

# Accessing your TSP Money Before Age 59 ½ Might Make Sense

November 30, 2015 by Jesse Black

I recently met a Federal Employee who was planning on working until fifty nine and half years old so he would be able to supplement his income from his TSP without the 10% penalty. We seem to have the age 59.5 burned into our brains and think there is no penalty free way to access our TSP until that age. Many federal employees are eligible and in some cases even forced to retire prior to the infamous age of 59.5. So what are your options of accessing your money if you do retire before the six month anniversary of your fifty ninth birthday?

If a federal employee retires, quits or is fired the calendar year they turn 55 years old, they do have the ability to pull from the TSP penalty free. It has to be the year you are turning 55 though, so you cannot retire at say age 53 and then start withdrawals when you turn 55. This rule can be efficient for achieving a supplemental income prior to turning 59.5 and only paying income tax on your withdrawals. Age 55 can be a milestone to shoot for if you're thinking of retiring before 59.5 to have the most flexibility in avoiding the 10% penalty. This option is not available in your IRA accounts or if you roll your TSP into an IRA.

A second penalty free option that is available is an option called 72t or the technical term substantially equal periodic payments. This option is available even if a federal employee retires prior to age 55. In basic terms the IRS allows you to take consistent withdrawals, at least annually, based on your life expectancy. The amounts you are allowed to take are based on your balance, age and life expectancy. The IRS calculates all of that by one of two methods, the fixed amortization method, or the fixed annuitization method. 72t does not offer any flexibility though.

Once you start pulling substantially equal periodic payments you must continue them until the age 59.5 or 5 years, whichever is longer. You will not be able to pull additional penalty free withdrawals until your payments have ended. For example if you start 72t at age 56 you must continue them and you will not have additional access to your funds until age 61. Also the payments can't be increased during the payment term. If you pull more than the payment amounts at all, the entire sum of what you have already withdrawn will be subject to the 10% penalty. The 72t option is also available in your IRA investment vehicles.

Another penalty free option you can utilize for retirement income is the TSP Annuity option. By choosing one of the TSP annuity withdrawal options you can avoid the additional 10% penalty. This option is available at any age and it goes without saying that the younger you are when you start the annuity payments, the lower your payment will be. This option also has no flexibility. Once you start annuity income payments, you will only receive income. You will never have access to your TSP balance in the future,

it is only an income stream now. The income amounts never increase or decrease. This option may be available in IRA Annuities outside the TSP as well.

As you can see there are options before you reach 59 ½ years old. Before making a decision on which option is best for you and your goals, you should consult a tax professional. Sometimes utilizing both a TSP and an IRA account can offer more flexibility. For example, starting 72t from one and not accessing the other. A financial advisor and tax professional can go into even more depth, explaining each option's rules.

### **Federal employee question of the day**

From a DOC Federal Employee: I work for the DOC. I am 56 years old. My salary is around \$140,000. I have 37 years of service & plan to retire in December of this year. I have about \$450,000 in my TSP so I think I'm set financially. I am a little nervous about completing my form(s) (e.g. 2801) because if I make a mistake I will be stuck with it. What should I do?

### **Have you ever had any questions like this?**

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