Thrift Savings Plan

FACT SHEET

Annual Limit on Elective Deferrals

Part I of this Fact Sheet describes the Internal Revenue Service (IRS) annual limit on elective deferrals (tax-deferred contributions from your pay) and explains how this limit may affect Thrift Savings Plan (TSP) contributions made to the accounts of certain FERS* employees. Part II explains how this limit may affect Federal employees covered by either FERS or CSRS,* as well as members of the uniformed services, who are contributing tax-deferred pay to the TSP and another tax-deferred retirement plan.

Part I: Limits on Contributions to Your TSP Account

What are elective deferrals?

Elective deferrals are tax-deferred amounts that you choose to contribute to a plan instead of receiving those amounts as pay. Because such contributions are tax-deferred, they are not included in your taxable gross income for the year in which they are contributed. Your employer makes the contributions on your behalf under a qualified cash or deferred arrangement (as defined in section 401(k) of the Internal Revenue Code (Tax Code)).

For TSP participants, employee contributions are considered to be elective deferrals. Elective deferrals do not include Agency Automatic (1%) or Agency Matching Contributions because these contributions are not considered part of your pay. For members of the uniformed services, they do not include contributions from tax-exempt pay earned in a combat zone.

What is the annual limit on elective deferrals?

Section 402 of the Tax Code limits the amount of income that you may elect to defer under all cash or deferred arrangements during a tax year. (For most employees, a tax year is January 1 through December 31.) The elective deferral limit for 2005 is $14,000. The limit will increase to $15,000 in 2006.

What happens to my employee contributions when the annual limit is reached?

When the annual limit is reached, your employee contributions must be suspended for the remainder of the year. The TSP system will not allow any employee contribution to be processed that will cause the total amount of employee contributions for the year to exceed the annual limit. Your agency payroll office must ensure that your employee contributions automatically resume the first pay date in the following year.

What happens to my Agency Matching Contributions when the annual limit has been reached?

If you are a FERS employee, your Agency Matching Contributions are also suspended when the annual limit on elective deferrals has been reached. Agency Matching Contributions are based upon the amount of employee contributions that you make each pay period. If there are no employee contributions in a pay period, there can be no Agency Matching Contributions.

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* FERS refers to the Federal Employees' Retirement System, the Foreign Service Pension System, and other equivalent Federal retirement systems. CSRS refers to the Civil Service Retirement System, including CSRS Offset, the Foreign Service Retirement and Disability System, and other equivalent Federal retirement systems.

Does it make a difference if I reach the annual limit before the end of the year?

Yes. If you are a high-salaried FERS employee, you should keep the annual contribution limit in mind when deciding how much you will contribute to your TSP account each pay period. If you reach the annual maximum too quickly, you could lose some Agency Matching Contributions because you only receive Agency Matching Contributions on the first five percent of your basic pay that you contribute **each pay period**. If you reach the annual limit before the end of the year, your contributions (and consequently your Agency Matching Contributions) will stop. (If you are purposely making larger contributions early in the year in an attempt to maximize your earnings, be aware that the amount you could lose in Agency Matching Contributions would, in all likelihood, be far greater than the value of the added earnings you might receive by making employee contributions sooner.)

How can I make the maximum employee contribution and still receive the maximum Agency Matching Contribution each year?

To receive the maximum Agency Matching Contribution, you must contribute at least five percent of the basic pay you earn **each pay period** during the year. (The first five percent of your basic pay each pay period is matched — dollar-for-dollar on the first three percent and 50 cents on the dollar for the next two percent.)

To determine a dollar amount you can contribute each pay period so that your contributions are spaced out over all the (remaining) pay dates in the year, you may use the Elective Deferral Calculator on the TSP Web site (www.tsp.gov) or the worksheet attached to this Fact Sheet.

What happens to my Agency Automatic (1%) Contributions when my employee contributions and Agency Matching Contributions are suspended?

If you are a FERS employee, your agency must continue to submit Agency Automatic (1%) Contributions even though your employee contributions and Agency Matching Contributions are suspended. As a FERS employee, you are entitled to receive Agency Automatic (1%) Contributions whether or not you make employee contributions.

What if, due to agency error, I make up employee contributions this year that should have been made in an earlier year?

Makeup employee contributions are subject to the IRS elective deferral limit for the year in which the contributions should have been made. If your makeup contributions should have been made in an earlier year, they do not count against the current year's elective deferral limit.

What is the annual limit on catch-up contributions?

Participants age 50 or older who elect to make catch-up contributions can contribute up to $4,000 in catch-up contributions in 2005. The catch-up contribution limit will increase to $5,000 in 2006. Your agency does not match your catch-up contributions.

If I make catch-up contributions, will those contributions count against the regular IRS elective deferral limit?

Catch-up contributions supplement regular TSP contributions; they do not count against either the regular TSP contribution (percentage) limits or the IRS elective deferral (dollar) limit. However, the combination of regular and catch-up TSP contributions cannot exceed the total IRS contribution limit for the year (i.e., in 2005, they cannot exceed $18,000: $14,000 in regular contributions, and $4,000 in catch-up contributions).

Although you can elect to make catch-up contributions at any time, your election will only apply to the calendar year for which it is made. Unlike regular TSP contributions, your catch-up contributions will continue until the end of the calendar year unless you reach the annual catch-up contribution limit before that time, you elect to stop making catch-up contributions, or you voluntarily stop your regular employee contributions.

Worksheet to Maximize the Amount of Agency Matching Contributions

Your estimate. Enter the IRS limit on employee contributions for the year in which your new election will be effective.

Using your most recent earnings and leave statement, find the total amount of your year-to-date TSP employee contributions. Add to that the amount of employee contributions that will be deducted each pay date until the pay date when your new TSP election will become effective. (Take anticipated salary increases during the year into account.)

- **Contribution elections made before the last month of an open season** (i.e., December 2004 or June 2005) cannot become effective before the first full pay period of the last month of the open season. However, the elected contributions are not made until the pay date associated with that pay period. For example, if you make a contribution election on April 15, it will become effective the first full pay period in June, but the amount will not be deducted from your pay until the pay date for that pay period (which may be in late June or early July).
- **Contribution elections made during the last month of an open season** become effective the first full pay period after your agency or service accepts them.

You will need to keep these dates in mind when determining the amount of your employee contributions. Check with your personnel or payroll office for the information. That office can also help you coordinate the timing of your election so that only your 2005 contributions are affected.

Example. A FERS employee who is paid biweekly wants to maximize contributions in 2005. The employee's salary is $4,715 per biweekly pay period. If the employee makes an election that is effective December 12, 2004, the pay date is January 5, 2005 (assuming an 11-day lag), which is the first pay date in 2005. If the employee makes an election (later in December) that is effective December 26, 2004, the pay date is January 19, 2005 (assuming an 11-day lag), which is the second pay date in 2005.

	Example	**Your Estimate**
1. Enter the IRS elective deferral limit for 2005:	1. $ 14,000.00	$ ________
2. Enter all employee contributions made in 2005 prior to the effective date of your new election:	2. $ 0.00	$ ________
3. Subtract Line 2 from Line 1:	3. $ 14,000.00	$ ________
4. Enter the number of salary payments you will receive in 2005 from which your new election will be deducted:	4. 26	________
5. Divide Line 3 by Line 4:	5. $ 538.46	$ ________
6. Round up the result in Line 5 to the next dollar to determine the whole dollar amount you should contribute each pay date for the rest of the year (which you will enter on your Form TSP-1):	6. $ 539.00*	$ ________

* In this example, the last contribution of the year will be reduced to $525 by the employee's agency to prevent the employee from exceeding the elective deferral limit for the year.

Part II: Participating in the TSP and Another Tax-Deferred Retirement Plan

The following questions relate to excess deferrals made to both the TSP and another qualified employer plan as described under sections 401(k), 403(b), 408(k), or 501(c)(18) of the Internal Revenue Code. Certain Federal employees can participate in such plans *in addition to the TSP*, and the elective deferral limit applies to the combined total of *all* contributions for the year. Because tax rules are complex, you may wish to consult a tax advisor if you exceed the elective deferral limit.

What is an excess deferral?

An excess deferral is the amount of your contributions to tax-deferred plans that exceeds the relevant annual limit on elective deferrals.

What if I am contributing to more than one plan and my combined contributions exceed the annual limit?

You may request a refund of any excess deferrals from one or more of the plans in which you participate. Each plan then has the option of returning these excess deferrals, plus associated earnings, by April 15 of the year following the year in which the deferrals were made.

If you notify the TSP in a timely manner that you wish to have excess deferrals refunded from the TSP, the TSP will return the excess deferrals and associated earnings to you.

How does this process work?

To request a refund of excess deferrals and associated earnings, you can submit the form "Request for Return of Excess Employee Contributions to Participant," or you can contact the TSP Service Office, National Finance Center, P.O. Box 61500, New Orleans, LA 70161-1500. You can reach the Service Office at 1-877-968-3778. (Outside the U.S. and Canada, call 1-504-255-8777.) You must return the completed form to the TSP **by March 1 of the year after the excess deferrals were made**. The TSP will then process the refund and pay you the amount before April 15. Forms received after March 1 will not be processed.

What are the tax consequences if I contribute more than the annual limit in any tax year?

Excess deferrals are treated as income in the year in which you made the contributions, whether or not they are refunded to you. The total amount of deferred income is reported by each employer in Box 13 on your IRS Form W-2. If you have made excess deferrals, you must report the total amount of the excess on your individual income tax return as taxable wages for the year in which you made the excess deferrals.

If you elect to receive excess deferrals as a refund from the TSP, you will receive IRS Form 1099-R, Distributions from Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc., indicating the amount of the excess that was refunded to you. This distribution will also be reported to the IRS. If you have already filed your individual tax return for the year in which the excess was contributed and this amount was not included as taxable wages, you will need to file an amended tax return.

How are the earnings on excess deferrals treated for tax purposes?

Earnings distributed with excess deferrals are considered taxable income **in the year in which they are distributed** (unlike the excess deferrals themselves, which are considered taxable income **in the year in which they are contributed**). You will receive a separate IRS Form 1099-R indicating the amount of the earnings. You must report this amount as income in the year in which the distribution is made. This distribution will also be reported to the IRS.

What happens to the Agency Matching Contributions that were associated with the excess deferrals that were returned to me?

Your agency will be notified that you have requested to have your excess deferrals and associated earnings returned to you. Your agency is then required to remove the Agency Matching Contributions associated with these excess deferrals. If your agency fails to remove the Agency Matching Contributions within one year of the date the contributions were made to your account, the TSP will remove these contributions from your account and use them to offset TSP administrative expenses.

Is a distribution of excess deferrals considered an early withdrawal and thus subject to the IRS tax penalty?

If the distribution is made by April 15 of the tax year following the year in which the excess deferral was made, it will not be considered an early withdrawal.

What happens if the distribution is not made by April 15 of the following tax year?

You cannot request to have the excess amount refunded later. Instead, you will be taxed twice on this amount: once in the year in which the excess deferral is made, and then again when you separate and withdraw your account. (If the withdrawal is premature, the IRS early withdrawal penalty may also apply.) Earnings on the excess deferrals are taxed only once, when you withdraw the account.

Please note: As stated above, if the TSP does not receive your request by March 1, your request will not be processed; accordingly, you will not receive a distribution from the TSP of your excess deferrals.