



FEDERAL RETIREMENT THRIFT INVESTMENT BOARD
1250 H Street, NW Washington, DC 20005

September 14, 2009

MEMORANDUM FOR GREGORY T. LONG, Executive Director
FROM: PAMELA-JEANNE MORAN, Director
Office of Participant Services
SUBJECT: Spousal Accounts – Interim Manual Procedures

As you are aware, on June 22, 2009, the President signed into law H.R. 1256 entitled *Family Smoking Prevention and Tobacco Control Act*. The bill includes the Thrift Savings Plan Enhancement Act of 2009. Section 109 of the act addresses accounts for surviving spouses. The act states in part that “if an employee, Member, former employee, or former Member dies and has designated as sole or partial beneficiary his or her spouse at the time of death, or, if an employee, Member, former employee, or former Member, dies with no designated beneficiary and is survived by a spouse, the spouse may maintain the portion of the employee’s or Member’s account to which the spouse is entitled in accordance with the following terms....” Additional provisions of the Act include immediate agency contributions, automatic enrollment, and the TSP Roth 401(k) feature.

Currently, spousal beneficiaries of TSP participants are not permitted to leave their death benefit in the TSP. When the TSP is officially notified of a participant’s death, the loan default process begins if the deceased participant had any outstanding loans. After the loan default process is completed, the participant’s account balance is transferred to the G Fund (Government Securities Investment Fund) to protect the balance from investment losses. The TSP Death Benefit Processing Unit (DBPU) reviews the participant’s account (i.e. *Form TSP-3, Designation of Beneficiary; Form TSP-17, Information Relating to Deceased Participant*) to determine the correct beneficiary. If there isn’t a valid TSP-3 on file with the TSP record keeper prior to the participant’s date of death, the beneficiary determination is made as follows:

1. To the participant’s surviving spouse; if none,
2. To the participant’s natural or adopted child (or children in equal shares) and descendant’s of deceased children by representation; if none,
3. To the participant’s parent’s in equal shares (or entire amount to the sole surviving parent); if none,
4. To the duly appointed executor or administrator of the participant’s estate; if none,

5. To the next-of-kin who are entitled to the participant's estate under the laws of the state in which the participant resided at the time of death.

After DBPU completes the beneficiary determination process, a skeletal account(s) is created and a *Notice of Intent to Pay Death Benefits* is mailed to the beneficiary(ies). The notice advises them that they can either transfer the death benefit payment or receive a cash payment and that the death benefit payment will be disbursed in sixty days unless they choose to expedite the payment by submitting a waiver. The payment can also be deferred by requesting an extension.

A lump sum distribution is the only option available for both non-spouse and spousal beneficiaries. However, a spousal beneficiary may elect to transfer all or a portion of the death benefit to an individual retirement account (IRA) or other eligible employer plan. They may also have the death benefit paid as a direct payment, which is subject to mandatory 20 percent Federal income tax withholding. On the other hand, a non spouse beneficiary may elect to transfer all or a portion of the death benefit to an inherited individual retirement account, or have the death benefit paid as a direct payment, which is currently subject to 10 percent Federal income tax withholding.

Implementing Spousal Accounts – Interim

The provisions for spousal accounts will require system modifications which cannot be initiated until the OMNI 5.75 system upgrade has been implemented. The scheduled date for implementation of the Omni upgrade is October 2009; consequently the spousal accounts will not be implemented until sometime in 2010.

The Thrift Savings Plan Enhancement Act of 2009 does not have an effective date for implementing spousal accounts; however, the Office of Participant Services (OPS) recommends that the Agency immediately begin offering spousal beneficiaries the option to leave their money in the TSP.

OPS is proposing an interim manual policy for spousal beneficiaries who wish to take advantage of this feature. The interim process would require the following steps:

- DBPU would manually place administrative holds on skeletal accounts of all spousal beneficiaries; this hold will prevent any disbursements from the account.
- The automated system generated notice, *Notice of Intent to Pay Death Benefits*, will require minor modifications. The modified notice will welcome the spousal beneficiaries to the TSP, advise them of the benefits of leaving their money in the TSP, and also advise them that they can request the cash payment or the transfer option. Additionally, the notice will inform the spousal beneficiaries that their funds are safely invested in the G Fund. The notice will inform them that at this time, they are prohibited from conducting transactions and that they will be notified when

the TSP implements spousal accounts. At which time, they will be able to conduct transactions that are available to TSP spousal beneficiary account holders.

- Spousal accounts can only be transferred once (i.e. If the spouse of the deceased TSP participant remarries, the funds in the TSP account cannot be transferred to the new spouse; the new spouse will be required to make a withdrawal election).

Ultimately,

Spousal accounts will have similar benefits as separated TSP participants (i.e. no loans, no contributions and a range of withdrawals). By law, they cannot transfer money into the TSP

This feature should be of great benefit to spousal beneficiaries because it eliminates the need to address any TSP issues during a time of emotional distress. It will also allow them the opportunity to make a sound withdrawal election when they are ready to do so, rather than under unnecessary time constraints. As of the date of this memorandum, the Agency has had two spousal beneficiaries express interest in TSP spousal accounts.

I recommend that the Agency move forward on implementing an interim manual policy for establishing spousal accounts. A policy paper on the permanent structure of spousal beneficiary accounts will be forthcoming.

Concur: *[Signature]* Non-concur: _____ Other: _____ Date: *9/13/07*

Comments: