

FACT SHEET: THE EMERGENCY RELIEF FOR FEDERAL WORKERS ACT OF 2025

For many people, including federal employees, their retirement account is their largest financial asset. In past federal shutdowns, we have seen a rise in federal employees taking hardship withdrawals from their TSP. Those doing so may face challenges in accessing or recontributing funds and penalties for taking withdrawals. *The Emergency Relief for Federal Workers Act* would ensure these federal workers are not penalized for making withdrawals from their retirement savings and gives them the opportunity to recontribute funds to their TSP accounts after the shutdown ends.

HARDSHIP WITHDRAWALS

TSP participants may take an in-service withdrawal when they face a financial hardship. Participants must certify under penalties of perjury that they are facing a financial hardship and the amount of the request is not greater than the dollar amount of the financial hardship.

Define Government Shutdowns as Financial Hardship. To facilitate requesting a financial hardship, the Emergency Relief Act would define a qualified shutdown distribution as a hardship distribution made by TSP from the start date of a shutdown that lasts at least two weeks until 120 days after it ends. Only distributions up to \$30,000 (adjusted for inflation in future years) would be treated as a qualified shutdown distribution. Establishing that government shutdowns are a financial hardship eliminate the need for federal employees to make additional demonstrations of financial hardship.

Waive 10 percent Early Distribution Penalty. Under current law, TSP participants age 59 or younger may be subject to an additional 10 percent early withdrawal penalty for taking a hardship withdrawal from their TSP. The Emergency Relief Act would waive the additional penalty though participants taking the hardship withdrawal would still be responsible for paying taxes on the amount of withdrawal.

Allow for Recontribution of Qualified Shutdown Distribution. In order to preserve retirement savings for the long-term and retirement, the Emergency Relief Act would allow federal workers who take a qualified shutdown distribution to recontribute some or all of the qualified shutdown distribution.

TSP LOANS

The TSP affords participants the ability to borrow money from their retirement account under two circumstances – general purpose (which requires repayment within 5 years) or to purchase or build a primary residence (which requires repayment within 15 years).

Ensure TSP Loans are Available during Shutdowns. Currently TSP loans are not available if a shutdown is expected to last more than 30 days. The Emergency Relief Act ensures that TSP

loans will be available to help affected federal employees who need to access those funds during a government shutdown that causes such employees to miss a paycheck.

Suspend TSP Loan Payments During Shutdowns. TSP loan repayments are made through payroll deductions. When federal employees are in nonpay status due to a government shutdown, the loan payments are not made, yet they are still due. Currently if a federal employee has a TSP loan and misses more than 2 ½ loan payments, TSP informs the individual of the amount needed to cure the loan or the unpaid balance of the loan will become taxable and may be subject to a 10 percent early withdrawal penalty. The Emergency Relief Act would automatically suspend loan payments until the government reopens.

Prohibit Missed Loan Payments from Becoming Taxable Distributions During Shutdowns. The Emergency Relief Act would not allow any missed loan payments to become a taxable distribution that is potentially subject to an early distribution penalty during the period in which the government is shut down.

Deduct Outstanding Loan Payments from Back Pay Provided after Shutdowns. In order to cure the outstanding loan payments, the amount of missed loan payments would be deducted from back pay when it is provided to affected employees following the shutdown. Federal employees would not receive more or less backpay than they would have been entitled to had they received their normal paychecks.