



eNewsletter

Federal TSP Beneficiary Participant Accounts

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[August, 2014] What would happen if your Federal spouse was suddenly gone and you become their primary beneficiary? In most cases you will be entitled to survivor annuity and a tax-free life insurance benefit. You may also be eligible to continue your spouse's TSP account as a beneficiary participant through a Beneficiary Participant Account - a relatively new and significantly more flexible way to inherit TSP monies.

Until recently, TSP funds were generally transferred to surviving spouses through inherited IRA accounts. Inherited IRAs generally require beneficiaries to take distributions within five years after the original account holder passed away. Beneficiaries must also pay taxes on these distributions if they are taken from tax-deferred holdings and many have found the need to consult tax advisors to evaluate and fully understand the effect of these payments on their overall tax liability.

TSP Beneficiary Participant Accounts, or BPAs, now available to the surviving spouses of employees and retirees, are more flexible than inherited IRAs and offer many of the same funds management and distribution options of regular TSP accounts. These include but are not limited to:

- The ability to move money among the TSP investment funds each calendar month;
- Continuing tax deferred growth of earnings on both traditional and Roth contributions;
- Low administrative and investment expenses;
- A variety of withdrawal options.

BPA withdrawal options include partial and full withdrawals. Unlike regular civilian or uniformed services TSP accounts, withdrawals from BPAs are not subject to early withdrawal tax penalties. BPA participants generally cannot make contributions or transfer outside monies from e.g. other retirement plans or IRAs to their BPA accounts. They are also unable to move an existing TSP accounts into a BPA or combine BPA accounts, make hardship withdrawals or take loans from their accounts.

When inherited by employees or retirees, BPAs can be moved into their TSP accounts. Employees can continue to contribute to these combined accounts through biweekly payroll deduction; and both employees and retirees can make transfers to them from qualified outside fund sources. Unlike stand-alone BPA accounts, BPA funds that are combined with employee or retiree TSP accounts are subject to early withdrawal tax penalties. These "combined accounts" are also subject to a "Roth Initiation Date," - the date of the first Roth contribution to the account. The Roth Initiation Date is used to calculate whether earnings on Roth contributions qualify to be paid out tax free or not. If Roth contributions were made to both accounts (the employee's and the BPA account), the Roth Initiation Date that will apply will be the earlier of the two (even if it is associated with the inherited BPA). If only one of the accounts within the combined account contains Roth money, the Roth Initiation Date associated with that account becomes the date for the entire account. Distributions of TSP Roth earnings are payable on a tax free basis if:

- Five or more years have passed since January 1 of the year of the Roth Initiation Date; and
- The account holder is 59 ½ or older, permanently disabled, or deceased.

(Note: BPA accounts inherited from uniformed services TSP accounts may have available tax exempt money resulting from combat pay contributions. These contributions are distributed directly to BPA account holders and are not subject to the above-stated requirements.)

BPA account holders should be aware of the fact that all distributions from BPAs are reported to IRS as death benefits and that applicable tax rules are complicated. Account holders are advised to refer to the tax notice "Important Tax Information About Payments From Your TSP Account" on TSP's website as well consider consulting a tax professional when taking a distribution from their BPA.

For more complete information about BPAs, download TSP Book 33, "Your TSP Account: A Guide for Beneficiary Participants" at www.tsp.gov.

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