

Annual Limit on Elective Deferrals

Part I of this Fact Sheet describes the Internal Revenue Service (IRS) annual limit on elective deferrals (tax-deferred contributions from your pay) and explains how this limit may affect Thrift Savings Plan (TSP) contributions made to the accounts of certain FERS* employees. Part II explains how this limit may affect Federal employees covered by either FERS or CSRS,* as well as members of the uniformed services, who are contributing tax-deferred pay to the TSP and another tax-deferred retirement plan.

Part I: Limits on Contributions to Your TSP Account

What are elective deferrals?

Elective deferrals are tax-deferred amounts that you choose to contribute to a plan instead of receiving those amounts as pay. Because such contributions are tax-deferred, they are not included in your taxable gross income for the year in which they are contributed. Your employer makes the contributions on your behalf under a qualified cash or deferred arrangement (as defined in section 401(k) of the Internal Revenue Code (Tax Code)).

For TSP participants, employee contributions are considered to be elective deferrals. Elective deferrals do not include Agency Automatic (1%) or Agency Matching Contributions because these contributions are not considered part of your pay. For members of the uniformed services, they do not include contributions from tax-exempt pay earned in a combat zone.

What is the annual limit on elective deferrals?

Section 402 of the Tax Code limits the amount of income that you may elect to defer under all cash or deferred arrangements during a tax year. (For most employees, a tax year is January 1 through December 31.) The elective deferral limit for 2005 is \$14,000. The limit will increase to \$15,000 in 2006.

What happens to my employee contributions when the annual limit is reached?

When the annual limit is reached, your employee contributions must be suspended for the remainder of the year. The TSP system will not allow any employee contribution to be processed that will cause the total amount of employee contributions for the year to exceed the annual limit. Your agency payroll office must ensure that your employee contributions automatically resume the first pay date in the following year.

What happens to my Agency Matching Contributions when the annual limit has been reached?

If you are a FERS employee, your Agency Matching Contributions are also suspended when the annual limit on elective deferrals has been reached. Agency Matching Contributions are based upon the amount of employee contributions that you make each pay period. If there are no employee contributions in a pay period, there can be no Agency Matching Contributions.

* FERS refers to the Federal Employees' Retirement System, the Foreign Service Pension System, and other equivalent Federal retirement systems. CSRS refers to the Civil Service Retirement System, including CSRS Offset, the Foreign Service Retirement and Disability System, and other equivalent Federal retirement systems.