HRSC East Employee Benefits Update

Rollovers From Qualified Retirement Plans and Conduit Individual Retirement Accounts (IRA) to the Thrift Savings Plan (TSP)

Effective 1 July 2001, the TSP can accept transfers of eligible rollover distributions from qualified retirement plans (or their designated financial institutions) or from conduit IRAs that were set up to accept eligible rollover distributions.

All TSP participants who have an open account can transfer money into the TSP. This includes participants who are separated from Federal service. However, a separated participant who is receiving monthly payments from his or her TSP account cannot transfer money into it.

The following are questions and answers from the Thrift Board regarding rollovers to TSP.

What is an eligible rollover distribution?

For TSP purposes, an eligible rollover distribution consists entirely of before-tax money (i.e., money that has not been subjected to Federal income tax) that is distributed from a qualified retirement plan or conduit IRA. Under the Internal Revenue Service (IRS) rules, only certain types of payments are considered "eligible rollover distributions."

Examples of eligible rollover distributions may include: a lump sum distribution after terminating employment, an age-based in-service withdrawal, a final single payment after a series of monthly payments, or payments made to a spouse or former spouse pursuant to a qualified domestic relations order (QDRO). For Federal employees, an eligible rollover distribution may also include some retirement benefits administered by OPM (for example, the taxable portion of the Alternative Form of Annuity (AFA) or interest on lump sum retirement credits).

Note: Death benefit payments made to spouses from qualified plans (such as the TSP) are considered eligible rollover distributions; however, according to the Internal Revenue Code (IRC) they can be transferred only to an IRA. Therefore, a death benefit payment made to a spouse cannot be transferred into a qualified retirement plan such as the TSP.

A TSP participant who would like to transfer money into the TSP should check with a representative of his or her former plan or IRA to ensure that the distribution is considered an eligible rollover distribution. Before the TSP accepts a transfer into a participant's account, the administrator of the qualified retirement plan or the trustee or custodian of the conduit IRA must certify that the distribution is an eligible rollover distribution. Under no circumstances can the TSP accept after-tax money.

What is the difference between a "transfer" and a "rollover"?

A **transfer** occurs when the participant instructs the qualified retirement plan or conduit IRA to send all or part of his or her eligible rollover distribution directly to the TSP instead of issuing it to the participant.

A **rollover** occurs when the qualified retirement plan or conduit IRA makes a distribution to the participant (after withholding the mandatory 20% Federal income tax) and the participant deposits all or any part of the gross amount of the distribution into the TSP within 60 days of receiving it.

Note: The term "transfer" is used broadly throughout these questions to include rollovers unless the information is specific to rollovers.

From whom will the TSP accept a transfer?

The TSP can accept a **transfer** from one of the following:

- **A qualified retirement plan.** This is either a qualified trust described in section 401(a) of the IRC which is tax exempt under IRC 501(a) or an IRC 403(a) annuity plan. A qualified retirement plan generally includes defined contribution plans such as Money Purchase Plans, Profit Sharing Plans, Employee Stock Ownership Plans, Stock Bonus Plans, and other plans that have provisions for Cash or Deferred Arrangements under section 401(k) of the IRC and may include a distribution from a qualified benefit plan.

- **A conduit IRA.** This is an Individual Retirement Account described in IRC 408(a) or an individual retirement annuity described in IRC 408(b) that contains **only** funds transferred or rolled over from a qualified retirement plan and earnings on those amounts. Thus, it cannot contain funds contributed to it directly by you. Consequently, an IRA will not qualify as conduit IRA if you have mixed regular contributions or funds from other sources with the rollover distribution from your retirement plan. For further information, see IRS Publication 590, Individual Retirement Arrangements (IRAs) (Including Roth IRAs and Education IRAs). You can download IRS Publication 590 from the IRS web site at http://ftp.fedworld.gov/pub/irs-pdf/p590.pdf.

The TSP can accept a **rollover from the participant**. A rollover can only be accepted by the TSP within 60 calendar days of the date the participant received the eligible rollover distribution from a qualified plan or conduit IRA. The rollover must be in guaranteed funds (i.e., a certified check, cashier's check, cashier's draft, money order, or treasurer's check from a credit union) made payable to the Thrift Savings Plan.

How much can a participant transfer into the TSP?

A participant can transfer all or any part of an eligible rollover distribution. If the distribution is made to the participant, the former plan should withhold taxes before making the distribution. The participant can roll over the entire amount of the distribution, including the amount that was withheld for taxes, by making up with personal funds the amount that was withheld.

Note: Any portion of the eligible rollover distribution that the participant chooses not to transfer or roll over into the TSP will be taxed as ordinary income in the year it is received. Also, if the participant is less than age 59 ½ at the time of distribution, he or she may also have to pay a 10% early withdrawal penalty tax on the amount that was not transferred or rolled over.

There is no limit on the number of transfers to the TSP that a participant can make. For example, if you were a participant in two different private sector 401(k) plans, you can transfer money from both plans into the TSP.

What happens to the money once it reaches the TSP?

Money that is transferred to the TSP is allocated according to the participant's most current contribution allocation on file. Once the money is deposited into the TSP, it becomes part of TSP employee contributions and will be subject to the same plan rules as all other employee contributions in the account. For example, the money will be available for loans or in-service withdrawals. Any future transactions a participant makes will apply to the entire account balance without distinction as to the money that has been transferred. The money will be subject to court orders against the TSP account, and spousal rights rules will apply to all loans and withdrawals from the account.

Note: Because funds that are transferred into the TSP have never been taxed, they will be subject to taxation when the funds are eventually distributed to the participant.

How are transfers affected by the annual elective deferral limit?

Money that is transferred into the TSP is not applied to the annual elective deferral limit ($10,500 in 2001) that is imposed on regular employee contributions.

How do I request a transfer into the TSP?

The Thrift Board has created a form TSP-60 to request a transfer of eligible distributions from a qualified retirement plan into the TSP. You can download this form from the TSP web site at http://www.tsp.gov/forms/tsp-60.pdf.

Who should I call if I have a question about transfers into TSP?

If you have a question about transfers into TSP you should call the TSP Service Office at (504) 255-6000.