**Federal employees soon will have more options to withdraw money from their retirement accounts**

Federal employees, including those who work at the Office of Personnel Management, above, soon will have more options when it comes to withdrawing money from their retirement accounts. (Sarah Silbiger/For The Washington Post)

By Eric Yoder May 30

Current and former federal employees and military personnel soon will have more options when it comes to withdrawing money from their retirement accounts.

The Thrift Savings Plan is on schedule for a September launch of new account withdrawal options that will remove restrictions that have long been a sore point for many investors, TSP officials said Wednesday at a meeting of the program’s governing board.

Those changes — most applying to those who have left the government but some applying to those still working — result from legislation enacted in late 2017 that gave the TSP two years to carry them out. The Thrift Savings Plan is a 401(k)-style retirement savings plan for federal employees and military personnel, with 5.9 million account holders who had $591 billion on investment as of the end of April.

Although those who leave the government for retirement or other reasons may leave their accounts in place, the limited withdrawal choices have been cited as a main reason so many transfer the money to an individual retirement account or other tax-favored savings plan instead — 36 percent do so within a year.

In the most recent investor satisfaction survey, in 2013, withdrawal choices ranked the second-lowest among the seven features of the program that were rated.

Account holders are “going to have a lot better withdrawal options. They’ve been very limited in the past and I think it’s going to be very beneficial,” said board chairman Michael Kennedy, a managing director in the Atlanta office of Korn/Ferry International, a management consulting firm.

Although the Thrift Savings Plan is a federal agency, it is self-funding and operates much like a corporation, with a chief executive officer overseen by a governing board.

Currently, account holders who leave federal employment or active military duty have three basic withdrawal options that they can use alone or in combination: take a lump-sum cashout or transfer to another account, purchase an annuity, or draw out equal monthly payments.

However, only one partial withdrawal is allowed, and any second withdrawal choice must apply to the entire remaining balance. Further, for those who have both traditional pretax balances and “Roth IRA” after-tax balances, withdrawals must be taken proportionately from both.

Under the new policies, to be effective Sept. 15, those who separate from the government will be allowed to take partial withdrawals as often as once every 30 days, and those with both types of balances will be allowed to take the money from one or the other in addition to prorating.

Further, installment payments could be taken quarterly or annually in addition to monthly, and the amounts could be changed at any time rather than just once a year.

One change will affect current employees and active duty military personnel who are over age 59½ . They may now may take a one-time “age-based” withdrawal without a tax penalty, which forfeits the right to take a later partial withdrawal. Instead, up to four age-based withdrawals per year will be allowed, with no impact on post-separation withdrawals.

Ravindra Deo, executive director of the board, said the changes could motivate some investors to decide to stay with the Thrift Savings Plan since “they want more flexibility and this will give it to them.” He said that by transferring out, investors are passing up advantages including investment fees that are much lower than those charged by mutual funds and other investment vehicles.

However, some investors still may have good reasons to move their money out of the TSP, he said, including those with only small accounts they wish to close out and, by contrast, those with substantial savings plus other investments that they want to consolidate. For them, “I don’t know if this will make enough of a difference” to motivate them to stay, he said.

“This is going to be a great benefit for the program and the participants,” said Clifford Dailing, secretary-treasurer of the National Rural Letter Carriers’ Association. “This is a request that we’ve been hearing from our members for some time. Many of them have been putting their money in other investments where they could have better control.”

“I think some have been making bad decisions because of a misunderstanding that once they retire they need to withdraw the account and reinvest it, which is inaccurate,” added Dailing, chair of a separate advisory board of federal employee organizations that met jointly with the TSP’s board.

At the meeting, officials outlined plans to inform account holders about the new options through electronic newsletters, webinars and other communications. Investors will be encouraged to make any changes through a feature being developed for the TSP website, although new paper forms also will be offered.

“We’re trying to make sure we implement it and roll it out the right way,” Kennedy said. “We’ll have to do a real good job of educating people.”

Other changes ahead, officials said, include making mandatory the now voluntary use of two-factor authentication to access an account, offering target-date investment funds in five-year increments rather than the current 10 years, and increasing the default investment for newly hired employees from 3 to 5 percent of salary. The first of those is targeted for later this year, while the other two are projected for July and October 2020 respectively.