**Don't Lose Your Agency's Matching TSP Contributions**

Edward A. Zurndorfer, Certified Financial Planner - December 11, 2017

Each year, the IRS announces a limit on the amount that employees can contribute to their employer-sponsored qualified retirement plans including 401(k), 403(b) or 501(c) (18) retirement plans and the traditional and Roth Thrift Savings Plan (TSP). This column discusses how this limit, called the IRS' "elective deferral" limit, affects TSP contributions made to the accounts of FERS employees. The column will also discuss how certain employees can lose some of their matching TSP contributions from their agencies. These employees include those employees covered by the Federal Employees Retirement System (FERS) and the Foreign Service Pension System. Starting on Jan. 1, 2018, new members of the Uniformed Services and some existing Uniform Services members who choose to be covered by the Uniformed Services' new Blended Retirement Systems (BRS) will also be affected by the elective deferral limit rules.

**What are elective deferrals and what is their effect on agency matching contributions?**

Elective deferrals are amounts that an employee asks his or her employer to deduct from his or her salary and that the employer contributes on behalf of that employee to an employer-sponsored retirement plan. All tax-deferred traditional contributions that a Federal employee contributes to the TSP and all after-tax Roth TSP contributions that a Federal employee contributes to the TSP are considered elective deferrals.

Note the combined total of a Federal employee's before-taxed traditional TSP and after-taxed Roth TSP contributions (but excluding "catch-up" contributions) cannot exceed the elective deferral limit in any year. For calendar year 2018, the elective deferral limit is $18,500, an increase of $500 from the 2017 elective deferral limit of $18,000.

Elective deferrals *do not include agency automatic (one percent of gross pay) contributions and agency matching contributions (maximum of four percent)* because those contributions are not considered part of an employee's salary. For members of the Uniformed Services, elective deferrals do not include traditional contributions from tax-exempt pay earned in a combat zone.

When a FERS-covered employee reaches the annual elective deferral limit for the year, the employee is prohibited from contributing to the TSP for the remainder of the year. The TSP system will not allow any employee contributions to be processed that will cause the total amount of employee contributions to exceed the annual elective deferral limit. The employee's payroll office must ensure that the employee contributions automatically resume effective the first date of the following calendar year.

Those FERS-covered employees who reach the annual elective deferral limit during the year will have their agency matching contributions suspended for the remainder of the year. Note that the agency matching contributions are based on the amount of employee contributions made each pay date. If there are no employee contributions on a particular pay date, then there can be no agency matching contributions. However, the agency automatic contributions – that is, one percent of the employee's gross pay - will continue if the employee reaches the annual elective deferral limit during the year. This is because the agency automatic contribution is not based on an employee's contributions. But FERS employees certainly do not want miss out on any agency TSP matching contributions.

**How FERS employees can receive maximum agency matching contributions**

To receive the maximum agency matching contributions, *a FERS employee must contribute at least five percent of the basic pay the employee earns each pay period during the year*. This recommended contribution strategy also applies to Uniformed Service members who will be enrolled in the Blended Retirement System. Employees should use the [“How much can I contribute?” calculator] to determine a dollar amount an employee can contribute each pay date so that the employee's contributions are spaced out over all of the 2018 days. The worksheet is reproduced below.

**Worksheet to Maximize the Amount of Agency Matching Contributions**

**Example.** The example below applies to a FERS employee who is paid on a biweekly basis. The employee made an election that is effective Dec. 10, 2017. For his agency, the pay date for that pay period is Dec. 29, 2017, which is the first pay date for 2018. In this example, the employee's biweekly contribution should not exceed **$712** each pay period. If the employee was paid monthly, the contribution should not exceed $1,542 per month to ensure maximum agency matching contributions.[1]

**Your estimate.** For Item 1, enter the IRC elective deferral limit for the year (2018) in which your new election will be effective.

For Item 2, log into “My Account” at www.tsp.gov to find the total amount of your year-to-date elective deferrals. (This is the total amount of your employee contributions minus any traditional contributions from tax-exempt pay.) For Item 4, count the number of pay dates remaining in the calendar year, beginning with the pay date following the end of the first full pay period after you make your election.

| | Example | Your Estimate |
|---|---|---|
| 1. Enter the IRC elective deferral limit for **2018**. | 1. $18,500 | $________ |
| 2. Enter all elective deferral made in **2018** prior to the effective date of your new election | 2. $ 0. 00 | $________ |
| 3. Subtract Line 2 from Line 1. | 3. $18,500.00 | $________ |
| 4. Enter the number of salary payments you will receive in 2018 from which your new election will be deducted. | 4. 26[2] | ________ |
| 5. Divide Line 3 by Line 4. | 5. $711.54 | $________ |
| 6. Round up the result in Line 5 to the next dollar to determine the whole dollar amount you should contribute each pay date for the rest of the year (which you will enter on your **Form TSP-1** or **TSP-U-1**). | 6. $712.00[3] | $________ |

[1] This example also applies to BRS Uniform Service members who receive Service Matching Contributions in tax year 2018.

[2] You can confirm the number of salary periods with your agency or service.

[3] In this example, the last contribution of the year will be decreased to $700 by the employee’s agency so that the employee will not exceed the elective deferral limit for the year.

**The effect of catch-up contributions on the elective deferral limit**

"Catch-up" contributions are payroll deductions that TSP participants who are over age 49 as of Dec. 31 in any year may be eligible to make *in addition to* regular employee contributions that are subject to the elective deferral limit. *An employee has to make a separate election each year to make "catch-up" contr*ibutions.

"Catch-up" contributions do not count against the elective deferral limit. But the Internal Revenue Code limits the total amount of elective deferrals and "catch-up" contributions an employee can make. For 2018, total contribution cannot exceed $24,500; that is, $18,500 in elective deferral and $6,000 in "catch-up" contributions.

**How the TSP applies the elective deferral and "catch-up" contribution limit for an employer who contributes to both a civilian and a Uniform Services TSP account**

Both the elective deferral limit and the "catch-up" limit apply to the total contributions an employee makes to a civilian and to a Uniformed Services TSP account if the employee participates in both accounts. During the year, the TSP will apply the limit to each account separately and not allow an employee to contribute an amount to either account that exceeds the elective deferral limit.

In January of the year following the year in which the employee contributed to both accounts, the TSP will check to see whether the employee's combined contributions to both accounts exceeded the elective deferral limit and if the employee is over age 49, the "catch-up" limit. If the employee did exceed the limits during the year, then the TSP will return any excess contributions along with the attributable earnings on those contributions. The TSP will return excess contributions and earnings first from contributions made to the Uniformed Services TSP account. If an employee made both traditional and Roth TSP contributions during the year, then the TSP will return excess contributions and associated earnings in a proportional amount from the traditional and Roth TSP balances. The TSP will apply the same process to "catch-up" contributions made to both accounts that exceed the separate "catch-up" contribution limit.

Finally, *tax-exempt contributions* made to the traditional TSP of a Uniformed Services account while the Uniformed Service member was deployed to a designated combat zone *do not count toward the elective deferral limit*. But any Roth TSP contributions are subject to the elective deferral limit even if the contributions are made from tax-exempt compensation. Roth "catch-up" contributions made while earning tax-exempt pay in a combat zone will also apply toward the annual "catch-up" contribution limit.

**About the Author**

Edward A. Zurndorfer is a Certified Financial Planner, Chartered Life Underwriter, Chartered Financial Consultant, Registered Health Underwriter and IRS Enrolled Agent in Silver Spring, MD. Tax planning, Federal employee benefits, retirement and insurance consulting services offered through EZ Accounting and Financial Services, located at 833 Bromley Street Suite A, Silver Spring, MD 20902-3019 and telephone number 301-681-1652.