

Sequestration and Your TSP Account

OC 13-7 (5/2013)

How will a furlough affect my TSP contributions?

As you know, your TSP employee contributions are deducted from your pay. If you are currently making contributions based on a percentage of your basic pay, here's what happens: If you earn \$1,000 of basic pay every two-week pay period and you contribute 10% of it to the TSP, you'd have a \$100 TSP contribution every pay period. If you are furloughed for 2 days per pay period, then your basic pay would decrease to \$800 and as a result, your TSP contribution would decrease by an equal percentage so that your contribution would be \$80 per pay period. Simply stated, your TSP contribution decreases in direct proportion to the reduction in your basic pay. Therefore, you may find that lowering your contribution percentage is not necessary. But if you are currently making TSP contributions based on a dollar amount of your pay, that dollar amount will not automatically decrease with your reduction in pay. You may want to revisit whether that amount is still appropriate given the expected impact of your furlough. If you are a FERS₁ participant, also keep in mind that any reduction in your basic pay will impact your agency contributions. Whether you are contributing a percentage of your pay or a specific dollar amount, your Agency Automatic (1%) and Agency Matching Contributions will decrease proportionally. If you then choose to decrease the amount of your TSP contributions, be sure you understand how it will affect your agency contributions. For more information, visit [Types of Contributions](#).

Should I terminate my TSP contributions?

If you are making traditional contributions, remember that those contributions are subtracted from your pay before tax. Be aware that stopping this type of contribution could potentially increase your adjusted gross income and, as a result, your income tax liability. Also, think carefully about terminating your contributions. One of the great things about your TSP contributions, no matter how small, is that the earnings compound over time. If you stop your contributions, even for a short time, you'll miss this opportunity altogether. And, if you are a FERS participant, you are leaving free money on the table because if you stop your contributions, your matching contributions stop as well.

Should I consider a financial hardship withdrawal?

For some, sequestration and the resulting furloughs will cause a significant financial hardship. But before you consider a TSP hardship withdrawal, keep in mind a few things:

- o If you take a hardship withdrawal, you will not be able to make any TSP contributions for 6 months after having received your funds.
- o You may withdraw only **your** contributions and the earnings associated with them, and the total amount cannot exceed your financial hardship.
- o You must pay income tax on the taxable portion of any withdrawal, and you may also be subject to a 10% early withdrawal penalty tax.
- o If you are a FERS participant, you will not receive Agency Matching Contributions.
- o A hardship withdrawal cannot be repaid so your TSP account is permanently reduced by the amount of your withdrawal.

o Taking a loan may be a better option (see below). For more information, visit [Financial Hardship In-Service Withdrawals](#).

¹ FERS refers to the Federal Employees' Retirement System, the Foreign Service Pension System, and other equivalent Government retirement plans.

Should I take a loan?

Taking a TSP loan allows you to borrow money from your account while you are still actively employed by the Federal Government. 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. Before you request a loan, you should know the following:

- o If you expect to be furloughed on a continuous basis, you can only take a loan if your furlough is expected to last 30 days or less.
- o If you expect to be furloughed on a periodic basis (for example, one or two days per pay period), you can take a loan.
- o Loan payments are made by payroll deduction. If, because of a furlough, you don't earn enough per pay period for your agency to deduct the required loan payment, you will be responsible for keeping your loan payments up-to-date so that you don't risk a **taxable distribution**. (Properly repaid TSP loans are not subject to income taxes or penalties.)
- o You can continue to contribute to your TSP account and, if eligible, receive Agency Matching Contributions.
- o If you already have an outstanding loan when you get furloughed, you need to make sure that you stay up-to-date on your loan payments.

I already have a TSP loan. Can I adjust the length of time I have to pay off my loan (reamortize)?

If you currently have a TSP loan, you may be able to reamortize, or adjust, the length of time you have to pay off your loan. You may do so if your loan is not already at the maximum term limit — 5 years for a general purpose loan and 15 years for a residential loan. If you reamortize to lengthen the term of your loan, your payments will be lower each pay period and your overall repayment period will be longer. So if you think reamortizing your TSP loan might be the right choice, you should be aware of the following:

- o If you originally requested and received a general purpose TSP loan with a 5-year term, you will not be able to extend the repayment period for longer than 5 years because 5 years is the maximum term allowed for general purpose loans. However, if your original general purpose loan has a 2-year term, and you've already made 1 year of payments, you can spread the remaining balance over 4 more years.
- o If you originally requested and received a residential TSP loan with a 15-year term, you will not be able to extend the repayment period because 15 years is the maximum term allowed for residential loans. However, if your original residential loan has a 10-year term, and you've already made 4 years of payments, you can spread the remaining balance over 11 more years. You do not have to resubmit any loan documentation forms when you reamortize your residential loan. If you lengthen the term of your loan and later find that your financial situation improves, you can reamortize your loan again to shorten its term. Shortening the term of your loan will increase your payment amount each pay period. You may reamortize your loan by visiting [tsp.gov](#) and logging into My Account, or by calling the ThriftLine (1-TSP-YOU-FRST) and speaking to a Participant Service Representative.

For more information, visit [TSP Loans](#).