Thrift Savings Plan

Effect of Nonpay Status on Your TSP Account

Fact Sheet **May 2022**

Introduction

This fact sheet explains the effects of a period of nonpay status on TSP loans, contributions, distributions, and withdrawals. It is for civilian employees who are placed in nonpay status (e.g., administrative furlough[1] or leave without pay) and for members of the uniformed services who are in the Ready Reserves and have been given approval by their command to skip scheduled drills or whose yearly drill schedule is performed over a one- or two-month period.[2] **This fact sheet does not apply to employees affected by shutdown furloughs (also known as emergency furloughs), which are caused by a lapse in appropriations.** For information about how missing paychecks during a lapse in appropriations affects your TSP account, see tsp.gov. Additionally, it does not apply to employees who are in nonpay status performing an assignment with a state or local government agency under the provisions of the Intergovernmental Personnel Act (IPA) or to employees who are in nonpay status serving as full-time officers or employees of a union.[3]

Loans

Important: Throughout this section, there are references to taxed loans. These can have serious financial consequences, including causing you to count the outstanding balance and any accrued interest as taxable income. Please read the TSP booklet *Loans* for more information.

You may not take a new loan while in nonpay status

When the TSP issues you a loan, loan payments are deducted from your pay. Therefore, if you are not receiving pay, you will not be eligible for a TSP loan. You may take a loan if you are placed on administrative furlough expected to last less than 30 days. The first payment is due on or before the 60th day following the loan issue date. If you reasonably believe your furlough will last 30 days or less, you can truthfully sign the loan request because you reasonably believe that your loan payments will start within the required period and that you will be able to repay your loan. But be very sure your administrative furlough will last less than 30 days or be prepared to make payments from other funds. Failure to make regular, level payments will force us to declare a taxed loan.

Suspending existing loan payments while in nonpay status

If we are notified that you have gone into approved nonpay status that's expected to last 30 days or longer while you have an outstanding TSP loan, your loan payments will be suspended. Interest on your loan will continue to accrue while loan payments are suspended. Making payments on your own during your nonpay status will reduce the amount of interest that accrues.

With one exception, your loan payment suspension lasts until you return to pay status or until one year passes, whichever comes first. The exception is when you're in nonpay status from your civilian job to perform military service. In that case, your payments will be suspended until you return to pay status, even if it's longer than one year. The maximum term of your loan will be extended by the length of your military service. If that is your situation, please take note of the following:

- If the nonpay documentation submitted to us does not specify that you are in nonpay status to perform military service, the suspension of your loan payments cannot exceed the one-year period described above.
- Your service cannot make deductions from your uniformed services pay as a way of making payments on the loan from your civilian account.
- If your civilian agency reports you as separated rather than in nonpay status, you will be required to begin making payments on your own or risk delinquency. The loan will be foreclosed if no payments are made within 90 days of the reported separation. Once you return to pay status, the foreclosed loan—if not reversed—has the same effect on your ability to take

1 An administrative furlough is a planned event by an agency. It could be the result of downsizing, reduced funding, lack of work, or any budget situation other than a lapse in appropriations.

2 Most uniformed services members will never be in nonpay status.

3 Under these arrangements, your TSP contributions will continue. If you have a TSP loan, your loan payments must also continue. See your personnel or benefits office for information about your TSP account.

future loans as a taxed loan. See the TSP booklet *Loans* for more information about taxed loans and foreclosures. See the TSP fact sheet *TSP Benefits That Apply to Members of the Military Who Return to Federal Civilian Service* for more information about reversing a loan foreclosure under these circumstances.

Notifying the TSP you're in nonpay status

To notify us that you are in nonpay status, ask your agency or service to submit one of the following to the TSP (See tsp.gov for contact information.):

- Form TSP-41, *Notification to TSP of Nonpay Status*; or
- Form SF-50, *Notification of Personnel Action*; or
- a letter on agency or service letterhead, signed by an appropriate agency official (or your commander or adjutant), and containing your name, date of birth, and Social Security number; the beginning date of the nonpay status; the type of nonpay (military or general); and the signature and title of the agency or service representative providing the information.

Or you may submit a copy of your military orders or an SF-50 directly to us.

It is your responsibility to ensure that we receive the proper documentation (including whether your nonpay status is due to military service or other reasons) immediately after you enter nonpay status. We will then send you confirmation that your loan has been placed into nonpay status. When you receive this confirmation, please verify that the beginning date of the nonpay status and the type of nonpay is correct. If it is not, ask your agency or service to submit corrected information. If you do not receive a confirmation notice within two weeks of when you either requested that your agency or service submit documentation or submitted it yourself, contact the TSP to verify receipt of the properly completed documentation. If we do not receive proper notice of your nonpay status, you must submit loan payments directly to us or risk being taxed on the balance of your loan. If you receive a notice of missing payments, you must submit nonpay documentation prior to the declaration of a taxed loan. You will not be able to have payments suspended after a taxed loan has been declared.

Making direct payments on your loan while you're in nonpay status

You can make loan payments by check, money order, or direct debit at any time to repay your loan more quickly or to make up for missed payments. You can also set up monthly direct debit payments. Contact us through the ThriftLine Service Center to learn how.

Resuming payments from payroll

The suspension of your obligation to make loan payments will end in one of two ways:

- A year passes and you remain in nonpay status for a reason other than performing military service. Your loan payments must resume then even if you have not returned to pay status.
- You return to pay status before the one-year limit is up (or at any time if you were in nonpay status to perform military service), and you, your agency, or your service submits to us one of the following documents:
    - Form TSP-41
    - Form SF-50
    - a letter from your agency or service, as described earlier but containing the date your nonpay status ended instead of the beginning date
    - Form DD214, *Certificate of Release or Discharge from Active Duty* (if you were on active military duty)

Once either of these things happens, we will automatically reamortize your loan, and your loan payments made by payroll deductions must resume. Reamortization means resetting your loan payment amount and/or the term of your loan. Accrued interest will have increased your loan balance. And your reamortized payments must repay the loan within the maximum time allowed.[4] So, if your loan payment amount at the time of the reamortization is sufficient to repay your loan in full by the maximum time limit allowed by the IRS and TSP regulations, your loan payment amount will not be changed, but the term of your loan will be extended (up to the maximum time limit). If your loan payment amount is not sufficient to repay the loan in full by the maximum time limit, your loan payment will be increased. The nearer you are to the maximum term, the more your payment amount will increase.

You will receive a confirmation notice from us acknowledging the end of your nonpay status and showing the new loan payment amount resulting from reamortization. If you do not receive this confirmation notice, please ask your agency or service to submit one of the documents listed above to the TSP or submit the necessary information yourself.

4 The maximum time limit for repaying is 60 months for a general purpose loan and 180 months for a primary residence loan. **If you went into nonpay status to perform military service, the maximum time limit of your loan will be extended by the length of your military service.** However, accrued interest may still cause your loan payment amount to increase.

Workers' Compensation payments may not be directly debited to make TSP loan payments

Workers' Compensation benefits are payments made by the Department of Labor's Office of Workers' Compensation Programs (OWCP) and, by law, are not payments from which TSP contributions may be made by direct debit. You may use money from your OWCP benefits to make loan payments, but the payment must come from you.

Having your hours reduced does not allow you to suspend loan payments

Instead of furloughing its employees for continuous periods, an agency may furlough its employees for discontinuous periods (e.g., one day every week or one day every pay period). A discontinuous furlough may cause an employee to not have sufficient pay to cover all deductions. When this occurs, agencies must follow an order of precedence to determine which deductions will be processed. Under this order of precedence, deductions for retirement, Social Security, Medicare tax, federal income tax, health insurance, and other items are processed ahead of TSP loan payments. Consequently, employees furloughed for discontinuous periods may not have enough gross pay for the agency to make a deduction for TSP loan payments, and these employees may fall behind in their TSP loan payments. Agencies are not permitted to submit partial loan payments.

If you do not have enough gross pay for your agency to make a deduction for your TSP loan payments, you must submit loan payments from your personal funds directly to the TSP. Failure to make payments could result in your loan being declared a taxed loan.

A summary of the rules for loans during nonpay status appears at the end of this fact sheet.

Contributions

You cannot make TSP contributions while in nonpay status

Employee contributions to TSP accounts must be made as deductions from civilian or uniformed services pay. Therefore, if you are in nonpay status for one or more full pay periods, you will not be contributing to your TSP account during that time. If you are a civilian employee in nonpay status to perform military service, you may make contributions to your uniformed services TSP account. Your contributions will be deducted from your uniformed services pay. In addition, when you return to civilian pay status, you may be entitled to make up TSP contributions to your civilian account. See the fact sheet *TSP Benefits That Apply to Members of the Military Who Return to Federal Civilian Service* for more information about making up TSP contributions.

FERS[5] and BRS[6] participants during nonpay status

Agency/Service Automatic (1%) Contributions are calculated based on basic pay earned during each pay period. Agency/Service Matching Contributions are calculated based on employee contributions from that basic pay. Consequently, if you are not earning basic pay for a particular pay period, you will not receive either type of agency/service contribution for that pay period.

If you have both a civilian TSP account and a uniformed services TSP account, and you are both FERS and BRS, you could be in nonpay status for one of your employers and not the other. The paragraph above applies only to the job and account for which you are in nonpay status. If you're being paid in your other position, you receive Agency/Service Automatic (1%) Contributions and are eligible for matching contributions as usual. See the following subsection for more information about returning from nonpay status in your civilian job to perform military service.

FERS participants in nonpay status to perform military service

If you are a civilian FERS employee in nonpay status to perform military service, you are entitled to receive restored Agency Automatic (1%) Contributions when you return to your civilian job. These contributions are based on the basic pay you would have received as a civilian if you had not been separated or placed in nonpay status to perform military service. You are also entitled to restored Agency Matching Contributions for periods of military service if you

- contributed to your uniformed services TSP account from military basic pay, or
- elected to make up employee contributions when you returned from military service.

Important Note: If you are covered by BRS, any restored agency contributions are reduced by the amount of the contributions you received from your service during the nonpayment period.

See the TSP fact sheet *TSP Benefits That Apply to Members of the Military Who Return to Federal Civilian Service* for detailed information regarding your rights under the

5 FERS refers to the Federal Employees Retirement System, the Foreign Service Pension System, and other equivalent government retirement plans.

6 The Blended Retirement System (BRS) covers uniformed services members who began service on or after January 1, 2018, or who opted into the system.

Uniformed Services Employment and Reemployment Rights Act of 1994 (USERRA). For an explanation of how USERRA benefits apply to your specific situation, see your agency human resources office. Only your agency can determine your eligibility to receive restored agency contributions to your TSP account.

Account transactions during nonpay status

Fund transfers and reallocations involve moving your existing account balance among the TSP investment funds. Therefore, those are allowed. An investment election affects the investment of future contributions (and loan payments) made to your account. You may make an investment election while in nonpay status, but until future contributions and loan payments are made to your account (or you roll over money from an IRA or other eligible employer plan), your investment election will have no effect.

Withdrawals

In-service withdrawals during nonpay status

While you are in nonpay status, you can request an in-service withdrawal. There are two types of in-service withdrawals: age-59½ withdrawals for participants who are age 59½ or older, and withdrawals for financial hardship. Funds withdrawn are taxable, and an early withdrawal penalty tax may apply. For more information, read the TSP booklet *In-Service Withdrawals*.

Post-separation distributions while in nonpay status

While you are in nonpay status, you are still a civilian employee or a member of the uniformed services. You are not eligible to take a post-separation distribution until the TSP is notified by your agency or service that you have separated from civilian service or the uniformed services.

Summary of Nonpay Status Rules for Existing Loans
(applicable after the TSP has been informed of your nonpay status)

TOPIC	What you need to know	
	If you are in nonpay status for reasons other than military service	**If you are in nonpay status to perform military service**
Permission to Miss Loan Payments During Nonpay Status	You are allowed to miss loan payments for up to one year of nonpay status.	You are allowed to miss loan payments throughout the entire time you are in nonpay status.
Accrual of Interest	Interest continues to accrue on your loan during the nonpay period.	Interest continues to accrue on your loan during the nonpay period.
Making Loan Payments	Payments are not required during a nonpay period of one year or less. If you want to make loan payments, submit payments directly to the TSP.	Payments are not required during a nonpay period. If you want to make loan payments, submit payments directly to the TSP.
Returning to Pay Status	You or your agency or service must notify us when you return to pay status and provide the ending date of your nonpay status. If your nonpay status lasts longer than a year, your suspension of loan payments will end automatically. We will recalculate your loan when you return to pay status or at the end of your one-year time limit, whichever comes first.	You or your agency must notify us when you return to pay status and provide documentation of the ending date of your nonpay status. We will recalculate your loan when you return to pay status. The maximum time allowed to pay off your loan will be extended by the length of your military service.
Effect of Reamortization on Your Loan Payments	If your current loan payments will not pay off your loan by the maximum repayment period, we will increase your loan payment amount and notify you.	If your current loan payments will not pay off your loan by the extended maximum repayment period, we will increase your loan payment amount and notify you.
Resuming Loan Payments	If loan payments do not resume through payroll deductions after your loan has been reamortized, you must submit payments yourself to keep your loan from going into delinquent status.	If loan payments do not resume through payroll deductions after your loan has been reamortized, you must submit payments yourself to keep your loan from going into delinquent status.
Loan Delinquency	If you miss payments after you return to pay status, or your loan has been reamortized due to the one-year limit and you become delinquent (miss 2 or more scheduled repayments), you must send in the cure amount or a taxed loan will be declared. You will be subject to tax on the taxable portion of the outstanding loan balance (including any accrued interest). Any Roth earnings included in the taxed loan will be subject to tax, even if your earnings were already qualified. If you are under age 59½, you may also be subject to an early withdrawal penalty tax.	If you miss payments after you return to pay status and you become delinquent (miss 2 or more scheduled repayments), you must send in the cure amount or a taxed loan will be declared. You will be subject to tax on the taxable portion of the outstanding loan balance (including any accrued interest). Any Roth earnings included in the taxed loan will be subject to tax, even if your earnings were already qualified. If you are under age 59½, you may also be subject to an early withdrawal penalty tax.