or after January 1, 1984.

For TSP purposes, members of the uniformed services include members of the Army, Navy, Air Force, Marine Corps, Coast Guard, Public Health Service, and the National Oceanic and Atmospheric Administration, as well as members of the Ready Reserve, including the National Guard.

If you are both a federal civilian employee and a member of the uniformed services, you may have two separate accounts. The information in this booklet applies to each account separately.

2 BRS is for members of the uniformed services who began service on or after January 1, 2018, and others who opted into the system.

return or repay the money to your account, and you cannot convert your withdrawal to a loan.

- **You must pay federal and, in some cases, state income taxes on the taxable portion of your withdrawal.** If you make a financial hardship withdrawal before age 59½, you may also have to pay a 10% early withdrawal penalty tax. **Note:** You do not have to pay federal taxes on any tax-exempt or Roth contributions that are included in your withdrawal. However, the earnings on traditional contributions are always taxable. The earnings on Roth contributions are taxable unless they meet the IRS requirements for a qualified distribution.[3]

You should think about these consequences before making an in-service withdrawal. If you are in pay status and are eligible for a TSP loan, you may want to consider that option because it has certain advantages over a withdrawal. When you take a loan, it is not taxable income. Also, you repay your own TSP account for the amount of the loan (plus interest) and therefore continue to accrue earnings on the money you borrowed after you pay it back.

For more information about TSP loans, read the booklet *Loans*, which is available on tsp.gov or through the ThriftLine options on page 14.

The chart on the next page compares how taking a TSP loan or making an in-service withdrawal would affect your account.

3 Roth earnings become qualified (i.e., paid tax-free) when the following two conditions have been met: (1) 5 years have passed since January 1 of the calendar year in which you made your first Roth contribution, and (2) you are age 59½ or older, permanently disabled, or deceased. **Note:** We cannot certify to the IRS that you meet the Internal Revenue Code's definition of disability when your taxes are reported. Therefore, you must provide the justification to the IRS when you file your taxes.

	Loans	In-Service Withdrawal
Cost to You	$50 fee for a general purpose loan $100 fee for a primary residence loan	Retirement savings permanently reduced by amount of withdrawal
Effect on Taxes	None (unless loan is not paid back and a taxed loan is declared)	Immediate tax liability (unless age-59½ withdrawal is transferred to an IRA or eligible employer plan) Possible additional 10% early withdrawal penalty tax
Effect on Earnings	No earnings on amount of loan until funds are repaid	No earnings on amount withdrawn

Financial Hardship Withdrawals

A financial hardship withdrawal is a withdrawal you make while still employed because of genuine financial need. You must pay income tax on the taxable portion of your financial hardship withdrawal, and you may also have to pay a 10% early withdrawal penalty tax.[4]

Acceptable Reasons for Making a Financial Hardship Withdrawal

Acceptable reasons for making a financial hardship withdrawal include negative cash flow and extraordinary expenses. A worksheet in My Account on tsp.gov can help you determine the amount of your hardship.

Negative Cash Flow. You have negative cash flow if your net income is less than your expenses on a recurring basis. If you believe you have negative monthly cash flow, use the worksheet in My Account to determine how much it is. To get an accurate answer using the worksheet, you'll need to have the following information:

4 For more information, see the booklet *Tax Rules about TSP Payments* available on tsp.gov.

Gross monthly income. Include your monthly pay before taxes and other deductions and any other monthly income, such as child support. Include your spouse's income as well. The online worksheet needs this total and the number of people in your family to determine a reasonable level of monthly expenses.

Net monthly income. Start with your gross monthly income and subtract monthly federal paycheck deductions, such as tax withholding, Social Security, and federal retirement deductions.

Total fixed monthly expenses. Include your rent or mortgage; real estate tax; your homeowner's or renter's insurance; monthly household utilities; necessary household help due to illness or injury; and any expenses you pay for alimony, maintenance, or child support. You should also include any installment loan payments other than those related to a TSP loan. Do not include credit cards or charge accounts or any interest charges on them.

Extraordinary Expenses. Extraordinary expenses that are not part of your regular monthly cash flow can also contribute to your financial hardship. You may only include expenses that you have not yet paid and that will not be reimbursed to you. The following are extraordinary expenses you can include in your financial hardship:

Eligible medical expenses including the following:

- Any medical expense that you have not yet paid that would be eligible for deduction on your federal income tax return. The expense must have been incurred as the result of a medical condition, illness, or injury to you, your spouse, or individuals you can claim as dependents for federal income tax purposes at the time you request your financial hardship withdrawal.
- Expenses that you have not yet paid for household improvements needed because of a medical condition, illness, or injury to you, your spouse, or your dependents. Examples include the installation of structural improvements such as wheelchair ramps, railing and support bars, modified doorways and stairways, or elevators.

Eligible personal casualty losses including damage, destruction, or loss of property resulting from an identifiable event that is sudden, unexpected, or unusual. Such losses can be the result of earthquakes, hurricanes, tornados, floods, storms, fires, or similar causes. They can also be the result of property theft or automobile accidents that are not caused by your willful negligence or willfully destructive act.

Generally, eligible costs of repairs and replacement of personal casualty losses are those that are eligible for deduction on your federal income tax return (without taking into consideration the IRS limits on income, the fair market value of the property, or the number of events causing the casualty loss).

However, eligible personal casualty losses do not include

- loss of deposits when a bank or other financial institution becomes insolvent or bankrupt;
- losses to a business or income-producing property (even though such losses are deductible for federal income tax purposes); or
- damage from normal wear and tear, such as damage or destruction caused by termites or moths or progressive deterioration of your property.

Eligible legal expenses, limited to unpaid legal fees and court costs related to a separation or divorce from your spouse.

Legal expenses that cannot be used to justify a financial hardship include the following:

- Court-ordered payments to a spouse or former spouse and child support payments. However, if you are making a financial hardship withdrawal because of negative cash flow, such payments should be included in your calculation of expenses.
- Support payments or costs of obtaining prepaid legal services or other coverage for legal services.

Expenses and losses from a major disaster declared by the Federal Emergency Management Agency (FEMA). Principal residence or principal place of employment at the time of the disaster must be located in the area designated by FEMA.

TSP Rules for Making a Financial Hardship Withdrawal

The following rules apply to making a financial hardship withdrawal:

- You cannot request less than $1,000.
- The money may only be taken from your own contributions (including money you may have rolled over to the TSP from IRAs or eligible employer plans) and the earnings on those contributions.

- You cannot withdraw directly from money invested in the TSP's mutual fund window. You must first transfer that money to a TSP fund before withdrawing it.

- If you have both traditional money and Roth money available for a hardship withdrawal as described above, you must specify the source of the withdrawal. You can choose to take traditional money only, take Roth money only, or take money from both pro rata. Pro rata means it will have the same percentages of Roth and traditional as are in the eligible portion of your account balance. Example: You have $100,000 of your own contributions and earnings on those contributions, including $80,000 traditional and $20,000 Roth. If you take a $10,000 pro rata withdrawal, $8,000 will come from your traditional balance and $2,000 will come from Roth.

- Your withdrawal must be used to cover a genuine financial hardship (based on the reasons previously described) while you are actively employed by the federal government or the uniformed services.

- Your financial hardship withdrawal is limited to the amount of your financial need.[5] When calculating the amount of your financial hardship, you cannot use any expenses that have already been paid or that are reimbursable to you from insurance or other sources.

- If the amount of employee contributions and earnings in your chosen source (traditional, Roth, or total) drops below the amount you requested while the request is pending, we will process your request and send you whatever amount you have available in that source. Keep in mind that this amount will not cover the shortfall caused by your hardship.

- You cannot make another financial hardship withdrawal from your account for a period of six months from the time your payment is processed. This is especially important if you have chosen a Roth-only or traditional-only withdrawal. As noted in the previous rule, if your eligible funds amount has dropped below your requested amount, we will not tap into your other source. And you will not be able to access that source to make up the difference for six months.

- You can make a financial hardship withdrawal only from an account that's associated with your active employment. So, for example, if you have a uniformed services account but have left the uniformed services

5 If you have sufficient eligible funds available, you may increase your withdrawal to 125% of the financial need to cover tax withholding. See the table on page 13.

and are now a federal civilian employee, you can only make a hardship withdrawal from your civilian TSP account. If both of your accounts are associated with your active employment (e.g., you're a federal civilian employee and a reservist), the rules explained here apply to each account separately.

Note: Contributions to your TSP account will continue unless you stop them.

How to Apply for a Financial Hardship Withdrawal

Once you've read this booklet and the TSP booklet *Tax Rules about TSP Payments* and are ready to request a withdrawal, log in to My Account to begin the request or contact us through one of the ThriftLine options on page 14.

When you request your financial hardship withdrawal, you will have to certify under penalty of perjury that you have a genuine financial hardship. Although you don't have to submit income information or documentation of expenditures with your financial hardship withdrawal request, you should retain such information and documentation for future reference.

Age-59½ Withdrawals

If you are 59½ or older, you can make withdrawals from your TSP account while you are still employed. You must pay income tax on the taxable portion of your withdrawal unless you roll it over to an IRA or other eligible employer plan.

TSP Rules for Making an Age-59½ Withdrawal

The following rules apply to making an age-59½ withdrawal:

- You must be at least age 59½. We determine your age based on the date of birth reported by your employing agency or service. If that date is incorrect, you must ask your agency or service to change it.
- You can make up to four age-59½ withdrawals per calendar year. (No more than one in a 30-day period.)
- You can only withdraw funds in which you are vested (i.e., funds you are entitled to keep based on your years of service). Being vested means that you're entitled to keep your Agency/Service Automatic (1%) Contributions (and their earnings) after you work in the federal government or uniformed

services for a certain number of years.[6] You're always vested in your own contributions, Agency/Service Matching Contributions, and the earnings on both those contribution types.

- You cannot withdraw directly from money invested in the TSP's mutual fund window. You must first transfer that money to a TSP fund before withdrawing it.
- You have a number of withdrawal options, depending on whether you have both traditional and Roth money in your account or just one source.

  If you only have one source (traditional or Roth), you can

  - withdraw a specific dollar amount from your vested account balance as long as it's at least $1,000, or
  - withdraw your entire vested account balance.

  If you have both traditional and Roth, you have those same two options, but you can also

  - withdraw a specific dollar amount ($1,000 minimum) and request that it come only from traditional or only from Roth,
  - withdraw all of your traditional money, or
  - withdraw all of your Roth money.

  If you choose instead to withdraw money from both traditional and Roth, your withdrawal will be taken pro rata from both. That means that your withdrawal will have the same proportion of traditional and Roth money as you have in your total vested account balance. Example: You have $100,000 in your vested account balance, including $80,000 traditional and $20,000 Roth. If you take a $10,000 withdrawal, $8,000 will come from traditional and $2,000 will come from Roth.

- You can make an age-59½ withdrawal only from an account that's associated with your active employment. So, for example, if you have a uniformed services account but have left the uniformed services and are now a federal civilian employee, you can only make an age-59½ withdrawal from your civilian TSP account. If both of your accounts are associated with your active employment (e.g., you're a federal civilian employee and a reservist), the rules explained here apply to each account separately.

6 See the TSP booklet *Summary of the Thrift Savings Plan* for more information about vesting.

- You may be able to roll over all or part of your age-59½ withdrawal to a traditional IRA or an eligible employer plan.[7] However, your eligibility to roll over, as well as how taxes are applied, depends on the source of money contained in your withdrawal (traditional or Roth) and the type of account that will receive your rollover. Depending on the type of plan you move your money into, the funds you roll over may become subject to plan rules different from those that govern the TSP.

  For more detailed information about rolling over your age-59½ withdrawal, see the TSP booklet *Tax Rules about TSP Payments*.

How to Apply for an Age-59½ Withdrawal

Once you've read this booklet and the TSP booklet *Tax Rules about TSP Payments* and are ready to request a withdrawal, log in to My Account to begin the request or contact us through one of the ThriftLine options on page 14.

How In-Service Withdrawals Are Disbursed

Your withdrawal will be made pro rata from among the TSP funds in your chosen source (traditional, Roth, or both).[8] For example, if you choose to withdraw only from traditional and your traditional money consists of 50% C Fund, 25% F Fund, and 25% G Fund, your withdrawal will also be 50% C Fund, 25% F Fund, and 25% G Fund. In this case, your Roth investments are not considered in deciding which of your funds to withdraw from.

If you have only one source (traditional or Roth) or you've chosen to withdraw from both sources pro rata, your withdrawal will have the same percentages of TSP funds as are in your total available account balance.

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7 **A traditional IRA** is an individual retirement account described in IRC § 408(a) or an individual retirement annuity described in IRC § 408(b). The traditional IRA category does not include an inherited IRA, a Roth IRA, or a Coverdell Education Savings Account.

A Roth IRA is an individual retirement account described in IRC § 408A.

An eligible employer plan is a plan qualified under IRC § 401(a) (including a § 401(k) plan, profit-sharing plan, defined benefit plan, stock bonus plan, and money purchase plan); an IRC § 403(a) annuity plan; an IRC § 403(b) tax-sheltered annuity; or an IRC § 457(b) plan maintained by a governmental employer.

8 Money invested in the TSP mutual fund window, which cannot be withdrawn directly, is not considered in the pro rata calculation.

Any amount distributed from Roth will contain a proportional amount of Roth contributions and earnings. You cannot choose to receive only the contributions. This is only significant if your account includes nonqualified earnings, in which case you would have to pay taxes on a portion of your withdrawal. See more about this on page 2.

If you are a uniformed services member with tax-exempt contributions in your traditional balance, your withdrawal will contain a proportional amount of tax-exempt contributions as well. You cannot choose to receive only tax-exempt contributions. You will not have to pay taxes on the portion of your withdrawal made up of tax-exempt contributions. The earnings on tax-exempt contributions in your traditional balance, however, are not tax-exempt.

We disburse withdrawals each business day. You can log in to My Account on tsp.gov or contact us through one of the ThriftLine options on page 14 to find out the status of your withdrawal. Once your withdrawal has been disbursed, you cannot return it. (See 5 C.F.R. § 1650.17(b).)

At your request, we will directly deposit your withdrawal into your checking or savings account. Otherwise, we will mail your in-service withdrawal check—and any correspondence related to your withdrawal—to the permanent address provided by your agency or service or your alternate address if you've provided one. If you are rolling over your age-59½ withdrawal to your IRA or eligible employer plan, you can choose whether to have the check mailed to your address on record or to your IRA or eligible employer plan.

For your protection, the destination you wish to send your withdrawal to must be on file for at least seven days before it can be used to receive funds. This includes any postal address or any direct deposit address you have entered. Lost, stolen, damaged, or misdirected checks can take six weeks or longer to replace.

We can only process one request at a time from the same account. This includes both loan and withdrawal requests. You will not be able to request either type of transaction while you have one pending.

Be sure to keep the address in your TSP record up to date, even if you're receiving your withdrawal through direct deposit. You can only change your permanent address with your employer. If you've provided us with an alternate address, you can change that in My Account.

Additional Points to Note

It is important to understand how your in-service withdrawal will be affected by taxes, account holds, and spouses' rights rules.

Taxes

You are responsible for paying taxes on the taxable portion of an in-service withdrawal. We report all TSP withdrawals to the IRS—and to you—on IRS Form 1099-R, *Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.* We also withhold for federal income tax. However, you may decrease the percentage withheld or waive withholding when you make a financial hardship withdrawal.

Different tax and withholding rules apply to financial hardship withdrawals and age-59½ withdrawals. For detailed information about relevant tax and withholding rules, read the TSP booklet *Tax Rules about TSP Payments*, which you can get by using one of the ThriftLine options on page 14.

Account Holds

Some situations may cause a hold to be placed on your account. Examples include the following:

- A court order that awards all or part of a TSP account to a current or former spouse (including a separated spouse).
- A legal process that enforces obligations to pay child support or alimony, or to satisfy judgments for child abuse.
- A federal tax levy.
- A criminal restitution order pursuant to the Mandatory Victims Restitution Act (MVRA).
- A hold we place on your account because of suspected fraud.
- A hold we place on your account for administrative reasons such as account corrections or adjustments.

You cannot request a distribution until the matter that caused the hold is settled and the hold is removed from your account. However, any required minimum distributions (RMDs) will be disbursed by the appropriate deadline.

For more information about court orders, obtain the TSP booklets *Court Orders and Powers of Attorney* and *Tax Rules about TSP Payments*. Both are available on tsp.gov.

In addition to the account holds described, **you may voluntarily place a lock on your account to protect it.** When you do so, you'll be asked to set an unlock key. You will have to use the unlock key before taking a distribution.

Spouses' Rights

Your spouse has certain rights with regard to your in-service withdrawal, even if you are separated from your spouse. Therefore, on your request for an in-service withdrawal, you must indicate whether or not you are married. If you are married, the following rules apply:

- **If you are a FERS participant or a member of the uniformed services,** the law requires your spouse's consent to your in-service withdrawal. If your spouse's whereabouts are unknown, or if exceptional circumstances make it impossible to obtain your spouse's signature, you must contact us to apply for an exemption.

- **If you are a CSRS participant,** we must notify your spouse before your in-service withdrawal can be completed. If you do not know the whereabouts of your spouse, you must contact us to apply for an exemption.

The criteria for an exemption are strict. The fact that there is a separation agreement, a prenuptial agreement, a protective order, or a divorce petition does not in itself support a claim of exceptional circumstances.

In-Service Withdrawal Rules Table

	Financial Hardship	Age-59½
Money you can withdraw	Your employee contributions and their earnings	Your vested account balance
Amount you can withdraw	$1,000 or more	$1,000 or more, or your entire vested balance
When you can withdraw	When you are currently in federal civilian or uniformed service and have a genuine financial hardship to which you can attest under penalty of perjury	At age 59½ or older
Acceptable reasons for withdrawal	Negative cash flow Eligible unpaid medical expenses Eligible unpaid personal casualty losses Eligible legal expenses for separation or divorce Expenses and losses from a major disaster declared by FEMA	No specific reason needed
Tax withholding	10% for federal tax on the taxable portion. This percentage can be increased, decreased, or waived. You may also increase the requested withdrawal amount up to 125% of the amount of the approved financial need to cover tax withholding.	Mandatory 20% for federal tax on the taxable portion (percentage can be increased) No withholding on taxable amounts rolled over
Consequences	Taxable amount withdrawn becomes subject to tax for the year of the withdrawal Permanent reduction of retirement savings and future earnings 10% federal penalty tax if you are under age 59½ (exceptions apply)	Taxable amount withdrawn becomes subject to tax for the year of the withdrawal (unless rolled over to an IRA or an eligible employer plan*) Permanent reduction of retirement savings and future earnings
Spouses' rights	For FERS and uniformed service participants: spouse's consent required For CSRS participants: TSP required to notify spouse	
Frequency allowed	No limit, but a 6-month waiting period between withdrawals	Up to 4 per calendar year per active civilian or uniformed services account; no more than one in a 30-day period

* The money you roll over to a traditional IRA or eligible employer plan will not be taxed until you withdraw it from that IRA or plan. However, any traditional money you roll over to a Roth IRA will be taxed for the year it is disbursed from the TSP.

ThiftLine Service Center

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