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## Understanding the TSP Modernization Act Part 2 – Partial Withdrawals

In part one of this short series I highlighted the changes regarding installment payments. The changes were definitely positive for those of you that are currently or will be receiving installment payments. In this edition I want to review what is probably the most significant and beneficial change to the TSP with regard to accessing your funds which is partial withdrawals.

Old Rules	New Rules
TSP participants limited to one partial withdrawal of \$1000 or more, whether age-based (older than 59 ½) in service or after retiring from federal service per lifetime.	1. TSP participants (older than 59 ½) may take up to four "age-based" in-service withdrawals per calendar year.
	2. TSP participants are eligible to take partial withdrawals every 30 days after separation from service.
	3. TSP participants may request a partial withdrawal while receiving post-separation monthly, quarterly, or annual installment payments.

A partial withdrawal is different from an installment payment in nature since it's not a scheduled recurring payment. Instead it's a lump sum of money of at least \$1,000. It could be for something like a new roof on your home, unexpected medical bills or for something more exciting like a European vacation. Having access to your nest egg can be pivotal for a smooth retirement.

Prior to the implementation of the Modernization Act, the TSP had a reputation of being very rigid with participants for accessing their funds. In fact, only one lifetime partial withdrawal was permitted. This distribution could be taken either while still in service or after separation. The only requirement was and still is that the participant has to be 59 1/2 or older to be eligible for a TSP partial withdrawal. I can't imagine how stressful that might be having only one lifetime partial withdrawal available from the account that most likely holds the majority of an individual's retirement savings.

As of September 15th 2019, eligible TSP Participants may now take up to 4 age based in service partial withdrawals per year. There is no limit of the number of partial withdrawals participants can take after separating from federal service except that only one may be taken every 30 days. That's great news for anyone who chooses to leave their funds in the TSP. The increased access to receive partial withdrawals will be helpful to retirees in their overall planning process.

Even if a participant took their one partial withdrawal prior to the changes, they still have the freedom to take multiple partials withdrawals under the new rules. This also applies to TSP Beneficiary Participant accounts.

Having the ability to do more than just one lifetime partial withdrawal a participant could transfer a portion of their Traditional TSP account into a Roth IRA over a period of time. The transfer will be fully taxable to the participant since it is leaving the TSP, so waiting until after separation when income is generally decreased will cause less of a tax burden.

While nobody likes to pay taxes, the ability to control the amount transferred can help individuals avoid graduating up to the next highest marginal income tax bracket. There are currently no income limitations for anyone interested in doing a Roth conversion. The Tax Cuts and Jobs Act of 2017 lowered income tax rates until the end of 2025. Beginning 2026 individual tax rates are scheduled to revert back to what they were in 2017, adjusted for inflation. One reason the Roth IRA is so popular is that unlike a Traditional IRA, no RMD'S are required during your lifetime. Any distributions taken are received tax-free. Some of you may prefer to transfer part of your TSP balance into a Traditional IRA for benefits not available through the TSP. Now you can take your time and explore investment options beyond the TSP since you know you can do a follow up transfer when it makes sense to you.