

Thrift Savings Plan

Rachelle Moore

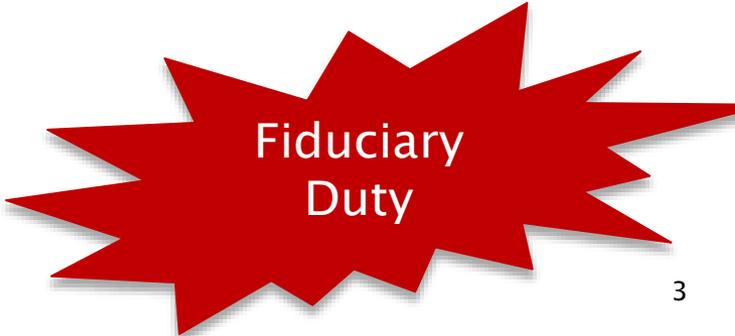
January 2017

Agenda

- ▶ Retirement Basics for Feds
- ▶ How much to save?
- ▶ Thrift Savings Plan Overview
- ▶ Individual Funds
- ▶ Inflation
- ▶ Asset Allocation
- ▶ Life Cycle Funds
- ▶ Contribution Limits
- ▶ Roth vs Traditional TSP
- ▶ Loans & Withdrawal Options
- ▶ Account Management

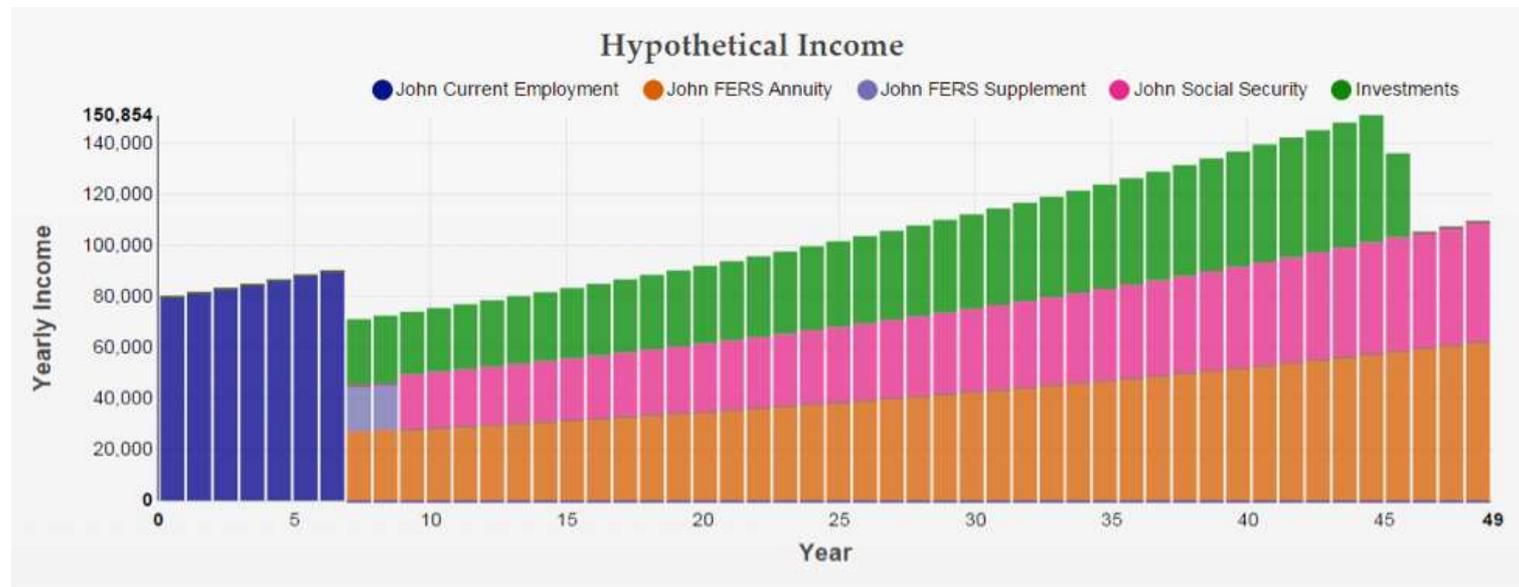
Disclaimer

- ▶ 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](#)



Fiduciary
Duty

Retirement Basics for Feds

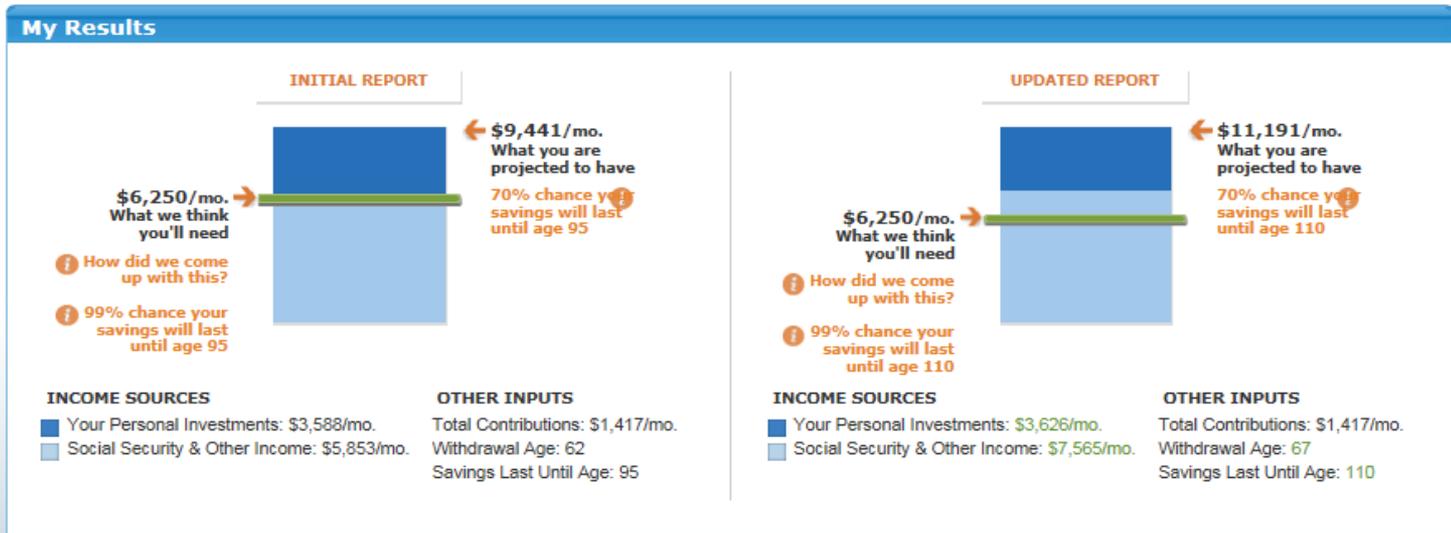


- ▶ Under [FERS](#), your retirement will come from 3 sources:
 - Social Security – [create an account](#) to review history & fix errors
 - [FERS Annuity](#) (Pension)
 - Your Savings – from TSP, etc.
- ▶ FedSmith did a [REALLY GREAT article](#) on this
- ▶ [EBIS](#) gives you estimates on all three

How much to save?

- ▶ 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



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

Other Contributions: Annually
 \$167/mo.

Include Social Security: No Yes
 Monthly

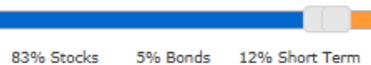
Other Income: Monthly

Age I begin withdrawing from my personal savings: - +

I want my savings to last until age: - +

Asset Allocation

Current Allocation



Projected Allocation in Retirement



■ Stocks ■ Bonds ■ Short-Term

COMPARE

Model Different Scenarios

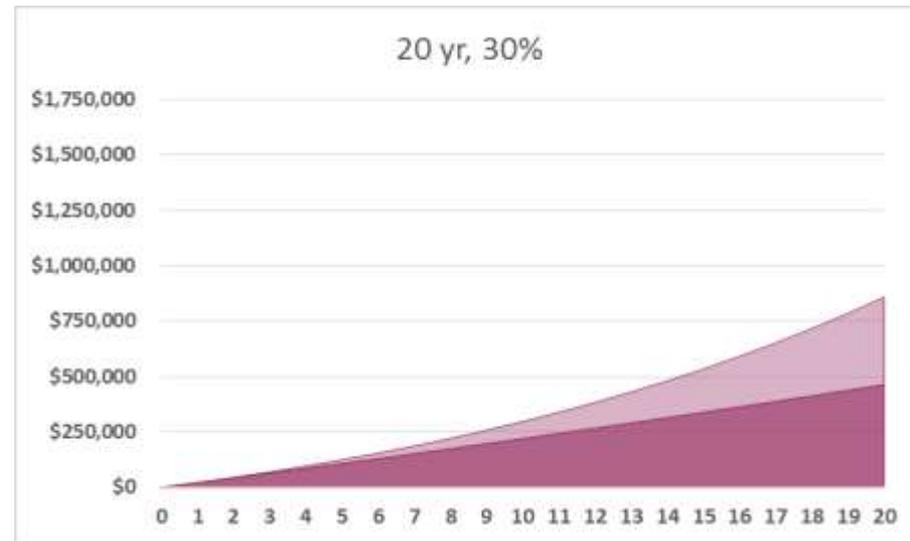
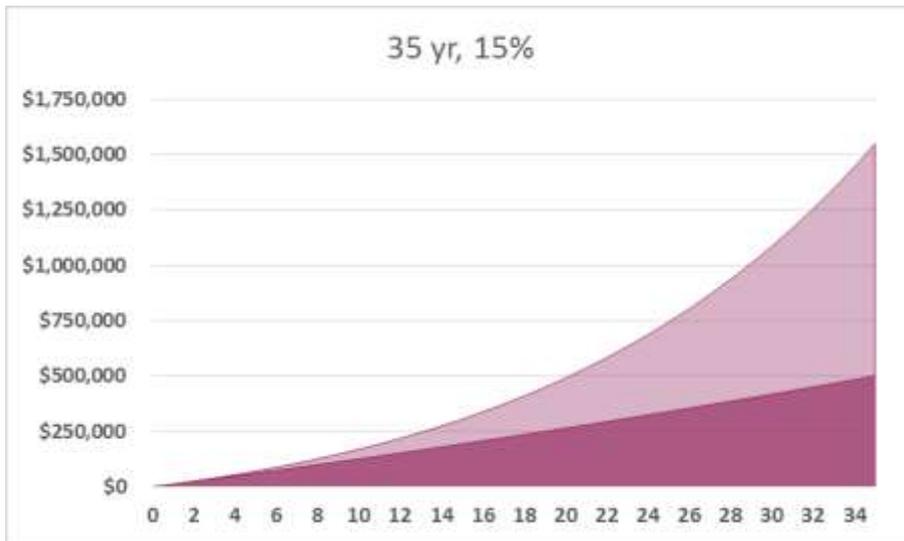
See how increasing or decreasing different variables can affect your retirement plan:

- **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

Tale of Two Investors

- ▶ \$60K/yr salary, contribute 15% for 35 yrs (\$9k per yr), 6% ROI

- ▶ \$60K/yr salary, contribute 30% for 20 yrs (\$18k per yr), 6% ROI



Put 15% in for 35 years
Result: \$1.5 Million

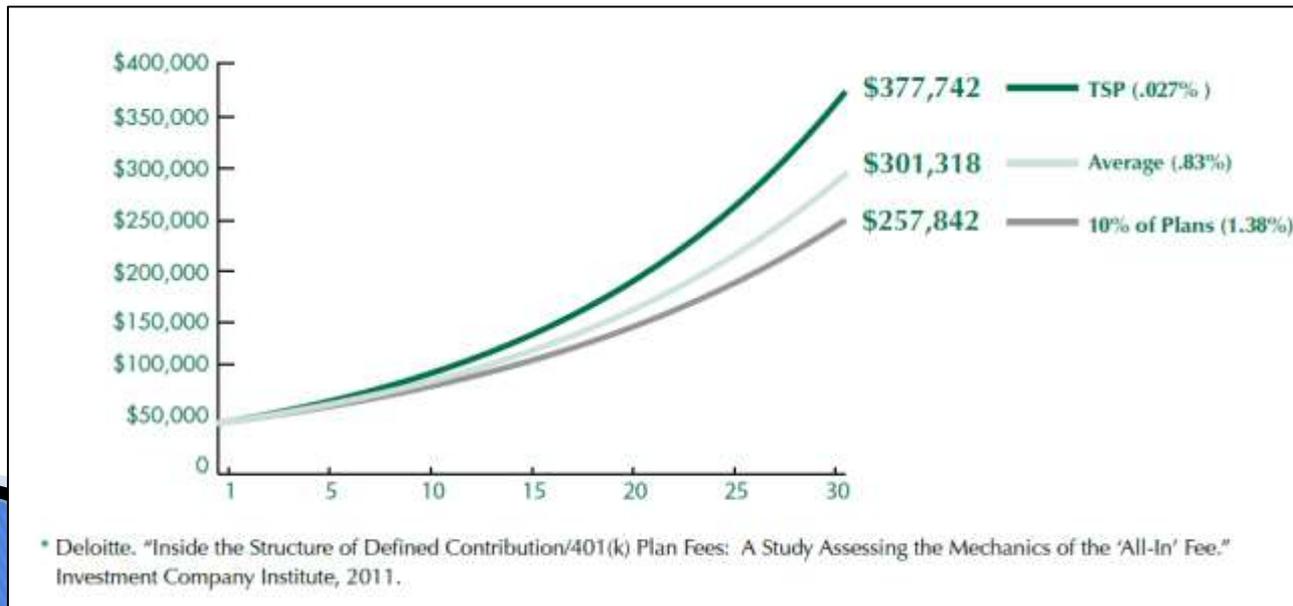
Wait 15 yrs & double contributions
Result: \$858K –That’s \$689K less!!!

■ Contributions

■ Contribution Growth

Thrift Savings Plan (TSP)

- ▶ Simply put: it kicks butt
 - Diversification options & target date funds
 - Lowest management fees: 0.029%
- ▶ 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



Return Since Inception (1988):

10.09%

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



Return Since Inception (2001):

8.23%

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



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.



Return Since Inception (2001):

4.23%

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.



Return Since Inception (1988):

6.45%

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.



Return Since Inception (1987):

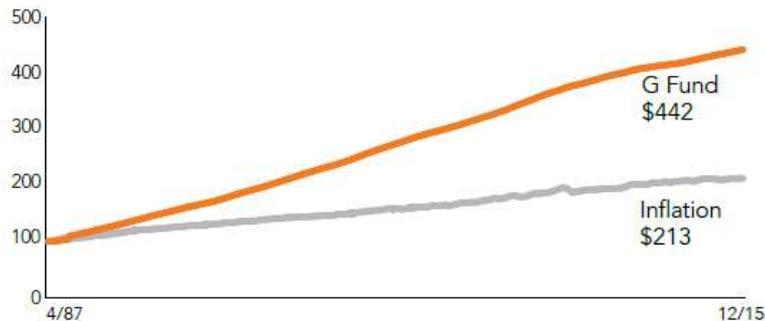
5.29%

Individual TSP Funds

G Fund

- ▶ U.S. Treasury securities issued only to TSP
- ▶ Return Since Inception: 5.29%

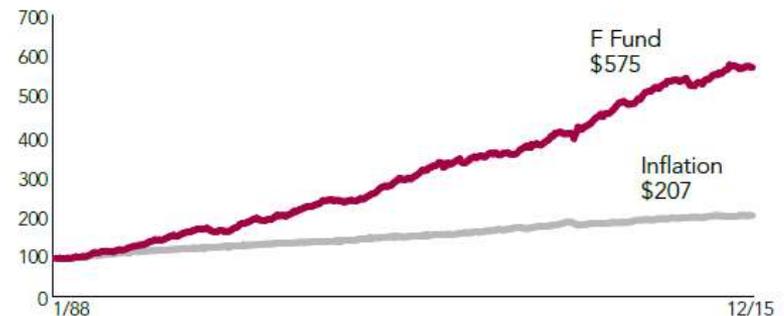
Growth of \$100
Since Inception



F Fund

- ▶ Matches the Barclays Capital U.S. Aggregate Bond Index
- ▶ Return Since Inception: 6.45%

Growth of \$100
Since Inception



Individual TSP Funds

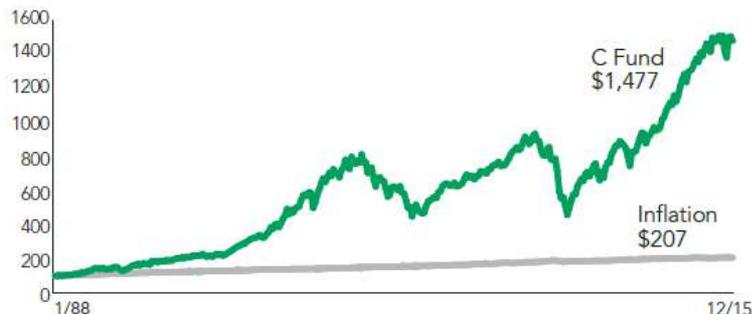
C Fund

- ▶ Large and medium US companies
- ▶ Matches the S&P 500 Index
- ▶ Return Since Inception: 10.09%

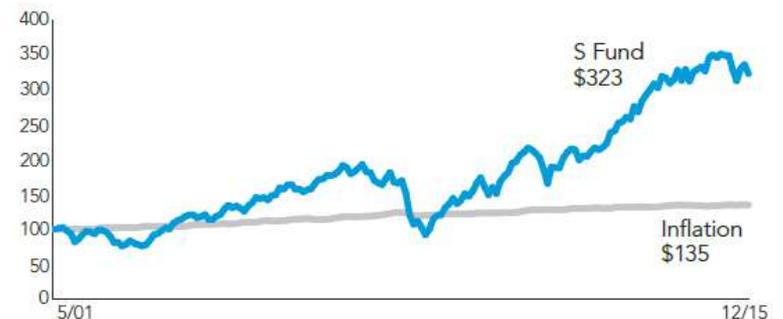
S Fund

- ▶ Small and medium US companies
- ▶ Matches the Dow Jones Index
- ▶ Return Since Inception: 8.23%

Growth of \$100
Since Inception



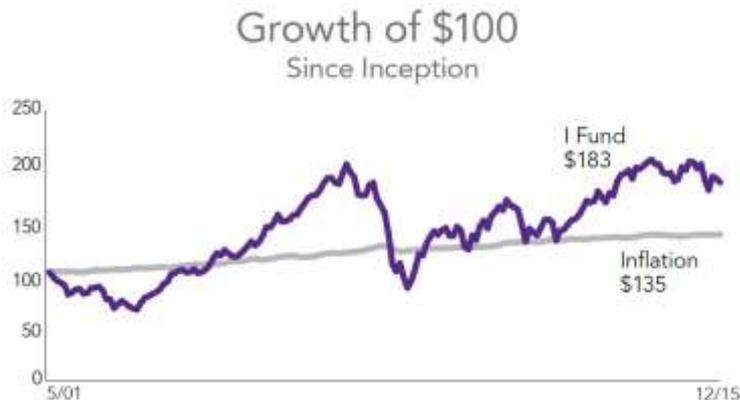
Growth of \$100
Since Inception



Individual TSP Funds

I Fund

- ▶ Major companies in Europe, Australia & Asia
- ▶ Matches the MSCI EAFE Index
- ▶ Return Since Inception: 4.23%



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

TSP Share Prices from 2006–2016



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

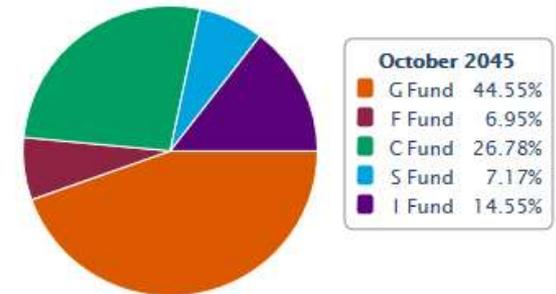
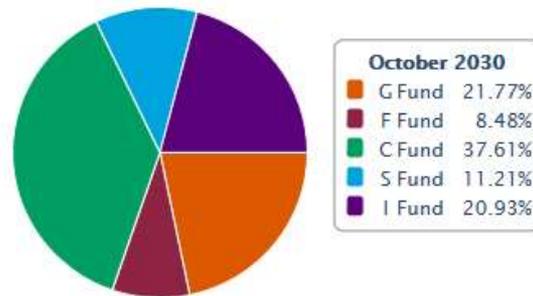
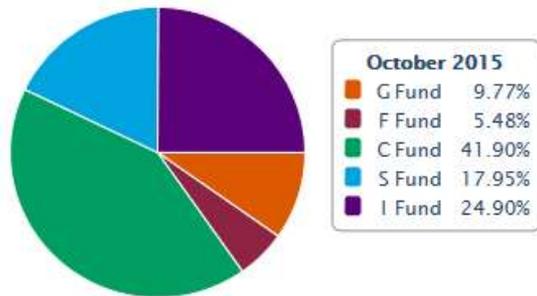


Asset Allocation

- ▶ 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 (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 – Your Age’ rule”
- ▶ TSP Life Cycle funds or Target Date funds do this for you automatically

TSP Life Cycle Funds

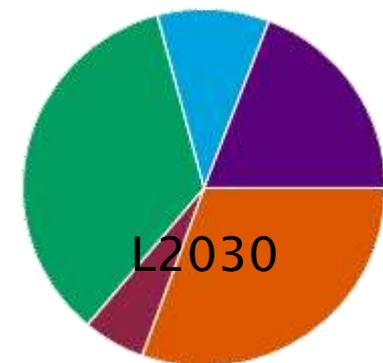
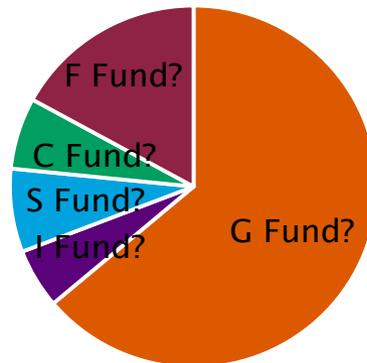
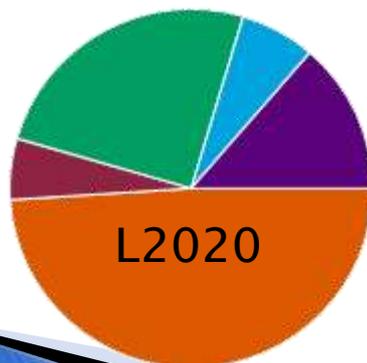
- ▶ Based on your expected retirement date
 - L2050 (shown below) is for people who plan to retire in 2045 or later
 - *Depending on your situation/goals, may not work*
- ▶ L Funds are invested in the G, F, C, S & I Funds
- ▶ % in each fund adjusts each quarter and becomes more conservative as you near 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: \$18K per year
 - Gov't matches up to 5% of your salary ← **FREE Money**
- ▶ Catch up contributions (age 50+): Extra \$6K per 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% |

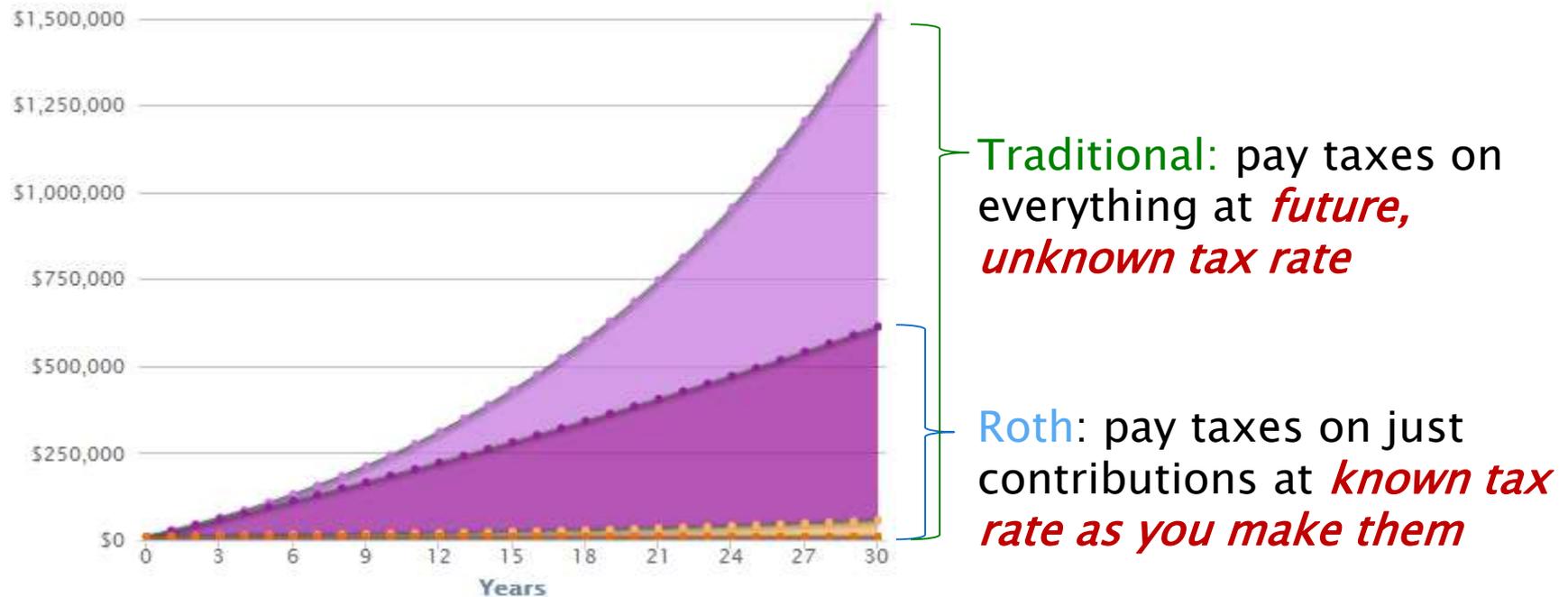
▶ If you're an automatically enrolled FERS employee, increase your contribution to at least 5% to get your agency's full match.



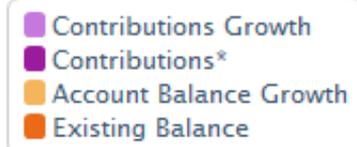
Choose your Tax Treatment

- ▶ 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)
 - 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](#)



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

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...yet](#)
- ▶ 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

TSP Loans

- ▶ 2 types of loans:
 - General purpose loan– 1–5 yr repayment period
 - Residential loan– 1–15 yr repayment period
- ▶ \$50 loan processing fee
- ▶ Interest rate is G Fund's rate when loan is processed
 - Pay yourself the principal of the loan and interest but that is less than what it could earn in other funds
- ▶ If you fail to pay on time or in full after leaving the gov't ... TAXES! ☹
 - If under 59 ½ yrs old... 10% tax penalty! ☹ ☹



TSP Withdrawal Options

- ▶ Can choose one or more options including an annuity
 - TSP withdrawals must start the year you turn 70 ½ to meet IRS' Required Minimum Distribution unless still working
 - $RMD = \text{Traditional Acct Balance} / \text{Expected Distribution Period}$
 - Come proportionally from Roth and Traditional balances
- ▶ 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](#)

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 Withdrawal Options...

- ▶ TSP withdrawal options are more limiting than other 401(k)s or an IRA at a brokerage
 - Can only **change** withdrawal types & amount once a year
- ▶ ***Do you need to sacrifice TSP's low management fees (0.029%) 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
 - If your spouse inherits your TSP account, it is transferred to a spousal beneficiary TSP account
 - That money can stay in TSP & they can benefit from the low, low management fees (0.029%)



In Summary

- ▶ Use calculators (or a CFP) to determine monthly savings goal 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

If you leave Federal Service...

- ▶ Keep in mind that you are walking away from a job that has a pension with a COLA...
- ▶ You can leave your contributions to FERS
 - Still get a pension
- ▶ You can leave your money in TSP if certain requirements are met
 - Keep agency matching if 3 year vesting requirement met
 - Can transfer money in from IRAs or other 401(k)s

Questions about TSP?

- ▶ Check out their website: 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

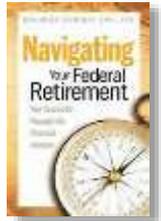
- ▶ Huntsville Madison Library: 
 - <http://guides.hmcpl.org/mym>
 - Independent courses for all levels – some on RSA
 - Hard copy and electronic journals & magazines
 - Recommended books & apps for personal finance
 - [Military Finances](#) recommendations
 - *Free online access to Morningstar*
- ▶ [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...

References

- ▶ Bach, David. (2001). *Smart Couples Finish Rich*. New York: Broadway Books.
- ▶ Christy, Brandon. (2015). *Navigating Your Federal Retirement*. Georgia: Retirement Benefits Institute.
- ▶ Orman, Suze. (2011). *The Money Class*. New York: Spiegel & Grau.
- ▶ Ramsey, David. (2013). *The Total Money Makeover*. Tennessee: HarperCollins Christian Publishing, Inc.
- ▶ 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

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"> • Employer sponsored • Traditional and/or Roth* | Traditional: No Roth: Yes* | Traditional: Yes Roth: No* | Traditional: Yes Roth: No* |
| Traditional IRA | <ul style="list-style-type: none"> • Set up yourself • Earnings limits • Age limit: 70 ½ • Tax deductible | No | Yes | Yes |
| Roth IRA | <ul style="list-style-type: none"> • Set up yourself • Earnings limits • Uses after tax \$ • 5 year rule | Yes | No | No |
| Non-deductible IRA | <ul style="list-style-type: none"> • Set up yourself • When income is over earnings limits • Uses after tax \$ • Can <u>convert to Roth</u> | Yes | No | Yes |

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

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
 - <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

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???

