



# Thrift Savings Plan (TSP) Changes

## A Mandatory Reference for ADS Chapter 494

Reference Issuance Date: 02/10/2012  
Policy Issuance Date: 12/06/2011  
Responsible Office: OHR/ELR  
File Name: 494maa\_021012

Retirement planning involves making decisions during your working years that will influence whether or not you will have enough money to retire when that time comes. For example, the retirement income that you receive from your Thrift Savings Plan (TSP) account will depend on how much you decide to contribute and how you decide to allocate those contributions among the various TSP investment funds. This reference summarizes TSP plan changes for 2012 along with other TSP issues to keep in mind as you plan for retirement.

### 1. Importance of TSP Participation

In creating the TSP, Congress intended it to serve as one of three pillars -- along with Social Security and an annuity from the Federal Employees Retirement System (FERS) or the Foreign Service Pension System (FSPS) -- of the post retirement financial security of employees hired after 1983. Thus, employees who are not contributing significant amounts to TSP are not building up that crucial nest egg. They are also missing out on an upfront tax deduction resulting from the fact that TSP contributions are excluded from Federal and state taxation when they are made and are only taxed upon withdrawal years later. In addition, FERS and FSPS employees who are not contributing at least five percent of their salary to TSP are not receiving the maximum Agency matching contributions that could significantly boost their financial security in retirement. Employees may sign up for TSP or change their current contribution level at any time on the Employee Personal Page (EPP) Web site at [www.usda.nfc.gov](http://www.usda.nfc.gov). For more information, see the TSP Web site at [www.tsp.gov](http://www.tsp.gov).

### 2. New Contribution Limit in 2012

The IRS elective deferral (contribution) limit for employees participating in the TSP will increase to \$17,000.00 for 2012. This is up from \$16,500.00 in 2011. Since there will be 26 paydays in 2012, full-year employees who wish to make the maximum \$17,000.00 contribution via level bi-weekly payments should set their contribution at \$654.00 per pay period effective December 18, 2011 (pay date January 13, 2012) via Employee Personal Page. Employees who miss that deadline but still wish to maximize their 2012 contributions may utilize the calculator on the TSP Web site (under "Planning & Tools," click "Calculators" and select the "How Much Can I Contribute?"). Employees who wish to maintain their 2011 contribution levels in 2012 need take no action; their contributions will continue at the current level.

### 3. Know Your Contribution Limits

Employees should keep the annual contribution limit in mind when deciding how much to contribute to their TSP account each pay period. The TSP system will not allow a contribution to be processed that will cause the total amount of employee contributions for the year to exceed the annual limit. In addition, Agency matching contributions are limited to the first five percent of basic pay contributed each pay period and no Agency matching contributions are made in pay periods when there is no employee contribution. Thus, FERS and FSPS employees who reach the annual maximum too

quickly will see their Agency matching contributions stop for the remainder of the year. If this happens, the employee's contributions will automatically resume at the previous level on the first pay date in the next calendar year.

Employees sometimes seek to contribute 100 percent of their salary in a pay period in order to make up for under-contributing earlier in the year, to maximize contributions prior to mid-year retirement, or to rapidly complete their "over 50" catch-up contributions. However, contributing 100 percent of salary is not possible since mandatory deductions such as Social Security and income tax withholding must also be taken from the pay check. Also, after all deductions are made, the net pay must be greater than zero. So, factor in those other commitments when setting high TSP contribution levels.

#### 4. Catch-Up Contributions

The TSP "over 50" catch-up contribution limit for 2012 remains unchanged at \$5,500.00. Catch-up contributions are supplemental tax-deferred employee contributions that permit employees to increase their TSP contributions prior to retirement. Catch-up contributions do not count against the \$17,000.00 elective deferral limit. This means that for 2012, the total employee contribution limit is \$22,500.00 (\$17,000.00 for regular contributions and \$5,500.00 for catch-up contributions).

To qualify to make catch-up contributions, you must:

- Be age 50 or older, or will turn 50 in the calendar year the contribution is deducted from pay;
- Be in a pay status;
- Not be in a 6-month non-contributory period after taking a financial hardship withdrawal; and
- Self-certify that you will make the maximum regular TSP contributions (i.e., \$17,000.00) for the year in which you are making the catch-up contributions.

Employees wishing to make catch-up contributions in 2012 must make an election to do so even if they were in the catch-up program in 2011. To make catch-up contributions, the employee must also be contributing the maximum amount for regular contributions. Employees who wish to make the maximum catch-up contribution in 2012 via level bi-weekly payments may set their contribution at \$212.00 per pay period effective December 18, 2011, (pay date January 13, 2012) via Employee Personal Page. Catch-up contributions do not receive Agency matching so there is no restriction on accelerating the payment of catch-up contributions over a few pay periods.

#### 5. Investment Options

Your TSP retirement income will depend in part on the rates of return of the specific

TSP investment funds among which you allocate your contributions. If you have not reviewed your fund allocations in a while, now might be a good time to do so. You have a variety of options ranging from short-term U.S. Treasury securities to index funds comprised of domestic or international stocks. Alternatively, TSP's "Lifecycle" funds employ professionally determined investment mixes that seek an optimal balance between the expected risk and return based on various time horizons. The TSP Web site has full details, including past fund performance.

#### 6. Roth TSP Coming

The TSP Board has announced that it plans to add a Roth 401(k) feature to the employee contribution options in spring 2012. Details will be given after the launch date is set.

#### 7. Additional Information

The TSP Web site at [www.tsp.gov](http://www.tsp.gov) features general information, forms, and publications. The booklet "Summary of the Thrift Savings Plan" describes the TSP in detail. Please read it before making a TSP election. On the TSP Web site you can also change the allocation of your bi-weekly contributions among the various TSP investment funds and make interfund transfers to redistribute your past contributions among the various TSP investment funds. The Employee Personal Page (EPP) Web site at [www.usda.nfc.gov](http://www.usda.nfc.gov) is where you can start and stop TSP regular and catch-up contributions and change the amount contributed. Overviews of the TSP are also provided in several FSI retirement planning courses: Civil Service and Foreign Service employees at any point in their careers are eligible to attend the one-day course Annuities, Benefits and Social Security Workshop (RV 104). Employees within 10 to 15 years of retirement eligibility may take the two-day Mid-Career Retirement Planning Workshop (RV 105). Employees within five years of retirement eligibility may attend the four-day Retirement Planning Seminar (RV 101). Course descriptions, course materials, and links to registration are on FSI's OpenNet site at <http://fsi.m.state.sbu/sites/tc/CTC/default.aspx>.