Annuities

This fact sheet explains life annuities, one of the TSP withdrawal options after you separate from service or have a beneficiary participant account established. For information about your other TSP withdrawal options—TSP installment payments and single withdrawals—see the TSP booklet *Withdrawing From Your TSP Account for Separated and Beneficiary Participants*.

Note: A life annuity purchased with money from your TSP account is not the "basic annuity" or "pension" that you will receive as a result of your retirement coverage under FERS or CSRS, or the military retired pay that members of the uniformed services receive. If you have questions about your eligibility for the basic annuity or military retired pay, contact your agency or service.

What is a life annuity?

A life annuity is not like your TSP account, an IRA, a certificate of deposit, or a bank account. When you purchase a life annuity, you give up control of your money in exchange for lifetime monthly payments from the annuity provider.

Amount of Your Life Annuity Payments

The factors that affect the amount of your monthly annuity payments include the following:

- the amount used to purchase your annuity
- your age when your annuity is purchased (and the age of your spouse or other joint annuitant if you choose a joint annuity)[1]
- the annuity option you choose
- the "interest rate index" when your annuity is purchased

Estimating monthly annuity payments. If you are interested in purchasing a life annuity, visit tsp.gov. You will find a calculator to help you with your decision and to estimate your annuity payments. The **exact** amount of your monthly annuity payment cannot be determined until the date of purchase.

1 For life annuity purposes, age is defined in whole years; months are not considered in the annuity calculation.

Purchasing an Annuity

The process for purchasing an annuity using money from your TSP account is the same as for starting TSP installment payments or making a single withdrawal. Log into the My Account section of tsp.gov and click "Withdrawals and Changes to Installment Payments." Then use the online tool for withdrawals. See the TSP booklet *Withdrawing From Your TSP Account for Separated and Beneficiary Participants* for more details.

The minimum amount with which to purchase an annuity is $3,500. This minimum applies separately to each balance, traditional and Roth. That comes into play if you have both traditional and Roth balances and you choose not to have the money for your annuity purchase come solely from one balance or the other. When that happens, we take the money from your two balances "pro rata," meaning in the proportion they make up of your total account balance. This pro rata distribution, combined with the $3,500 minimum, can create some situations you need to be aware of.

If you choose to have money for an annuity purchase taken from both your traditional balance and your Roth balance,[2] the following rules apply:

1. If you are using your **total account balance** to purchase an annuity and one of the balances is at least $3,500 but the other is not, we will purchase an annuity with the balance that is at least $3,500

2 When you have both types of money, traditional and Roth, withdrawing from both balances is the default method; it's what we'll use if you make no choice.

and pay the other balance directly to you as a cash payment.

2. If you are using a **portion of your account** to purchase an annuity and **either** of your balances holds less than $3,500, we will reject your request.
3. If the result of the pro rata calculation results in either the Roth portion or the traditional portion of the purchase being less than $3,500, we will proceed as if you do not have the minimum amount.

   Example: You have $80,000 in your traditional balance and $20,000 in your Roth balance and you request an annuity purchase of $10,000. We would calculate that the withdrawal used to purchase the annuity must be $8,000 in traditional money and $2,000 in Roth money. Since that is less than $3,500, we would reject your request.

Life Annuity Options

Through our annuity provider, we offer the following types of annuity options:

- single life annuity with level or increasing payments
- joint life annuity with your spouse with level or increasing payments
- joint life annuity with someone other than your spouse with level payments

These annuities are described here, followed by a description of several additional annuity features that you can consider. All of the annuities and their features are also summarized in the chart on page 3. You may only choose one type of annuity per withdrawal request.

Single Life and Joint Life Annuities

Single life annuity. An annuity that provides monthly payments only to you as long as you live.

Joint life annuity. An annuity that provides monthly payments to you while you and the person with whom you choose to share your annuity (your “joint annuitant”) are alive. In most cases, the joint annuitant is the participant’s spouse. When you or your joint annuitant dies, monthly annuity payments will be made to the survivor for his or her lifetime. The amount of the payment while you and your joint annuitant are alive and the amount of the payment to the survivor depend on whether you choose a 100% or a 50% survivor annuity. If you want a joint life annuity, you will have to provide proof of your joint annuitant’s age.

If you choose an annuity that provides for a joint annuitant other than your spouse, the joint annuitant must be either a former spouse or someone with an **insurable interest** in you. This means that the person is financially dependent on you and could reasonably expect to derive financial benefit from your continued life. Blood relatives or adopted relatives (but not relatives by marriage) who are closer than first cousins are presumed to have an insurable interest in you.

If the person you name as your joint annuitant does not have a presumed insurable interest in you, you must submit an affidavit (a certification signed before a notary public) from someone with personal knowledge that the named person has an insurable interest in you. The certifier must know the relationship between you and the joint annuitant and must state why he or she believes that your joint annuitant might reasonably expect to benefit financially from your continued life.

Two types of joint annuities are available:

100% survivor annuity. The amount of the monthly annuity payment to the survivor is the same as the annuity payment made while both you and your joint annuitant are alive. However, the amount of the monthly payment that you receive while you are both alive is generally less than it would be if you had selected the 50% survivor annuity.

50% survivor annuity. The amount of the monthly annuity to the survivor—**whether the survivor is you or your joint annuitant**—is cut in half (that is, cut to 50%) of the annuity payment made while both you and your joint annuitant are alive.

If you name a joint annuitant other than your spouse who is **more than 10 years younger than you, you must choose a joint life annuity with the 50% survivor benefit**. The only exception is for a former spouse to whom all or a portion of your TSP account is payable under a retirement benefits court order.

Level and Increasing Payment Annuities

Once you have chosen either a single life or a joint life annuity, you must decide whether you want to receive level or increasing payments.

Level payments. The amount of the monthly annuity payment **remains the same** from year to year. Thus, with a single life annuity, you receive the same monthly payment for as long as you live. With a joint life annuity, you receive the same monthly payment for as long as you and your joint annuitant are alive. The monthly payment to the survivor will depend on whether you have chosen a 100% survivor annuity or a 50% survivor annuity, but it will remain at the same level for the life of the survivor.

Increasing payments. The amount of the monthly annuity payment **can change each year** on the anniversary date of the first payment. The amount of the change is based on the change in inflation, as measured by the consumer price index (CPI). Increases cannot exceed 3% per year, but monthly annuity payments cannot decrease. **When annuity payments start, they are smaller than they would have been if you had selected level payments, but they may increase each year depending on the CPI.** Increasing payments can be combined with either the single life annuity or the joint life annuity with spouse. You **cannot** choose increasing payments when the joint annuitant is not your spouse.

Additional Annuity Features That Allow for Beneficiaries

There are two additional annuity features available: the cash refund feature and the 10-year certain feature. Under certain circumstances, these features will provide payments to your named beneficiary(ies). When you choose one of these features, your monthly payments will be less than they would have been if you had chosen an annuity without either of these features.

Cash refund. If you (and your joint annuitant, if applicable) die before the amount used to purchase your annuity has been paid out, the remaining amount will be paid to your beneficiary(ies) in a lump sum. For example, if you purchase an annuity for $50,000 and you (or both you and your joint annuitant, if applicable) die after receiving only $40,000 in annuity payments, your beneficiary will receive a payment of $10,000. This feature can be combined with either a single life or a joint life annuity, and with level or increasing payments.

Ten-year certain. If you die before receiving annuity payments for a 10-year period, payments will continue to your beneficiary for the rest of the 10-year period. If you live beyond the 10-year period, you will continue to receive payments, but no payments will be made to a beneficiary when you die. This feature can be combined with a single life annuity with either level or increasing payments. It **cannot** be combined with a joint life annuity.

The table below summarizes the life annuity options and features.

Choosing Among the Annuity Options

The value of the total expected payments under all of the annuity options is comparable, but the amounts of each monthly payment that you receive—and the provision for continuing payments to a survivor or beneficiary—are different. For example, a monthly annuity payment under a single life annuity will generally be more than the monthly payment under a joint life annuity. This is because payments continue under the joint life annuity after the death of one of the joint annuitants until the survivor dies. For each annuity feature that you choose, the expected monthly annuity payment to you will decrease.

If you are a married TSP participant, spouses' rights apply, as described in the TSP booklet *Withdrawing From Your TSP Account for Separated and Beneficiary Participants.*

Summary of Annuity Options and Features

Single Life		Joint Life with Spouse*		Joint Life with Other Survivor
Level Payments	Increasing Payments	Level Payments	Increasing Payments	Level Payments
with no additional features	with no additional features	100% survivor annuity	100% survivor annuity	100% survivor annuity**
or	**or**	**or**	**or**	**or**
with cash refund feature	with cash refund feature	**50% survivor annuity**	50% survivor annuity	50% survivor annuity
or	**or**	**or**	**or**	**or**
with 10-year certain feature	with 10-year certain feature	100% survivor annuity with cash refund	100% survivor annuity with cash refund	100% survivor annuity with cash refund**
		or	**or**	**or**
		50% survivor annuity with cash refund	50% survivor annuity with cash refund	50% survivor annuity with cash refund

* A married FERS or uniformed services participant must obtain his or her spouse's waiver of the spouse's TSP survivor annuity benefit if an option is chosen other than joint life with spouse, with level payments and 50% survivor annuity.

** Available if joint annuitant is not more than 10 years younger than the participant.

How Your Annuity Is Purchased

Your annuity will be purchased from the TSP annuity vendor. After we receive all of the information and documentation necessary to purchase your annuity, we will generally process your annuity request and disburse the funds to the annuity provider within 10 business days. **Once the funds for your annuity have been disbursed, you cannot cancel the annuity, change the annuity option, or change the joint annuitant.**

On the date when the annuity provider receives your request and the money from your TSP account—generally within 2 business days after the money is disbursed—the annuity is purchased. Once the money has left your TSP account, you should direct all communications concerning your annuity to the annuity provider. The annuity provider will send you a package of information and an annuity contract. Your monthly annuity payments will begin approximately one month after the annuity is purchased.

Note regarding timing of your annuity request: If you request an annuity toward the end of a month, your annuity might not be purchased until the following month. This means that the annuity provider will use the interest rate index in effect for the month in which the annuity is purchased, which may not be the rate that was in effect when you sent your request or when we processed your request.

How Your Annuity Is Taxed

If you purchase an annuity with traditional (non-Roth) money, the annuity payments comprised of traditional amounts will be taxed as ordinary income in the years when you receive them.

If you purchase an annuity with Roth money, the portion of your annuity payments comprising Roth **contributions** will not be taxed. Whether the Roth **earnings** portion of any annuity payment is taxed depends on whether that particular payment meets the IRS rules for qualified earnings.[3]

Note: Your annuity payments are **not** subject to the IRS early withdrawal penalty, regardless of your age.

For uniformed services TSP accounts. TSP accounts for members of the uniformed services may also include contributions from pay subject to the combat zone pay tax exclusion. Certain pay earned in a combat zone is exempt from federal income tax. The annuity vendor will calculate the amount of tax-exempt contributions that will be paid as part of the traditional portion of your annuity payment and will inform you of this amount.

The calculation will be based on IRS requirements and the type of annuity you have chosen. The tax-exempt portion of your payment will be spread out based on your life expectancy (and that of your joint annuitant, if applicable). Once the tax-exempt portion of your initial payment has been calculated, that amount will remain fixed for all later payments, even if the amount of your annuity payment changes (for example, due to the death of a joint annuitant). When all of the tax-exempt money used to purchase your annuity has been paid out, any future payments will contain no tax-exempt money. If you elected a cash refund feature and have any remaining tax-exempt money in your annuity when you (and your joint annuitant, if applicable) die, the remaining tax-exempt amount will continue to be treated as tax-exempt when it is paid to your beneficiary(ies).

Important Reminders

- Annuity purchases are irrevocable; changes cannot be made once an annuity is purchased.
- Using the annuity calculator on tsp.gov will allow you to calculate your estimated monthly benefit amount for the option(s) you are interested in.
- It is best to compare different types of annuities to determine which one best fits your needs.
- Interest rates change monthly, and timing may be a factor in determining your benefit amount.

For more information, read the TSP tax notice *Important Tax Information About Payments From Your TSP Account.*

3 Roth earnings become qualified (i.e., paid tax-free) when the following two conditions have been met: (1) 5 years have passed since January 1 of the calendar year in which you made your first Roth contribution **and** (2) You have reached age 59½ **or** have a permanent disability **or** you have died. Note: We cannot certify to the IRS that you meet the Internal Revenue Code's definition of a disability when your taxes are reported. Therefore, you must provide the justification to the IRS when you file your taxes.