


# Thrift Savings Plan: Nearing Retirement

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# Agenda

- ▶ Retirement Basics for Feds
- ▶ Have you saved enough?
- ▶ Thrift Savings Plan Overview
- ▶ Individual Funds
- ▶ Inflation
- ▶ Asset Allocation
- ▶ Life Cycle Funds
- ▶ Contribution Limits
- ▶ Roth vs Traditional TSP
- ▶ Withdrawal Options
- ▶ Account Management

A red starburst graphic with multiple points, containing the text 'Please hold questions until end'.

Please hold  
questions  
until end

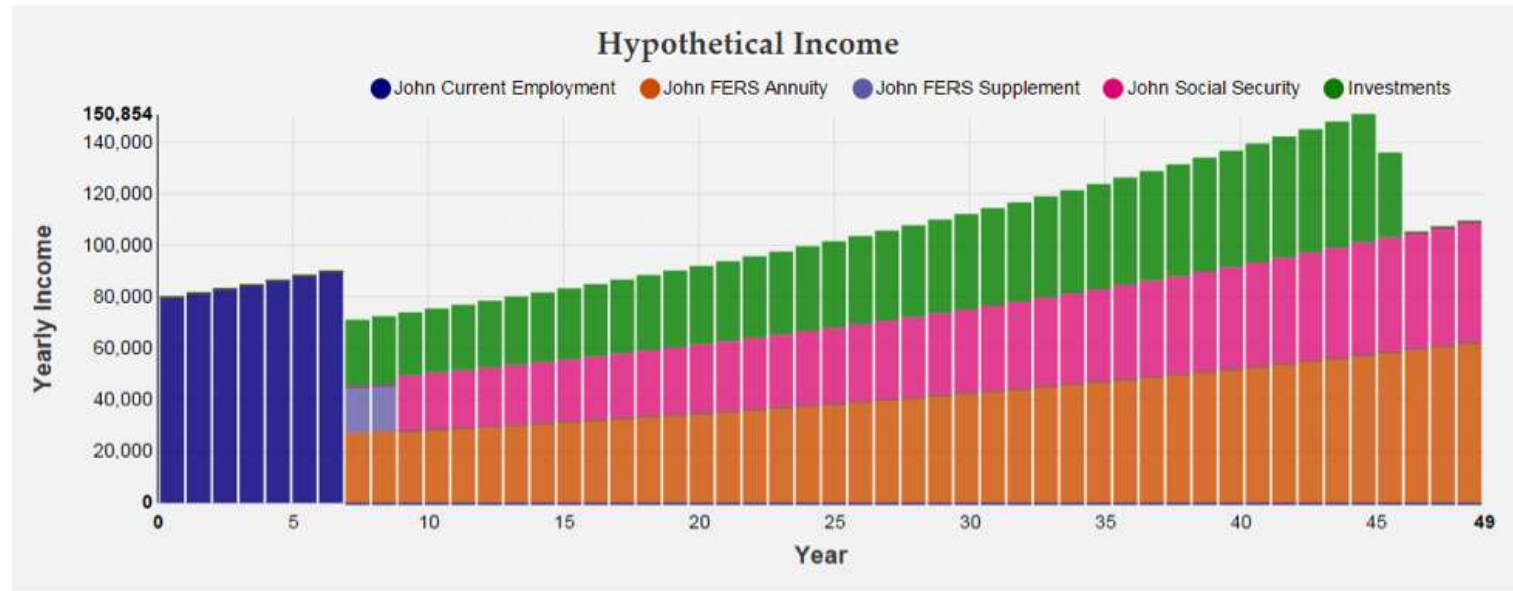
# Disclaimer

- ▶ I am not a Certified Financial Planner (CFP)
- ▶ These slides are for educational purposes only and do not constitute advice or serve as recommendations
  - Based on a variety of sources
  - Orange text/outlines are hyperlinks or embedded documents
- ▶ Everyone is responsible for doing their own research & finding out what works for their unique situation
- ▶ There are CFPs that can help you create a plan:
  - Need to know [Federal Benefits](#)
  - [What to look for](#) & [15 Questions to Ask](#)
  - Other certs: [ChFEBC](#)? CPA? Investment certs?
  - [Fees](#) or commissions– how paid?
  - CFP Board – [local CFP search](#)
  - [FINRA Broker Check](#)

A red starburst graphic with multiple points, containing the text "Fiduciary Duty".

Fiduciary  
Duty

# Retirement Basics for Feds



- ▶ Under [FERS](#), your retirement will come from 3 sources:
  - Social Security – [create an account](#) to review history & fix errors
  - [FERS Annuity](#) (Pension) – slide 34 has basic formula
  - Your Savings – from TSP, etc.
- ▶ FedSmith did a [REALLY GREAT article](#) on this
- ▶ [EBIS](#) gives you estimates on all three

# Have you saved enough?

- ▶ MorningStar recommends you use at least 3 retirement calculators to see if you're on track
  - T. Rowe Price [Retirement Income Calculator](#)
  - Charles Schwab has a [retirement calculator](#)
  - [Federal Employee Ballpark Estimate](#)
  - [TSP Calculators & Tools](#)
- ▶ It's a good idea to save these results & use the calculators 1–2 times a year to check progress

# T. Row Price Example

## My Results

### INITIAL REPORT

**\$6,250/mo.**  
What we think you'll need

**\$9,441/mo.**  
What you are projected to have

70% chance your savings will last until age 95

How did we come up with this?

99% chance your savings will last until age 95

#### INCOME SOURCES

Your Personal Investments: \$3,588/mo.

Social Security & Other Income: \$5,853/mo.

#### OTHER INPUTS

Total Contributions: \$1,417/mo.

Withdrawal Age: 62

Savings Last Until Age: 95

### UPDATED REPORT

**\$6,250/mo.**  
What we think you'll need

**\$11,191/mo.**  
What you are projected to have

70% chance your savings will last until age 110

How did we come up with this?

99% chance your savings will last until age 110

#### INCOME SOURCES

Your Personal Investments: \$3,626/mo.

Social Security & Other Income: \$7,565/mo.

#### OTHER INPUTS

Total Contributions: \$1,417/mo.

Withdrawal Age: 67

Savings Last Until Age: 110

## Adjust and Compare Your Results Below

We estimate you'll have enough money to meet your income needs in retirement. Don't forget to make the changes to your plan.

Workplace Contributions: Monthly \$ 1,250

Other Contributions: Annually \$ 2,000  
\$167/mo.

Include Social Security: ☐ No ☒ Yes  
Monthly \$ 2,615

Other Income: Monthly \$ 4,950

Age I begin withdrawing from my personal savings: 67 - +

I want my savings to last until age: 110 - +

### Asset Allocation

**Current Allocation**

83% Stocks 5% Bonds 12% Short Term

**Projected Allocation in Retirement**

46% Stocks 7% Bonds 47% Short Term

Stocks Bonds Short-Term

COMPARE

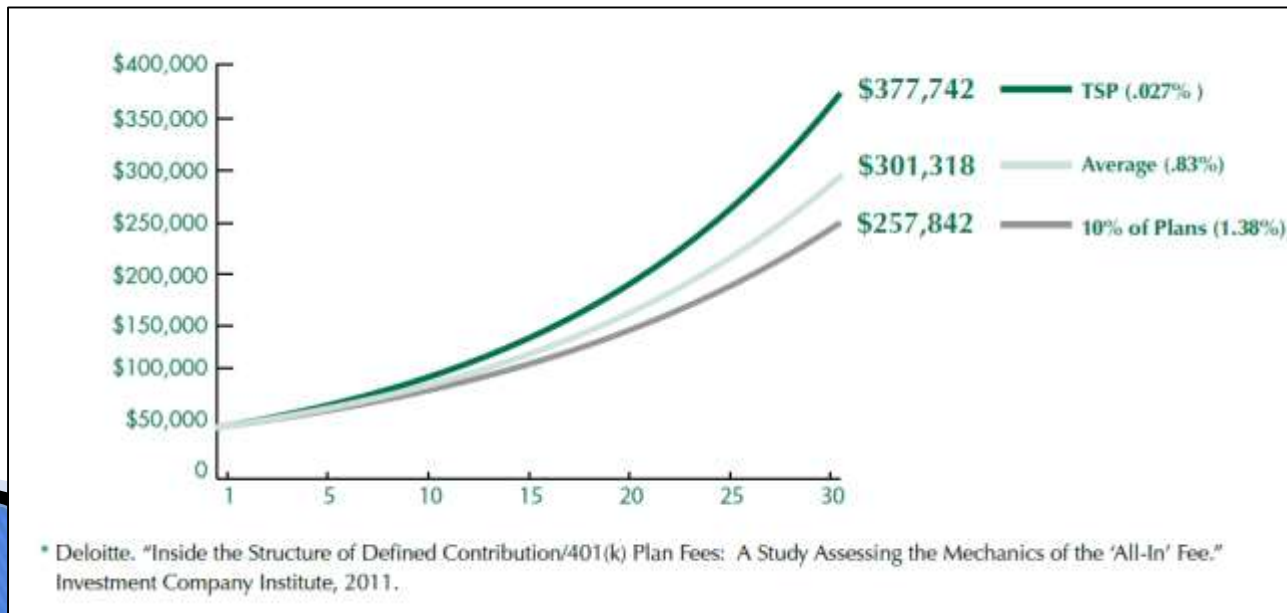
## Model Different Scenarios

See how increasing or decreasing different variables can affect your retirement plan:

- Adjust your inputs to the left
- Update your results by clicking Compare
- Examine side-by-side comparisons of your original and updated results above
- Continue to the next page for your action plan

# Thrift Savings Plan (TSP)

- ▶ Simply put: it kicks butt
  - Diversification options & target date funds
  - Lowest management fees: 0.038%
- ▶ If you have other 401(K)s etc., you might want to look at rolling them over into TSP...



# Individual TSP Funds Overview

## C Fund

Common Stock Index Investment Fund



### What It Is:

A fund containing stocks of large and medium-sized US companies



### Benchmark Index:

Standard & Poor's 500 Stock Index



Pros

Potential for high investment returns over the long term



Cons

Can be volatile depending on stock market performance



**Net Return Since Inception (1988):**  
10.16%

## S Fund

Small Capitalization Stock Index Investment Fund



### What It Is:

A fund containing stocks of small to medium-sized US companies



### Benchmark Index:

Dow Jones US Completion TSM Index



Pros

Potential for high investment returns over the long term



Cons

Can be volatile depending on stock market performance



**Net Return Since Inception (2001):**  
8.82%

## I Fund

International Stock Index Investment Fund



### What It Is:

A fund containing international stocks from more than 20 developed countries



**Benchmark Index:**  
MSCI EAFE Stock Index. Changing to MSCI ACWI in 3Qtr.



Pros

Potential for high investment returns over the long term



Cons

Can be volatile depending on stock market performance. Returns also depend on the value of the US dollar.



**Net Return Since Inception (2001):**  
4.07%

## F Fund

Fixed Income Index Investment Fund



### What It Is:

A fund containing government, corporate, and asset-backed bonds



**Benchmark Index:**  
Barclays Capital US Aggregate Bond Index



Pros

May earn returns that are higher than money market funds over the long term with relatively low risk



Cons

Bond prices fall when interest rates rise. Bonds may be repaid early, reducing your returns.



**Net Return Since Inception (1988):**  
6.33%

## G Fund

Government Securities Investment Fund



### What It Is:

A fund containing government securities that are specially issued to the TSP



**Benchmark Index:**  
N/A



Pros

Does not lose money; has a consistent but relatively low investment return



Cons

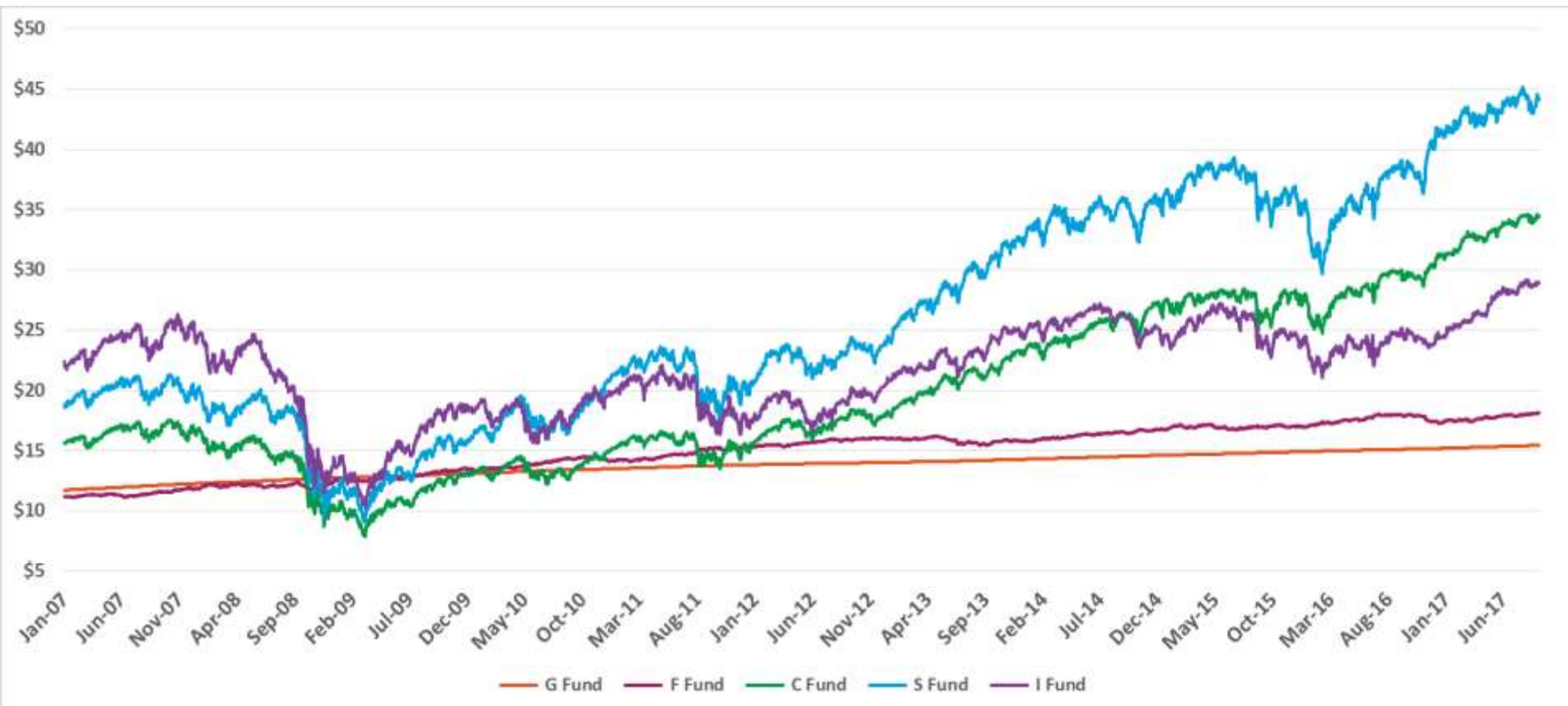
Your money may not grow enough to meet your retirement needs or outpace inflation.



**Net Return Since Inception (1987):**  
5.19%



# TSP Share Prices from 2007–2017

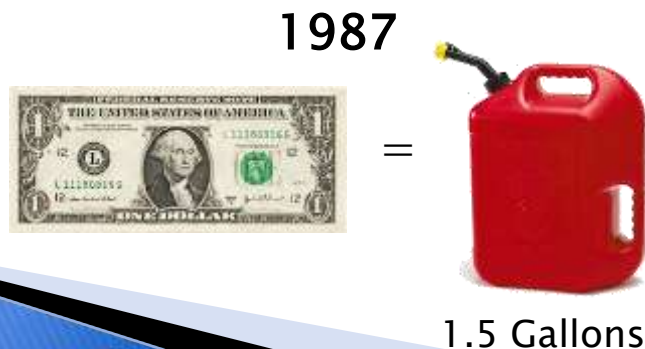


## Important TSP Quote

- The C, S, and I Funds track different segments of the overall stock market without overlapping
- Prices of stocks in each market segment don't always move in the same direction or by the same amount at the same time
- By investing in all segments of the stock market, you reduce your exposure to market risk

# Inflation

- ▶ The TSP annual returns graphs all show that the returns have mostly outpaced inflation
  - Historical Average: 3.4%
  - FED Target: 2%
- ▶ At a bare minimum, investments need to beat inflation so you don't lose purchasing power
  - Cost of goods & living increases each year

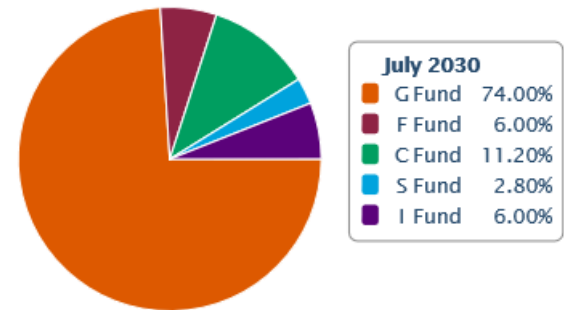
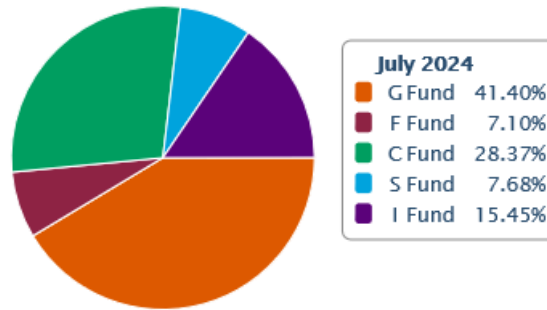
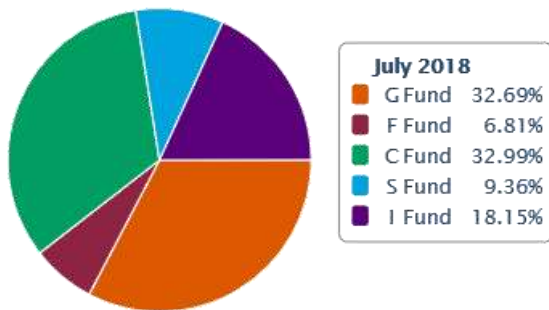


# Asset Allocation

- ▶ Diversification needs to change as you age
- ▶ Old Rule was  $100 - \text{Your Age}$ 
  - Is the % you should have in stocks
  - The remainder should be in bonds or cash/cash equivalents
- ▶ New rule is  $125 \text{ (or } 120) - \text{Your Age}$ ...
  - “Three largest target date fund providers – Fidelity, Vanguard and T. Rowe Price” – show that they all hold much closer to the ‘ $125 - \text{Your Age}$ ’ rule”
- ▶ TSP Life Cycle funds or Target Date funds do this for you automatically

# TSP Life Cycle Funds

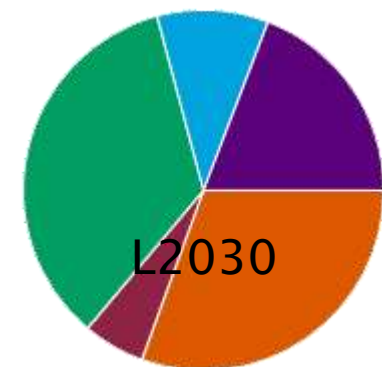
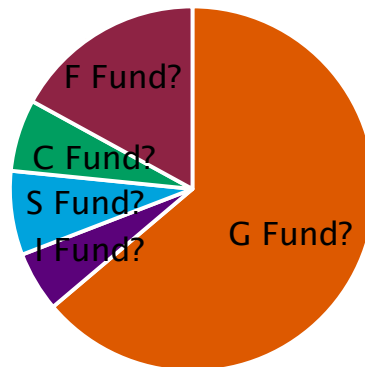
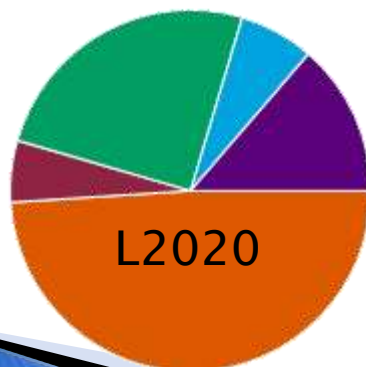
- ▶ Based on your expected retirement date
  - L2030 (shown below) is for those planning to retire between 2025–2034
  - *Depending on your situation/goals, may not work*
- ▶ L Funds are invested in the G, F, C, S & I Funds
- ▶ % in each fund adjusts each quarter and becomes more conservative as you near retirement



Set it and Forget it (almost)

# TSP Life Cycle Funds

- ▶ Cautionary Note: investing in the two L-Funds nearest your target retirement date is ok
- ▶ Investing in multiple L-Funds may be too conservative or too risky



# Contribution Limits

- ▶ Current TSP contribution limit: \$18.5K/year
  - Gov't matches up to 5% of your salary ← **FREE Money**
  - Must contribute every Pay Period to get full gov't match
  - Election will carry over year-to-year
- ▶ **Catch-up contributions** (age 50+): Add'l \$6K/year
  - Must elect to do this each year

You put in:	Your agency puts in:		And the total contribution is:
	Automatic (1%) Contribution	Agency Matching Contribution	
0%	1%	0%	1%
1%	1%	1%	3%
2%	1%	2%	5%
3%	1%	3%	7%
4%	1%	3.5%	8.5%
5%	1%	4%	10%
More than 5%	1%	4%	Your contribution + 5%

▶ If you're an automatically enrolled FERS employee, increase your contribution to at least 5% to get your agency's full match.

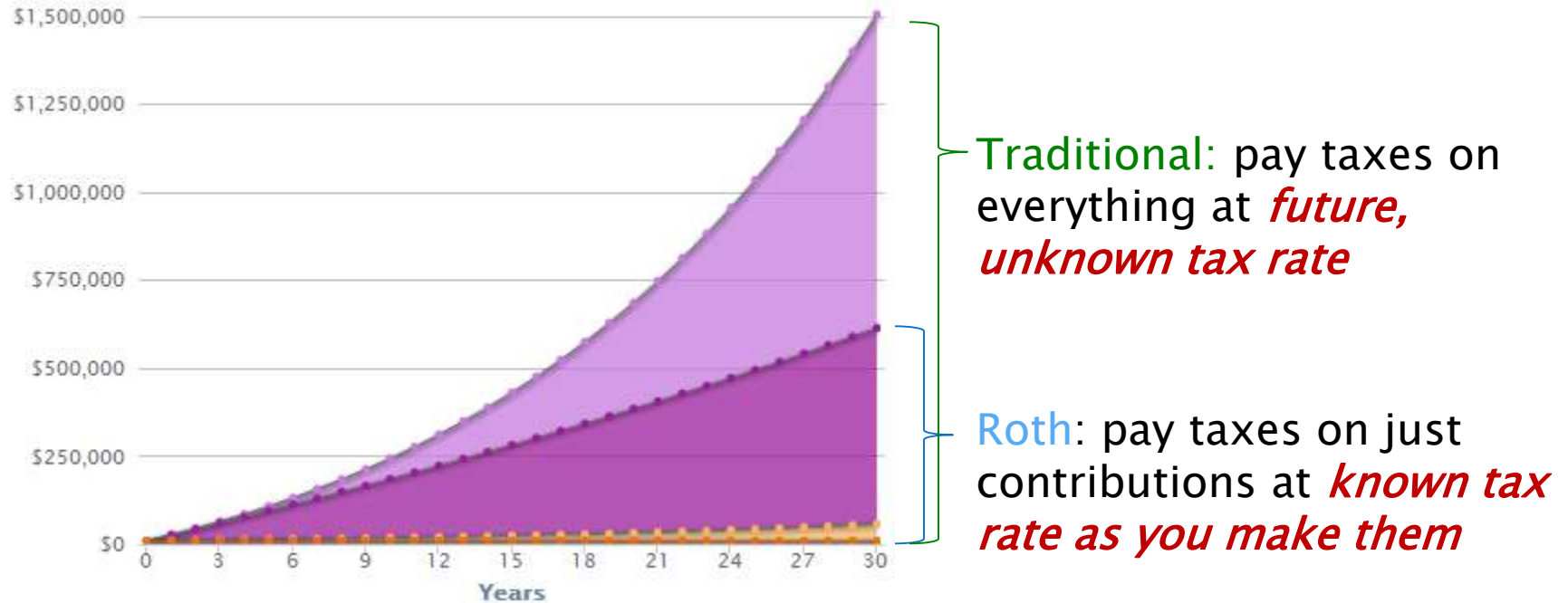


# Choose your Tax Treatment

- ▶ Designate contributions as Roth and/or Traditional
  - You can designate all your money going to Roth, all going to Traditional, or a mix of the two
- ▶ **Roth:** pay taxes now, no taxes in retirement
  - Best if expecting to be in same or higher tax bracket
  - Most Feds stay in the same tax bracket (Christy, pg101)
  - For those more than 10 years away from retirement (Bach)
  - Must be established for 5 yrs before use or face tax penalty
  - Roth TSP is NOT subject to Roth IRA contribution limits
- ▶ **Traditional:** no taxes now, pay taxes in retirement
  - Best if expecting to be in lower tax bracket
  - All agency matching are traditional



# Roth vs Traditional TSP




- ▶ [TSP Savings Growth Calculator](#): \$10K in TSP, \$80K/yr salary, contribute 15% for 30 yrs (\$1K per month), 6% ROI
- ▶ Depending on current/planned taxes, *either or both plans* can make sense so may want to see a financial planner & [TSP Contribution Comparison Calculator](#)



# Army Civilian TSP Changes

- ▶ To change your TSP contribution or allocation...
  - Determine impact to take home pay – [paycheck estimator](#)
  - Go to <https://www.ebis.army.mil/>
    - Click on the Transactions Tab
    - Click Change on the TSP Current Coverage section
    - Enter in the dollar or % amount you want to go to the Roth TSP and/or Traditional TSP
      - *Need to have contributions in every pay period or miss matching*
  - Go to <https://www.tsp.gov/index.html>
    - 1) Do an interfund transfer to change how the money in your account is currently distributed in the funds
    - 2) Change your allocation coming in from your paycheck
- ▶ Pro Rata Rule – fund selection is for both traditional and Roth (cannot specify different funds for each)

# Uniformed Services TSP & SDP

- ▶ TSP contribution changes are made in MyPay 
  - Info on TSP for Military can be found at [DFAS](#)
  - Must contribute at least 1% of gross pay from base pay
  - [No agency matching](#) unless in [BRS](#)
- ▶ During a deployment, salary is tax free
  - TSP contributions while deployed are tax free
    - [Can be rolled into Roth IRA](#) if the brokerage accepts those funds
  - [HERO Act](#) allows deployed personnel to also contribute to IRAs
- ▶ You can combine US TSP account with a civilian TSP account later on if you become a Federal employee
- ▶ [DoD Savings Deposit Program](#) (SDP)
  - Deployed for 30+ consecutive days
  - Deposit up to \$10K
  - Earn up to 10% interest during each deployment



# Investing Strategy



- ▶ TSP money is retirement money
  - Time horizon?
  
- ▶ Great investors like Warren Buffet tend to:
  - Buy and hold long-term
  - Know the risks & their risk tolerance
  - Be realistic about returns/gains
  - Don't panic when the market has a downturn
    - Research and really think about the consequences of selling low and buying high

Think long term – TSP Investing Strategy

# TSP Withdrawal Options

- ▶ Can choose one or more options
- ▶ TSP withdrawals must start the year you turn 70 ½ to meet IRS' Required Minimum Distribution unless still working
  - RMD = Traditional Acct Balance/Expected Distribution Period
  - TSP currently uses Pro Rata rule but in future will be able to specify amount from Traditional and Roth
- ▶ 20% is automatically taken off of Traditional TSP withdrawals for taxes for many of these options
- ▶ ***You will face 10% penalty if withdrawing account:***
  - Before age 59 ½ unless you have retired– See this TSP Publication
  - Roth TSP doesn't meet 5 year rule– See this TSP Publication

# Current TSP Withdrawal Options

- ▶ One-time partial withdrawal
- ▶ Full withdrawal as a:
  - Single payment
  - Monthly payment for specific amount you set
    - TSP will issue a check in March of the following year if you haven't met the RMD
  - Monthly payment based on IRS life expectancy tables
    - Automatically meets RMD requirement
  - Life Annuity

Many calculators that give you a monthly income estimate will assume that excess money taken out of a 401(k) (such as to meet a RMD) is reinvested in a brokerage account...

# TSP Modernization Act of 2017

- ▶ Federal employees over 59 ½ can now make *multiple* partial withdrawals
  - As can retirees
- ▶ Retirees can *make changes* to their withdrawal options throughout the year
  - Currently changes can be made only once a year
- ▶ TSP will also *eliminate the Pro Rata rule*
  - Will allow participants to specify how much to withdraw from Traditional and how much to withdraw from Roth
- ▶ TSP has two years to implement these changes and adjust fees, etc.



# Life Annuities

In general, you give them a lump sum...

And they give you a monthly payment...  
that is “guaranteed” for life...

The more options you add...  
the smaller the monthly payment becomes

- Joint or single annuity
- Level or increasing payments
- Cash refund or 10 year certain



# Life Annuities

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 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.



# TSP Withdrawal Options...

- ▶ TSP withdrawal options are more limiting than other 401(k)s or an IRA at a brokerage
  - TSP Modernization Act (H.R.3031) fixes some of this
- ▶ *Do you need to sacrifice TSP's low management fees (0.038%) for a plan with higher fees & more flexibility?*
  - <https://www.tsp.gov/staywithus/index.html>
- ▶ Food for thought:
  - Do you have an emergency fund?
  - Do you have a budget?
  - Have you planned what you will be doing that year?
  - *What is your comfort level with you (or spouse) vs someone else managing your money?*

# TSP Account Management

- ▶ Make sure TSP has your current address and can contact you
  - If you don't respond to inquiries (like what to do for the RMD)...you forfeit your account ☹ ☹ ☹
- ▶ Keep your beneficiary form TSP-3 updated
  - Beneficiary forms trump wills
  - If your spouse inherits your TSP account, it is transferred to a spousal beneficiary TSP account
  - They have the same low management fees (0.038%) & investment options as feds



# As you get close to retirement...

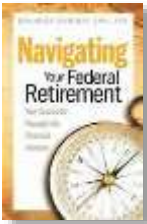
- ▶ Doug Dutcher, Benefit Advisory Group
  - Offers free help with decisions on annuities, insurance, etc..
  - Affiliated with Voya Financial Advisors, Inc.
  - Need to call months ahead of time to get on his schedule
    - 256-837-5552
    - [bdutcher@benefitadvisory.com](mailto:bdutcher@benefitadvisory.com)
    - <http://benefitadvisory.com/new/benefitadvisory/>
- ▶ HR or CPAC will also do a benefits computation about 5 years out from target retirement date
  - Limit to how many computations they will do
  - Request estimate in EBIS

# In Summary

- ▶ Use calculators (or a CFP) to determine if you're on track for retirement
- ▶ Decide on tax treatment for the contributions:
  - Roth – tax me now, 5 year rule
  - Traditional – tax me later
- ▶ Changes to contribution amount & Roth/Traditional designation are made in EBIS
- ▶ Changes to what fund(s) you want to put your money in are made via TSP site or calling them
  - Remember asset allocation principles

# References

- ▶ Bach, David. (2001). *Smart Couples Finish Rich*. New York: Broadway Books.
- ▶ Christy, Brandon. (2015). *Navigating Your Federal Retirement*. Georgia: Retirement Benefits Institute.
- ▶ Von Tobel, Alexa. (2011). *Financially Fearless*. New York: Crown Business.
- ▶ OPM. (1998). [FERS – An Overview of Your Benefits](#). – [read this!](#)
- ▶ Yeah – I'm not listing them all, see hyperlinks...




# Backup Slides

# Questions about TSP?

- ▶ Check out their website: [www.tsp.gov](http://www.tsp.gov)
- ▶ Call the TSP ThriftLine – They are GREAT!
  - **Telephone:**  
1-TSP-YOU-FRST  
(1-877-968-3778)
  - **TDD:**  
1-TSP-THRIFT5  
(1-877-847-4385)  
(for hearing-impaired participants)

# Investing Help & Resources

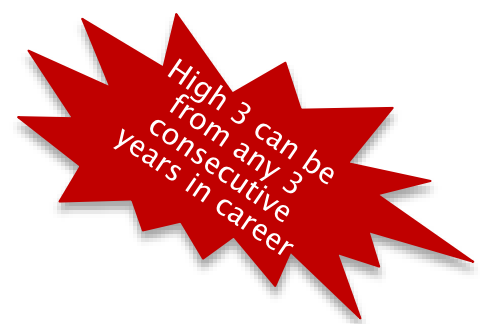
- ▶ Huntsville Madison Library:  Smart investing@your library®
  - <http://guides.hmcpl.org/mym>
  - Independent courses for all levels – some on RSA
  - Hard copy and electronic journals & magazines
  - Recommended books & apps for personal finance
  - [Military Finances](#) recommendations
- ▶ [Morningstar](#)
  - **Independent** stock analysts' assessments & articles
  - Portfolio X-ray – tells you where your gaps are
  - Military personnel can access it free via AKO



# Other things to look into?

- ▶ Army Community Services – personal financial counseling service & free classes
  - Kathleen Riester, AFC – Financial Readiness Program Manager
  - 256-876-5397 or 256-842-8542
- ▶ Redstone Federal Credit Union – free seminars on investing, credit scores, preparing for natural disasters...
  - Advice Section on job loss, college, retirement, deployments...

# FERS Annuity\*



- ▶ If Jill retires at:
  - MRA: 57 yrs old
  - Years of Service: 35 yrs
  - Avg High 3: \$100,000

- ▶ Annuity Formula:
  - $1\% \times 35 \times \$100,000$
  - \$35,000 per year for life

Note: FERS Supplement until eligible for SS at 62

$$\text{FERS Sup} = \frac{\text{yrs of serv}}{40} * \text{SS at age 62}$$

Retire before 62 yrs old or less than 20 yrs service = get less

- ▶ Jill waits 5 years:
  - Retires at: 62 yrs old
  - Years of Service: 40 yrs
  - Avg High 3: \$110,000
- ▶ Annuity Formula:
  - **1.1%**  $\times 40 \times \$110,000$
  - \$48,400 per year for life

**\$13.4K more per year!**  
**For life!**

Or wait until both criteria met and get more per year for life!

# 401(k) Evaluation & Tips

- ▶ MorningStar has a good video about how to get the most out of your 401(k)
  - Employer matching
  - Vesting
  - Management fees
  - Investment options – large cap, small cap, foreign, bonds
- ▶ Q&A portion at the end has some advice about investing & particular firms...

<http://www.morningstar.com/cover/videocenter.aspx?id=642664>

# Retirement Savings Accounts

Type of Account	Description	Taxes on Contributions?	Taxes on Withdrawals – Principle?	Taxes on Withdrawals – Earnings?
401(k), TSP, SEP, 403(b)	<ul style="list-style-type: none"> <li>• Employer sponsored</li> <li>• Traditional and/or Roth*</li> </ul>	Traditional: No Roth: Yes*	Traditional: Yes Roth: No*	Traditional: Yes Roth: No*
Traditional IRA	<ul style="list-style-type: none"> <li>• Set up yourself</li> <li>• Earnings limits</li> <li>• Age limit: 70 ½</li> <li>• Tax deductible</li> </ul>	No	Yes	Yes
Roth IRA	<ul style="list-style-type: none"> <li>• Set up yourself</li> <li>• Earnings limits</li> <li>• Uses after tax \$</li> <li>• 5 year rule</li> </ul>	Yes	No	No
Non-deductible IRA	<ul style="list-style-type: none"> <li>• Set up yourself</li> <li>• When income is over earnings limits</li> <li>• Uses after tax \$</li> <li>• Can <u>convert to Roth</u></li> </ul>	Yes	No	Yes

\*The book lists 401(k)s as only traditional but many have Roth option

# Miss the Best Days... (pg 218, David Bach)

- ▶ If you don't have an investment strategy, you can move in/out of the market at the wrong time & lose money
- ▶ \$10K invested in S&P 500 in March 1995 would have grown to \$32,718 by March 2000
  - What if you sold & missed some of the best days?

Period of Investment	Average Annual Total Return	Growth of \$10K
Fully Invested	26.75%	\$32,718
Miss the 10 Best Days	17.42%	\$22,316
Miss the 20 Best Days	11.46%	\$17,201
Miss the 30 Best Days	6.48%	\$13,688
Miss the 40 Best Days	2.15%	\$11,123
Miss the 60 Best Days	-5.13%	\$7,687

Past performance cannot guarantee  
comparable future results

# Dollar Cost Averaging

- ▶ Markets trend up and down
- ▶ Investing at fixed intervals (like with TSP) allows you to take advantage of buying at lower prices
  - Offsets buys at higher prices
- ▶ Remember that tortoise and the hare story???



# Monthly Withdrawals, RMD & TSP

## Pro Rata Rule

- ▶ \$1M TSP Account: 40% Traditional & 60% Roth
  - If you need \$2K per mth, the pro rata rule will have:
    - \$800 coming from Traditional
    - \$1,200 coming from Roth
  - With TSP, RMD is determined using ENTIRE balance (not just traditional as with IRAs) so...at 70 the divisor is 27.4
    - $\$1\text{M}/27.4 = \$36,496$  or \$3,041 per mth
      - \$1,216 from Traditional
      - \$1,825 from Roth
- ▶ Had TSP calculated RMD based on only traditional...
  - $\$400\text{K}/27.4 = \$14,598$  (\$1.2K per mth) only
  - Without pro rata rule, you could choose where the rest of the monthly amount came from
  - This flexibility is great for tax purposes & estate planning

Restrictions like this are why there are already talks to change this...

# Potential Sneaky Workaround

- ▶ Set up a Roth IRA 5 years before you retire & then...
- ▶ You can transfer % of Roth portion of the payment to a Roth IRA if monthly payments will last less than 10 years
  - But...if you drain your account in 10 years, you might have other problems...

or

- ▶ A retirement class instructor had this suggestion for people to look into if they have a substantial Roth balance:
  - Transfer most of your Traditional TSP into a Traditional IRA & most of your Roth TSP into a Roth IRA
    - Don't close your account or drop below the minimum requirement
  - Transfer the Traditional back to TSP
  - With most of your Roth balance out of the way...you won't be forced to take more out of Roth than you want/need to
  - You still benefit from TSP & it's ridiculously low management fees
  - Once the Modernization Act changes kick in, you can roll the money back into TSP