

INFORMATION PAPER

SUBJECT: Thrift Savings Plan (TSP)

1. PURPOSE. To inform service members of their eligibility to participate in the TSP.
2. BOTTOM LINE. The National Defense Authorization Act for Fiscal Year 2000 (Public Law 106-65), as amended by the Floyd D. Spence National Defense Authorization Act for Fiscal Year 2001 (Public Law 106-398), extended the opportunity to participate in the TSP to members of the uniform services. The money that participants invest in the TSP is excluded from taxable income. As such, the soldier's current income taxes should be reduced. The investment and any TSP earnings will become taxable upon withdrawal.
3. DISCUSSION.
 - a. TSP is a retirement savings and investment plan that has been available to civilian employees of the Federal government since 1987. The purpose of the TSP is to provide retirement income. It offers participants the same type of savings and tax benefits that many private corporations offer their employees under so-called "401(k) plans."
 - b. Participation in the TSP is optional and not automatic. Service members must sign up to participate in the TSP. Service members contribute to the TSP from their pay on a pre-tax basis, and the amount contributed and any earnings generated belong to the service member.
 - c. Retired uniform services members cannot contribute to the TSP. The TSP is designed to allow active duty members and members of the Ready Reserve or National Guard to save a part of their military pay for retirement in a plan that offers pre-tax savings, tax-deferred investment earnings, and low administrative and investment expenses. Only pay for active service (e.g., basic pay, incentive pay, special pay, and bonuses) can be contributed to the TSP. Service members may contribute up to seven percent of these pay entitlements. There is, however, a limit on the total amount that can be contributed to TSP each year. That limit is currently \$10,500.
 - d. Service members will be able to join the TSP during a special enrollment period, known as an open season, beginning on October 9, 2001, and ending on January 31, 2002. Contributions to the TSP based on the sign-up will begin to be deducted from paychecks in January 2002. Members who do not enroll during the special open season will have two "open seasons" per year to enroll thereafter. Open seasons are currently May 15 through July 31 and November 15 through January 31.
 - e. Once a TSP account is established, the service member will receive an introductory letter and a personal identification number (PIN). Upon receipt of the PIN, the participant will be able to make a contribution allocation to any of the following investment funds.

- (1) Government Securities Investment (G) Fund
- (2) Fixed Income Index Investment (F) Fund
- (3) Common Stock Index Investment (C) Fund
- (4) Small Capitalization Stock Index Investment (S) Fund
- (5) International Stock Index Investment (I) Fund

f. Investments in the TSP are not guaranteed by the Federal government. As with any investment, certain risks are involved with a potential for losing all or part of the investment. In considering the above investment options, the G Fund would be considered the least risky with risk increasing as you proceed down the list with the I Fund considered the most risky. Increased risk often equates to a higher return, but increased risk also increases the possibility of losing the investment.

g. Service members may borrow or make withdrawals from the TSP accounts only under two circumstances.

- (1) Age-based in-service withdrawals for participants who are 59.5 years of age or older.
- (2) Financial hardship in-service withdrawals for participants who can document financial hardship.

A spouse must consent, in writing, to all loans and in-service withdrawals. With post-service withdrawals, the spouse has a right to a specific form of joint annuity.

h. For more information contact the following web site: <http://www.tsp.gov/>

Approved: Mr. Stephen Bridges, Finance and Accounting Policy

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