



Ask Bob: Do I Qualify For a TSP Hardship Withdrawal?

To qualify for a hardship withdrawal, a thrift savings plan participant must have an immediate and significant financial need that necessitates a distribution from his or her TSP account.

ROBERT POWELL, CFP | November 18, 2021

Question

My wife and I started a business, but due to COVID-19, materials and construction prices dramatically increasing, and permitting delays, we have not been able to open the business in the original time frame planned for. As a result, we will very quickly find ourselves unable to pay all of our bills as the money we had saved has been used for the business. This is the last month we can pay our monthly bills. Our only option left is a thrift savings plan (TSP) hardship withdrawal to draw down the debt.

The question I have is would this qualify for a hardship loan, or do we have to start missing debt payments first? We don't want to miss payments and we don't want our credit affected negatively.

Answer

Yes, this situation would qualify for a TSP hardship withdrawal, says [Stephen Zelcer](#), a fiduciary advisor specializing in retirement planning and federal benefits. See here: <https://www.tsp.gov/bulletins/19-9/>

"To qualify for a hardship withdrawal, the participant must have an immediate and significant financial need that necessitates a distribution from his or her TSP account. The need must arise out of either a recurring negative monthly cash flow situation, medical expenses, legal expenses for separation or divorce, or personal casualty loss. Hardship requests cannot be taken for expenses already paid or those that are reimbursable."

Since you have a recurring negative cash flow, you would qualify. "But then we have to ask whether you should do a hardship withdrawal," Zelcer cautions.

If you are under age 59 1/2, your TSP distribution will be subject to a 10% penalty, you will owe income tax on such a distribution, and the TSP has a mandatory 10% tax withholding (you may owe more than 10%). "So, off the bat, you will receive at least 20% less than you think," he says.

Do you have any home equity you can tap into? Do you have other assets that you can divest? Do you have any potential investors who can provide a cash infusion?

"And," Zelcer notes, "before you entertain pouring any additional money into this business, you should definitely have a business plan that tries to measure how viable your venture is. I'm a big fan of the entrepreneurial spirit, but if an honest business projection shows that the business will barely keep its head above water, you may need to pull the plug and cut your losses - or re-strategize the whole thing. I wouldn't want to reach a financial point-of-no-return."

"Ultimately, if you are driven to make the sacrifices needed to make this venture a success, then push and flex. You may be blessed with success and you may become a source of income to future employees which, in turn, will cause your blessings to compound and flourish." Many businesses struggle to get off the ground, and it may take time before your business flourishes, he says, adding, "I hope you persevere."

"I'm sorry to hear about this situation. I've seen it before. It's stressful," says Zelcer. "In general, I encourage people to diversify their income by having a side business investment. It's good for them, and it's good for the economy."

Got questions? Get answers!

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