



Thrift Savings Plan BULLETIN

for Agency TSP Representatives

Subject: Effect of Nonpay Status on Thrift Savings Plan Participation

Date: August 6, 2003

This bulletin explains how placement in nonpay status, e.g., furlough or leave without pay (LWOP), affects an employee's Thrift Savings Plan (TSP) participation. It supersedes TSP Bulletin 02-6, dated April 3, 2002, to reflect the changes to the loan program resulting from the implementation of the new record keeping system. Attachment 1 to this bulletin is a revised [Fact Sheet](#) that agency representatives should provide to TSP participants who enter nonpay status. Attachment 2 is [Form TSP-41](#), which agency representatives should complete to report to the TSP the nonpay status of participants who have TSP loans and to report the return to pay status of those participants.

This bulletin **does not apply** to participants placed on leave without pay (LWOP) to perform an assignment with a state or local government agency under the provisions of the Intergovernmental Personnel Act or to participants placed on LWOP to serve as full-time officers or employees of a union. Those participants can continue to contribute to their TSP accounts, and their employing offices must continue to deduct and send in loan payments, as explained in 5 C.F.R. part 1620.

I. TSP Contributions

A. Contribution elections

Placement in nonpay status does not affect an employee's eligibility to make TSP contribution elections, including elections to make catch-up contributions, if otherwise eligible. Agencies must process contribution elections (both regular elections and catch-up contribution elections, if applicable) made by employees in nonpay status just as they process contribution elections made by employees in pay status. See TSP Bulletin 01-4, Participation in the Thrift Savings Plan, dated February 2, 2001, for information about contribution elections and their processing by agencies.

(continued on next page)

Inquiries: Questions concerning this bulletin should be directed to the Federal Retirement Thrift Investment Board at **202-942-1460**.

Chapter: This bulletin may be filed in Chapter 3, Eligibility.

Supersedes: This bulletin supersedes TSP Bulletin 02-6, Effect of Nonpay Status on Thrift Savings Plan Participation, dated April 3, 2002.

B. Contribution allocations and interfund transfers

Placement in nonpay status does not affect a participant's eligibility to make a contribution allocation or an interfund transfer. The TSP will process investment requests made by participants in nonpay status just as it processes investment requests made by participants in pay status.

C. Determining contributions

1. If a participant is in nonpay status for an entire pay period, TSP employee and agency contributions are not made for that pay period. This is true even if the individual is receiving benefits from the Office of Workers' Compensation Programs (OWCP). TSP contributions, including the Agency Automatic (1%) Contributions made to the accounts of participants covered by FERS,¹ are based upon the basic pay the participant earned for the pay period. Because the basic pay is zero, TSP contributions are zero. (A participant receiving OWCP benefits is **not** receiving basic pay, which is defined by law in 5 U.S.C. § 8331.)

Generally, a participant cannot make up the missed TSP contributions when he or she returns to pay status. However, if the participant was placed in nonpay status to enter military service and returns to duty pursuant to the provisions of the Uniformed Services Employment and Reemployment Rights Act of 1994 (USERRA), he or she has the opportunity to make up and receive contributions missed while performing military service. See TSP Bulletin 02-7, dated April 3, 2002, for more information about TSP benefits resulting from the application of the provisions of USERRA.

2. If a participant receives some basic pay for working a portion of a pay period:
 - a. The Agency Automatic (1%) Contribution for the pay period is determined using the basic pay the employee earned for the pay period.
 - b. If the participant elected to contribute a percentage of pay, the Employee Contribution for the pay period is determined using the basic pay earned for the pay period.

If the participant elected to contribute a whole dollar amount, and the amount exceeds the maximum allowable percentage of the participant's basic pay for that pay period, the Employee Contribution must be reduced to the maximum allowable percentage of the basic pay.² If the

¹ FERS refers to the Federal Employees' Retirement System, the Foreign Service Pension System, and other equivalent Federal retirement systems.

² See TSP Bulletin 01-3, New Thrift Savings Plan Employee Contribution Limits, dated January 23, 2001, for the maximum allowable percentages.

whole dollar amount the participant elected exceeds the participant's net pay for the pay period, **no** Employee Contribution is made for the pay period.

- c. The Agency Matching Contribution for the pay period is determined using the basic pay the participant earned and the Employee Contribution made for the pay period.
3. For more information about basic pay and determining TSP contributions, see TSP Bulletin 02-8, dated April 3, 2002.

II. TSP Loans

A. Effect of nonpay status

1. Participants in nonpay status are not eligible to receive TSP loans until they return to pay status. Under the provisions of the TSP loan program, loan payments must be made through payroll allotments.³
2. If a participant who has a TSP loan is in nonpay status for one or more pay periods, payroll allotments for the loan payments cannot be made. Also, the payroll allotment cannot be made if a participant is in nonpay status for less than a single pay period but his or her pay is not enough to make the payment. The payroll office is not to adjust the amount of the loan payment; the full loan payment must be made.
3. If NFC receives documentation of a participant's approved nonpay status,⁴ the participant's loan payments may be suspended for:
 - a. up to one year, or
 - b. if a participant is in nonpay status to perform military service, for the period of military service.

However, general purpose loans must be repaid in full within 5 years of their issuance date and residential loans must be repaid in full within 15 years of their issuance date unless the participant was placed in nonpay status to perform military service. The time frame for repaying loans of such participants is extended by the period of military service.

³ Participants may now also make partial prepayments of their loans by submitting a check or money order directly to the TSP.

⁴ Approved nonpay status is the result of an agency official's approval of the participant's absence from duty (e.g., furlough, leave without pay, or suspension). AWOL (absence without leave) is not an approved nonpay status.

4. Appropriate documentation is any one of the following:
 - Form TSP-41, Notification to TSP of Nonpay Status (Attachment 2)
 - SF-50, Notification of Personnel Action, documenting the nonpay status
 - a letter from your agency on agency letterhead, which includes the information required on Form TSP-41, and the signature and title of the agency representative providing the information.
5. If NFC is not properly notified of a participant's approved nonpay status and the participant misses a loan payment, NFC will notify the payroll office by providing Report TSP 19401, Loan Status Report. (See TSP Bulletin 02-16, dated June 12, 2002, for more information about this report, which we recommend should be received as an electronic data file.)

At that time, the agency should submit one of the documents above. However, to avoid a taxable distribution, the participant must pay the missing amount directly to NFC.

Under IRS regulations, the TSP must identify each calendar quarter any loan account that is in default by an amount equal to or greater than one loan payment. If an account has been so identified, the participant will be notified and will have until the end of the following calendar quarter to pay the missing amount.

If the participant does not pay the missing amount, the loan will be closed and a taxable distribution of the unpaid balance, plus accrued interest, will be declared.

6. See the booklet *TSP Loan Program* (August 2002) for more information about what happens to a TSP loan when a participant enters nonpay status, what happens when loan repayment problems are found, what a taxable distribution is, and what triggers it.

B. Participant and agency responsibilities

1. Participants are responsible for repaying their loans according to the terms established by their (original or, if applicable, reamortized) Loan Agreement.
2. When a participant who has a TSP loan is placed in approved nonpay status, the participant or an agency representative must send NFC written notification of this action.

Although any one of the documents described in A.4 above may be sent, Form TSP-41 has been developed specifically for this purpose. As explained by the instructions for this form, agencies must complete Sections I, II, and IV to notify NFC of the approved nonpay status.

3. When the participant returns to pay status, the agency must:
 - a. resume the participant's loan payments, and
 - b. submit documentation to notify NFC of the return to pay status. Again, Form TSP-41 has been developed for this purpose; Sections I, III, and IV must be completed to notify NFC of the return to pay status.

(Alternatively, the participant or the agency may submit the SF-50 documenting the return to pay status or a letter, as described in A.4 above.)

4. If the participant's loan has been reamortized, NFC will provide Report 19410 to the payroll office to show the amount of the new payments. The payroll office must then submit this amount.⁵

III. TSP In-Service Withdrawals

Participants who are in nonpay status may withdraw funds from their TSP account if they are age 59½ or older (an age-based withdrawal) or if they are experiencing financial hardship. The booklet *TSP In-Service Withdrawals* contains additional information about these options.



PAMELA-JEANNE MORAN
Deputy Director
Office of External Affairs

Attachments: Thrift Savings Plan Fact Sheet, "Effect of Nonpay Status on TSP Participation"
Form TSP-41, Notification to TSP of Nonpay Status

⁵ As explained in the loan booklet, when an agency informs NFC of the participant's return to pay status, the loan will be reamortized automatically unless the current payment amount will repay the loan in full by the maximum time limit.