Thrift Savings Plan

FACT SHEET

Annual Limit on Elective Deferrals

Part I of this fact sheet describes the Internal Revenue Code's (IRC or Tax Code) 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 one or more other tax-deferred retirement plans.

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 rather than receive 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 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 those 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 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 2011 was $16,500. The 2012 limit is $17,000.

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 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.

---

* 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, use the Elective Deferral Calculator on the TSP website (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.

If I make up employee contributions that my agency or service should have made in a previous year, will they count against this year's elective deferral limit?

No. Employee contributions are subject to the IRC elective deferral limit for the year in which the contributions should have been made. If, due to an error, your agency or service failed to make your employee contributions in a previous year and you make up those contributions this year, your makeup contributions will not count against this year's elective deferral limit.

What about catch-up contributions? Do they count against the regular IRC elective deferral limit?

Catch-up contributions are payroll deductions that participants who are age 50 or older may be eligible to make in addition to regular employee contributions. You need to make a separate election to request them, and they do not count against the IRC elective deferral limit. However, each year, the IRC limits the total amount of regular and catch-up contributions an employee can make. (For example, in 2011, total contributions cannot exceed $22,000: $16,500 in regular contributions, and $5,500 in catch-up contributions; in 2012, they cannot exceed $22,500: $17,000 in regular contributions, and $5,500 in catch-up contributions.) See the Fact Sheet, Catch-Up Contributions, for more information.

How does the TSP apply the limits if I contribute to both a civilian and a uniformed services TSP account?

The elective deferral limit applies to the total tax-deferred contributions you make during the year to both accounts. During the year, the TSP will apply the limit to each account separately and will not allow you to contribute an amount to either account that exceeds the limit. In January, the TSP will check to see whether your combined contributions to both accounts exceeded that limit and, if so, it will then return any excess tax-deferred contributions, along with attributable earnings on those contributions. The TSP will return the excess contributions and earnings from the contributions you made to your uniformed services TSP account.

The TSP will apply the same process to catch-up contributions made to both accounts that exceed the separate catch-up contribution limit.

Note: Tax-exempt contributions made to a uniformed services account while deployed to a designated combat zone do not count toward the IRC elective deferral or catch-up contribution limits.

Worksheet to Maximize the Amount of Agency Matching Contributions

Example. The example below applies to a FERS employee who is paid on a biweekly basis. The employee made an election that is effective December 18, 2011; for his agency, the pay date for that pay period is January 6, 2012, which is the first pay date in 2012. In this example, the employee's biweekly contribution should not exceed $654 each pay period. If the employee was paid monthly, the contribution could not exceed $1,417 per month to ensure maximum Agency Matching Contributions.

Your estimate. For Item 1, enter the IRC limit on employee contributions for the year in which your new election will be effective.

For Item 2, use your most recent leave and earnings statement to find the total amount of your year-to-date TSP employee contributions.

For Item 4, count the number of pay dates remaining in the calendar year, beginning with the pay date following the end of the first full pay period after you make your election.

	Example	Your Estimate
1. Enter the IRC elective deferral limit for 2012.	1. $ 17,000.00	$ _____
2. Enter all employee contributions made in 2012 prior to the effective date of your new election.	2. $ 0.00	$ _____
3. Subtract Line 2 from Line 1.	3. $ 17,000.00	$ _____
4. Enter the number of salary payments you will receive in 2012 from which your new election will be deducted.	4. 26*	_____
5. Divide Line 3 by Line 4.	5. $ 653.85	$ _____
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 or TSP-U-1).	6. $ 654.00**	$ _____

* Employees can confirm the number of salary periods with their agencies or services.

** In this example, the last contribution of the year will be reduced to $650 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 (see definition below) made to both the TSP and another tax-deferred retirement plan as described under sections 401(k), 403(b), 408(k), or 501(c)(18) of the Tax Code. Certain Federal employees can participate in such plans *in addition* to the TSP, in which case 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 (regular contributions) and, if you are age 50 or older, Catch-up Contributions.

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 your excess deferrals, plus associated earnings, by April 15 of the year following the year in which the deferrals were made.

What happens if any of the limits are exceeded by contributing to both my civilian and my uniformed services TSP account?

In January, the TSP will check to see whether your combined contributions to both accounts exceeded any of the limits. To do so, the TSP will add up the tax-deferred contributions made to both accounts. (Note: Tax-exempt contributions made to your uniformed services account while deployed to a designated combat zone do not count toward the elective deferral limit.) The TSP will then return any tax-deferred contributions that exceeded the applicable limit, along with attributable earnings on those contributions before April 15. The TSP will return the excess tax-deferred contributions and earnings from the contributions you made to your uniformed services TSP account. You do not need to take any action.

How does the TSP's refund process work?

In January, the TSP will attach Form TSP-44, Request for Refund of Excess Employee Contributions, to this Fact Sheet for eligible participants to complete and send to the TSP for processing. If you submit this form in a timely manner, the TSP will return the excess deferrals and associated earnings to you.

To request a refund of excess deferrals and associated earnings, you must submit the latest version of Form TSP-44 (previous versions are obsolete and will not be processed) to the address provided on the form. The form must be faxed or postmarked no later than **March 31 of the year after the excess deferrals were made**. The TSP will then process the refund by April 15. To ensure that your form is received in time to process it, the TSP recommends that you fax the form to the number in the form's instructions no later than March 31. The TSP will remove Form TSP-44 from this Fact Sheet after March 31. If you have questions, you can reach the TSP at 1-877-968-3778. (Outside the U.S. and Canada, call 404-233-4400.)

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., which will indicate 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 from the TSP the Agency Matching Contributions associated with these excess deferrals. If your agency fails to remove the Agency Matching Contributions from your account within one year of the date the contributions were made, the TSP will remove them 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?

After April 15 of the following tax year, you cannot request to have the excess amount refunded. Instead, the money will remain in your account, and you will be taxed twice on it: 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 or it is not postmarked by March 31, your request will not be processed; accordingly, you will not receive a distribution from the TSP of your excess deferrals.