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**FEDERAL RETIREMENT THRIFT INVESTMENT BOARD**

**5 CFR Parts 1650 and 1651**

**Additional Withdrawal Options**

**AGENCY:** Federal Retirement Thrift Investment Board.

**ACTION:** Final Rule.

**SUMMARY:** The Federal Retirement Thrift Investment Board ("FRTIB") is amending its regulations to provide TSP participants with additional withdrawal options and flexibility.

**DATES:** This rule is effective September 15, 2019.

**FOR FURTHER INFORMATION CONTACT:** Austen Townsend, (202) 864-8647.

**SUPPLEMENTARY INFORMATION:** The FRTIB administers the Thrift Savings Plan (TSP), which was established by the Federal Employees' Retirement System Act of 1986 (FERSA), Public Law 99-335, 100 Stat. 514. The TSP provisions of FERSA are codified, as amended, largely at 5 U.S.C. 8351 and 8401-79. The TSP is a tax-deferred retirement savings plan for federal civilian employees and members of the uniformed services. The TSP is similar to cash or deferred

arrangements established for private-sector employees under section 401(k) of the Internal Revenue Code (26 U.S.C. 401(k)).

The TSP Modernization Act of 2017 (the "Act"), Public Law 115-84 (131 Stat. 1272), signed into law on November 17, 2017, permits the TSP to offer participants additional withdrawal options and flexibility. In addition, the Act eliminates the requirement that a TSP participant who has reached age 70½ and is separated from federal service make a full withdrawal election with respect to his or her TSP account.

On June 10, 2019, the FRTIB published a proposed rule with request for comments in the Federal Register (84 FR 26769). The FRTIB received one or more comments from eighteen individuals. As described in more detail below, the comments received relate to changes that are prohibited by FERSA or other laws or unduly burdensome to implement from an administrative perspective; therefore, the FRTIB is publishing the proposed rule as final without change.

Six individuals requested the ability to convert a traditional balance to a Roth balance within the TSP. The FRTIB has, in the past, considered allowing in-plan Roth

conversions and ultimately concluded that the tax complexities involved and, in particular, the potential irreversible financial pitfalls for participants, weighed against doing so. Revisiting this decision was outside the scope of implementing the changes permitted by the Act.

Two commentators expressed concern about the amount of paperwork required by the spousal consent rules applicable to married Federal Employees' Retirement System (FERS) and uniformed services participants, particularly with respect to changes to installment payments. Spousal consent is statutorily required by 5 U.S.C. 8435(a)(1)(B) any time a married FERS or uniformed services participant (1) elects a TSP withdrawal in any form other than a joint life annuity with a 50 percent survivor benefit, level payments, and no cash refund; or (2) changes a withdrawal election, which includes a change to the amount or frequency of previously elected installment payments. Allowing a participant to make changes to the amount or frequency of his or her installment payments without spousal consent would undermine the protection the spousal consent rule is designed to provide by allowing a participant to effectively drain his or her account balance via a small

number of large installment payments without his or her spouse's knowledge.

Two individuals requested that, in addition to allowing withdrawals from a traditional balance only or Roth balance only, a participant be allowed to elect to withdraw amounts from his or her tax-exempt balance only. A participant's tax-exempt balance does not constitute a separate contract under 26 U.S.C. 72(d) and, therefore, the FRTIB is prohibited by the Internal Revenue Code from offering this option.

Two commentators suggested that participants be allowed to make fund-specific withdrawals from their TSP accounts, an option that the FRTIB did consider. Because the volume of withdrawal transactions processed by the TSP is so large, its withdrawal election form processing is highly automated. As a result, the complexity involved in updating withdrawal election forms and the associated programming to permit fund-specific withdrawals renders this option impracticable at this time.

One commentator asked that post-separation withdrawals be exempt from the 10 percent additional early distribution tax regardless of the participant's age. The Internal

Revenue Code governs when this penalty will apply. Under 26 U.S.C. 72(t)(1), the 10 percent additional early distribution generally applies to any post-separation withdrawal taken by a TSP participant before he or she reaches age 59½.

Finally, one individual expressed frustration that the changes do not permit a participant to make a single withdrawal election from his or her traditional balance and Roth balance in a percentage other than pro rata. The FRTIB considered allowing this but determined that doing so was unfeasible from an administrative perspective. A participant will still be able to accomplish the end goal by making two separate withdrawal elections—one from his or her traditional balance only and one from his or her Roth balance only.

**Regulatory Flexibility Act**

I certify that this regulation will not have a significant economic impact on a substantial number of small entities. This regulation will affect Federal employees, members of the uniformed services who participate in the TSP, and beneficiary participants.

**Paperwork Reduction Act**

I certify that these regulations do not require additional reporting under the criteria of the Paperwork Reduction Act.

**Unfunded Mandates Reform Act of 1995**

Pursuant to the Unfunded Mandates Reform Act of 1995, 2 U.S.C. 602, 632, 653, and 1501-1571, the effects of this regulation on state, local, and tribal governments and the private sector have been assessed. This regulation will not compel the expenditure in any one year of \$100 million or more by state, local, and tribal governments, in the aggregate, or by the private sector. Therefore, a statement under 2 U.S.C. 1532 is not required.

**Submission to Congress and the General Accounting Office**

Pursuant to 5 U.S.C. 810(a)(1)(A), the Agency submitted a report containing this rule and other required information to the U.S. Senate, the U.S. House of Representatives, and the Comptroller General of the United States before publication of this rule in the Federal Register. This rule is not a major rule as defined at 5 U.S.C. 804(2).

**List of Subjects**

Claims, Government employees, Pensions, Retirement.

5 CFR Part 1650

Alimony, Claims, Government employees, Pensions,  
Retirement.

5 CFR Part 1651

Claims, Government employees, Pensions, Retirement.

Ravindra Deo,

Executive Director,

Federal Retirement Thrift Investment Board

For the reasons stated in the preamble, the FRTIB  
amends 5 CFR Chapter VI as follows:

**PART 1650 - METHODS OF WITHDRAWING FUNDS FROM THE THRIFT  
SAVINGS PLAN**

1. The authority citation continues to read as  
follows:

Authority: 5 U.S.C. 8351, 8432d, 8433, 8434, 8435,  
8474(b) (5) and 8474(c) (1).

2. Amend § 1650.1 in paragraph (b) by adding in  
alphabetical order definitions for "Required beginning  
date" and "Required minimum distribution" to read as  
follows:

§ 1650.1 Definitions.

\*\*\*\*\*

(b)\*\*\*

*Required beginning date* means April 1 of the year following the year in which the participant reaches 70 ½ years of age or separates from Government service, whichever is later.

*Required minimum distribution* means the amount required to be distributed to a participant beginning on the required beginning date and every year thereafter pursuant to Internal Revenue Code section 401(a)(9) and the regulations promulgated thereunder, as applicable.

3. Amend § 1650.2 by revising paragraphs (a), (b), (f), (g), and (h) to read as follows:

**§ 1650.2 Eligibility and general rules for a TSP withdrawal.**

(a) A participant who is separated from Government service can elect to withdraw all or a portion of his or her account balance by one or a combination of the withdrawal methods described in subpart B of this part.

(b) A post-employment withdrawal will not be paid unless TSP records indicate that the participant is

separated from Government service. The TSP will, when possible, cancel a pending post-employment withdrawal election upon receiving information from an employing agency that a participant is no longer separated.

\* \* \* \* \*

(f) A participant can elect to have any portion of a single or installment payment that is not transferred to an eligible employer plan, traditional IRA, or Roth IRA deposited directly, by electronic funds transfer (EFT), into a savings or checking account at a financial institution in the United States.

(g) If a participant has a civilian TSP account and a uniformed services TSP account, the rules in this part apply to each account separately. For example, the participant is eligible to make four age-based in-service withdrawals from the civilian account **and** four age-based in-service withdrawals from the uniformed services account per calendar year. A separate withdrawal request must be made for each account.

(h) A participant may elect to have his or her withdrawal distributed from the participant's traditional balance only, Roth balance only, or pro rata from the

participant's traditional and Roth balances. Any distribution from the traditional balance will be prorated between the tax-deferred balance and any tax-exempt balance. Any distribution from the Roth balance will be prorated between contributions in the Roth balance and earnings in the Roth balance. In addition, all withdrawals will be distributed pro rata from all TSP Funds in which the participant's account is invested. All prorated amounts will be based on the balances in each TSP Fund or source of contributions on the day the withdrawal is processed.

4. Amend § 1650.11 by revising paragraphs (a) and (c) and adding paragraph (d) to read as follows:

**§ 1650.11 Withdrawal elections.**

(a) Subject to the restrictions in this subpart, participants may elect to withdraw all or a portion of their TSP accounts in a single payment, a series of installment payments, a life annuity, or any combination of these options.

\* \* \* \* \*

(c) Provided that the participant has not submitted a post-employment withdrawal election prior to the date the automatic payment is processed, if a participant's vested

account balance is less than \$200 when he or she separates from Government service, the TSP will automatically pay the balance in a single payment to the participant at his or her TSP address of record. The participant will not be eligible for any other payment option or be allowed to remain in the TSP.

(d) Only one post-employment withdrawal election per account will be processed in any 30-calendar-day period.

5. Revise § 1650.12 to read as follows:

**§ 1650.12 Single payment.**

Provided that, in the case of a partial withdrawal, the amount elected is not less than \$1,000, a participant can elect to withdraw all or a portion of his or her account balance in a single payment.

6. Revise § 1650.13 to read as follows:

**§ 1650.13 Installment payments.**

(a) A participant can elect to withdraw all or a portion of the account balance in a series of substantially equal installment payments, to be paid on a monthly, quarterly, or annual basis in one of the following manners:

(1) *A specific dollar amount.* The amount elected must be at least \$25 per installment; if the amount elected is

less than \$25 per installment, the request will be rejected. Payments will be made in the amount requested each installment period.

(2) *An installment payment amount calculated based on life expectancy.* Payments based on life expectancy are determined using the factors set forth in the Internal Revenue Service life expectancy tables codified at 26 CFR 1.401(a)(9)-9, Q&A 1 and 2. The installment payment amount is calculated by dividing the account balance by the factor from the IRS life expectancy tables based upon the participant's age as of his or her birthday in the year payments are to begin. This amount is then divided by the number of installment payments to be made per calendar year to yield the installment payment amount. In subsequent years, the installment payment amount is recalculated each January by dividing the prior December 31 account balance by the factor in the IRS life expectancy tables based upon the participant's age as of his or her birthday in the year payments will be made. There is no minimum amount for an installment payment calculated based on this method.

(b) A participant receiving installment payments calculated based upon life expectancy can make one

election, at any time, to change to a fixed dollar installment payment. A participant can change the amount of his or her fixed payments at any time as described in § 1650.17(c). A participant who is receiving installment payments based on a fixed dollar amount, however, cannot elect to change to an amount calculated based on life expectancy.

(c) If a participant elects to receive installments pro rata from his or her traditional and Roth balances, installment payments will be made until the participant's entire account balance is expended, unless the participant elects to change or stop installment payments as described in in § 1650.17(c). If a participant elects to receive installment payments from his or her traditional balance only or Roth balance only, installment payments will automatically continue from the non-elected balance once the elected balance has been expended, unless the participant elects to change or stop installment payments as described in § 1650.17(c).

(d) A participant receiving installment payments, regardless of the calculation method, can elect at any time to receive the remainder or part of his or her account

balance in a single payment.

(e) A participant may only have one installment payment series in place at a time.

(f) A participant receiving installment payments may change the investment of his or her account balance among the TSP investment funds as provided in 5 CFR part 1601.

(g) Upon receiving information from an employing agency that a participant receiving installment payments is no longer separated, the TSP will cancel all pending and future installment payments.

7. Amend § 1650.14 by:

a. Revising paragraphs (a) and (b);

b. Removing paragraph (c);

c. Redesignating paragraphs (d) through (l) as paragraphs (c) through (k); and

d. Revising newly redesignated paragraphs (c), (d), and (h).

The revisions read as follows:

**§ 1650.14 Annuities.**

(a) A participant electing a post-employment withdrawal can use all or a portion of his or her total account balance, traditional balance only, or Roth balance

only to purchase a life annuity.

(b) If a participant has a traditional balance and a Roth balance and elects to use all or a portion of his or her total account balance to purchase a life annuity, the TSP must purchase two separate annuity contracts for the participant: one from the portion of the withdrawal distributed from his or her traditional balance and one from the portion of the withdrawal distributed from his or her Roth balance.

(c) A participant cannot elect to purchase an annuity contract with less than \$3,500.

(d) Unless an amount must be paid directly to the participant to satisfy any applicable minimum distribution requirement of the Internal Revenue Code, the TSP will purchase the annuity contract(s) from the TSP's annuity vendor using the participant's entire account balance or the portion specified. In the event that a minimum distribution is required by section 401(a)(9) of the Internal Revenue Code before the date of the first annuity payment, the TSP will compute that amount prior to purchasing the annuity contract(s), and pay it directly to the participant.

\* \* \* \* \*

(h) For each withdrawal election in which the participant elects to purchase an annuity with some or all of the amount withdrawn, if the TSP must purchase two annuity contracts, the type of annuity, the annuity features, and the joint annuitant (if applicable) selected by the participant will apply to both annuities purchased. For each withdrawal election, a participant cannot elect more than one type of annuity by which to receive a withdrawal, or portion thereof, from any one account.

**§ 1650.15 [Removed]**

8. Remove § 1650.15.

9. Revise § 1650.16 to read as follows:

**§ 1650.16 Required minimum distributions.**

(a) A separated participant must receive required minimum distributions from his or her account commencing no later than the required beginning date and, for each year thereafter, no later than December 31.

(b) A separated participant may elect to withdraw from his or her account or to begin receiving payments before the required beginning date, but is not required to do so.

(c) In the event that a separated participant does not

withdraw from his or her account an amount sufficient to satisfy his or her required minimum distribution for the year, the TSP will automatically distribute the necessary amount on or before the applicable date described in paragraph (a) of this section.

(d) The TSP will disburse required minimum distributions described in paragraph (c) of this section pro rata from the participant's traditional balance and the participant's Roth balance.

(e) The rules set forth in paragraphs (a) through (d) of this section shall apply to a separated participant who reclaims an account balance that was declared abandoned.

10. Amend § 1650.17 by revising paragraphs (a) and (c) to read as follows:

**§ 1650.17 Changes and cancellation of a withdrawal request.**

(a) *Before processing.* A pending withdrawal request can be cancelled if the cancellation is received and can be processed before the TSP processes the withdrawal request. However, the TSP processes withdrawal requests each business day and those that are entered into the record keeping system by 12:00 noon eastern time will ordinarily be processed that night; those entered after 12:00 noon

eastern time will be processed the next business day. Consequently, a cancellation request must be received and entered into the system before the cut-off for the day the withdrawal request is submitted for processing in order to be effective to cancel the withdrawal.

\* \* \* \* \*

(c) *Change in installment payments.* If a participant is receiving a series of installment payments, with appropriate supporting documentation as required by the TSP record keeper, the participant can change at any time: the payment amount or frequency (including stopping installment payments), the address to which the payments are mailed, the amount of federal tax withholding, whether or not a payment will be transferred (if permitted) and the portion to be transferred, the method by which direct payments to the participant are being sent (EFT or check), the identity of the financial institution to which payments are transferred or sent by EFT, or the identity of the EFT account.

11. Revise § 1650.21 to read as follows:

**§ 1650.21 Information provided by employing agency or service.**

When a TSP participant separates from Government service, his or her employing agency or service must report the separation and the date of separation to the TSP record keeper. Until the TSP record keeper receives this information from the employing agency or service, it will not pay a post-employment withdrawal.

12. Revise § 1650.23 to read as follows:

**§ 1650.23 Accounts of less than \$200.**

Upon receiving information from the employing agency that a participant has been separated for more than 31 days and that any outstanding loans have been closed, provided the participant has not made a withdrawal election before the distribution is processed, if the account balance is \$5.00 or more but less than \$200, the TSP record keeper will automatically distribute the entire amount of his or her account balance. The TSP will not pay this amount by EFT. The participant may not elect to leave this amount in the TSP, nor will the TSP transfer any automatically distributed amount to an eligible employer plan, traditional IRA, or Roth IRA. However, the participant may elect to roll over this payment into an eligible employer plan, traditional IRA, or Roth IRA to the extent the roll

over is permitted by the Internal Revenue Code.

13. Revise § 1650.24 to read as follows:

**§ 1650.24 How to obtain a post-employment withdrawal.**

To request a post-employment withdrawal, a participant must use the TSP Web site to initiate a request or submit to the TSP record keeper a properly completed paper TSP post-employment withdrawal request form.

14. Amend § 1650.25 by revising paragraph (a) to read as follows:

**§ 1650.25 Transfers from the TSP.**

(a) The TSP will, at the participant's election, transfer all or any portion of an eligible rollover distribution (as defined by section 402(c)(4) of the Internal Revenue Code) directly to an eligible employer plan or an IRA.

\* \* \* \* \*

15. Amend § 1650.31 by revising paragraphs (a) and (c) and removing paragraph (d).

The revisions read as follows:

**§ 1650.31 Age-based withdrawals.**

(a) A participant who has reached age 59<sup>1</sup>/<sub>2</sub> and who has not separated from Government service is eligible to

withdraw all or a portion of his or her vested TSP account balance in a single payment. Unless the withdrawal request is for the entire vested account balance, the entire vested traditional balance, or the entire vested Roth balance, the amount of an age-based withdrawal request must be at least \$1,000.

\* \* \* \* \*

(c) A participant is permitted four age-based withdrawals per calendar year for an account. Only one age-based withdrawal election per account will be processed in any 30-calendar-day-period.

16. Revise § 1650.33 to read as follows:

**§ 1650.33 Contributing to the TSP after an in-service withdrawal.**

(a) *Age-Based In-Service Withdrawals.* A participant's TSP contribution election will not be affected by an age-based in-service withdrawal; therefore, his or her TSP contributions will continue without interruption.

(b) *Financial Hardship In-Service Withdrawals.* (1) A participant who obtains a financial hardship in-service withdrawal prior to September 15, 2019, may not contribute to the TSP until the earlier of:

(i) The end of the six-month period after the withdrawal is processed, or

(ii) September 15, 2019.

(2) Therefore, the participant's employing agency will discontinue his or her contributions (and any applicable Agency Matching Contributions) for the applicable period after the agency is notified by the TSP; in the case of a FERS or BRS participant, Agency Automatic (1%) Contributions will continue. A participant whose TSP contributions are discontinued by his or her agency after a financial hardship withdrawal can resume contributions any time after expiration of the applicable period by submitting a new TSP contribution election. Contributions will not resume automatically.

(3) A participant's TSP contribution election will not be affected by a financial hardship in-service withdrawal obtained on or after September 15, 2019; therefore, his or her TSP contributions will continue without interruption.

17. Revise § 1650.41 to read as follows:

**§ 1650.41 How to obtain an age-based withdrawal.**

To request an age-based withdrawal, a participant must use the TSP Web site to initiate a request or submit to the

TSP record keeper a properly-completed paper TSP age-based withdrawal request form.

18. Amend § 1650.42 by revising paragraph (a) to read as follows:

**§ 1650.42 How to obtain a hardship withdrawal.**

(a) To request a financial hardship withdrawal, a participant must use the TSP Web site to initiate a request or submit to the TSP record keeper a properly-completed paper TSP hardship withdrawal request form.

\* \* \* \* \*

19. Revise § 1650.61 to read as follows:

**§ 1650.61 Spousal rights applicable to post-employment withdrawals.**

(a) The spousal rights described in this section apply to total post-employment withdrawals when the married participant's vested TSP account balance exceeds \$3,500, to partial post-employment withdrawals without regard to the amount of the participant's account balance, and to any change in the amount or frequency of an existing installment payment series, including a change from payments calculated based on life expectancy to payments based on a fixed-dollar amount.

(b) Unless the participant was granted an exception under this subpart to the spousal notification requirement within 90 days of the date the withdrawal request is processed by the TSP, the spouse of a CSRS participant is entitled to notice when the participant applies for a post-employment withdrawal or makes a change to the amount or frequency of an existing installment payment series. The participant must provide the TSP record keeper with the spouse's correct address. The TSP record keeper will send the required notice by first class mail to the spouse at the most recent address provided by the participant.

(c) The spouse of a FERS or uniformed services participant has a right to a joint and survivor annuity with a 50 percent survivor benefit, level payments, and no cash refund based on the participant's entire account balance when the participant elects a total post-employment withdrawal.

(1) The participant may make a different total withdrawal election only if his or her spouse consents to that election and waives the right to this annuity.

(2) A participant's spouse must consent to any partial withdrawal election (other than an election to purchase

this type of an annuity with such amount) and waive his or her right to this annuity with respect the amount withdrawn.

(3) A spouse must consent to any change in the amount or frequency of an existing installment payment series and waive his or her right to this annuity with respect to the applicable amount. Spousal consent is not required to stop installment payments.

(4) Unless the TSP granted the participant an exception under this subpart to the spousal notification requirement within 90 days of the date the withdrawal form is processed by the TSP, to show that the spouse has consented to a different total or partial withdrawal election or installment payment change and waived the right to this annuity with respect to the applicable amount, the participant must submit to the TSP record keeper a properly completed withdrawal request form, signed by his or her spouse in the presence of a notary. If the TSP granted the participant an exception to the signature requirement, the participant should enclose a copy of the TSP's approval letter with the withdrawal form.

(5) The spouse's consent and waiver is irrevocable for

the applicable withdrawal or installment payment change once the TSP record keeper has received it.

20. Amend § 1650.62 by revising paragraphs (b) and (c) to read as follows:

**§ 1650.62 Spousal rights applicable to in-service withdrawals.**

\* \* \* \* \*

(b) Unless the participant was granted an exception under this subpart to the spousal notification requirement within 90 days of the date on which the withdrawal request is processed by the TSP, the spouse of a CSRS participant is entitled to notice when the participant applies for an in-service withdrawal. If the TSP granted the participant an exception to the notice requirement, the participant should enclose a copy of the TSP's approval letter with the withdrawal form. The participant must provide the TSP record keeper with the spouse's correct address. The TSP record keeper will send the required notice by first class mail to the spouse at the most recent address provided by the participant.

(c) Unless the participant was granted an exception under this subpart to the signature requirement within 90

days of the date the withdrawal form is processed by the TSP, before obtaining an in-service withdrawal, a participant who is covered by FERS or who is a member of the uniformed services must obtain the consent of his or her spouse and waiver of the spouse's right to a joint and survivor annuity described in § 1650.61(c) with respect to the applicable amount. To show the spouse's consent and waiver, a participant must submit to the TSP record keeper a properly completed withdrawal request form, signed by his or her spouse in the presence of a notary. Once a form containing the spouse's consent and waiver has been submitted to the TSP record keeper, the spouse's consent is irrevocable for that withdrawal.

**PART 1651 - DEATH BENEFITS**

21. The authority citation continues to read as follows:

Authority: 5 U.S.C. 8424(d), 8432d, 8432(j), 8433(e), 8435(c)(2), 8474(b)(5) and 8474(c)(1).

22. Amend § 1651.1 in paragraph (b) by adding in alphabetical order definitions for "Required beginning date" and "Required minimum distribution" to read as follows:

§ 1651.1 Definitions.

\* \* \* \* \*

(b) \* \* \*

*Required beginning date* means:

(1) The end of the calendar year immediately following the calendar year in which the participant died; or

(2) The end of the calendar year in which the participant would have attained age  $70\frac{1}{2}$ , whichever is later.

*Required minimum distribution* means the amount required to be distributed to a beneficiary participant beginning on the required beginning date and every year thereafter pursuant to Internal Revenue Code section 401(a)(9) and the regulations promulgated thereunder, as applicable.

\* \* \* \* \*

23. Amend § 1651.19 by revising paragraph (c) to read as follows:

**§ 1651.19 Beneficiary participant accounts.**

\* \* \* \* \*

(c) *Required minimum distributions.* (1) A beneficiary participant must receive required minimum distributions

from his or her beneficiary participant account commencing no later than the required beginning date and, for each year thereafter, no later than December 31.

(2) A beneficiary participant may elect to withdraw from his or her account or to begin receiving payments before the required beginning date, but is not required to do so.

(3) In the event that a beneficiary participant does not withdraw from his or her beneficiary participant account an amount sufficient to satisfy his or her required minimum distribution for the year, the TSP will automatically distribute the necessary amount on or before the applicable date described in paragraph (c)(1) of this section.

(4) The TSP will disburse required minimum distributions described in paragraph (c)(3) of this section pro rata from the beneficiary participant's traditional balance and the beneficiary participant's Roth balance.

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