The TSP – Maximizing Your Benefits for a Secure Retirement

Basic information every federal employee needs to know about the Thrift Savings Plan (TSP) and retirement planning

Objectives:

- What is the TSP?
- Contributions and Matching
- Tax Advantages
- Investment Options
- Withdrawal Options
- Risks in Moving Funds out of the TSP

How Does the TSP Fit into My Retirement Package?

- If you are covered by the Federal Employees' Retirement System (FERS), the TSP is one part of a three-part retirement package that also includes your FERS basic annuity and Social Security.

- If you are covered by the Civil Service Retirement System (CSRS) or are a member of the uniformed services, the TSP is a supplement to your CSRS annuity or military retired pay.

FERS Changed Federal Retirement

Generally, everyone hired on or after January 1, 1984 is in FERS

FERS Brought:

- Greater Flexibility
- Increased Personal Responsibility For Retirement Planning

FERS Retirement Consists Of:

Basic Benefits:

- FERS Basic Benefit:

  *1% of your high-3 average pay x Years of creditable service

  (*1.1% if you retire at age 62 or later with at least 20 years of creditable service)

  The FERS Basic Benefit receives COLAs

- Social Security (also receives COLAs)

- TSP Account

What is TSP?

- A defined contribution retirement savings plan similar to 401(k) plans offered to private sector employees

- The purpose of the TSP is to give federal employees the ability to participate in a long-term retirement savings and investment plan

- The assets of the TSP are held in trust in the Thrift Savings Fund

The TSP is Administered by an Independent Government Agency

The TSP is administered by the *Federal Retirement Thrift Investment Board*, whose mission statement is:

To administer the TSP solely in the interest of participants and beneficiaries.

www.frtib.gov

TSP Eligibility

- Most federal employees, including those under CSRS*
- A member of the uniformed service - *Active Duty or Ready Reserve*
- A civilian in certain other categories of Government service
- In pay status, in order to contribute, and
- Working full or part-time

*Certain federal workers who are covered by other retirement systems are not included in the TSP, such as those covered by the judicial retirement system, the Federal Reserve Board of Governors system, the Non-appropriated funds retirement system.

Advantages of TSP

- Automatic payroll deductions
- A diversified choice of investment options
- A choice of tax treatments for your contributions:
  - Traditional *(pre-tax) contributions* and *tax deferred investment earnings*, and
  - Roth *(after-tax) contributions* with *tax-free earnings at retirement* if you satisfy the IRS requirements

The TSP website has a contribution comparison calculator for traditional and Roth contributions:
www.tsp.gov/planningtools/contributioncomparison/contributioncomparison.shtml

www.tsp.gov/PDF/formspubs/tsplf30.pdf contains more information about the TSP Roth

Advantages of TSP (Cont'd)

- Low administrative and investment expenses
- *FERS TSP Participants* Receive Agency contributions: 1% automatic, and additional matching contribution up to 4% if you contribute at least 5% of your salary
  - CSRS and Military TSP Participants
    - do not receive matching contributions
    - can use TSP as an investment tool to supplement benefits
- Under certain circumstances, access to your money (loans and/or hardship withdrawals) while you are still employed by the Federal Government

What are my Investment Choices?

- G Fund – Government Securities Investment Fund
- F Fund – Fixed Income Index Fund
- C Fund – Common Stock Index Fund
- S Fund – Small Capitalization Stock Index Fund
- I Fund – International Stock Index Fund
- <u>L Fund – "Lifecycle" Funds</u>

  The L Funds, or "Lifecycle" funds, use professionally determined investment mixes that are tailored to meet investment objectives based on various time horizons. The objective is to strike an optimal balance between the expected risk and return associated with each fund.

Investment Choices (Cont'd)

L Funds' Investment Strategy

Invest in an appropriate mix of the G, F, C, S, and I Funds for a particular time horizon, or target retirement date. The investment mix of each L Fund becomes more conservative as its target date approaches.

The strategy assumes that:

- The greater the number of years you have until retirement, the more willing and able you are to tolerate risk (fluctuation) in your TSP account value to pursue higher rates of return.
- For a given risk level and time horizon, there is an optimal mix of the G, F, C, S, and I Funds that provides the highest expected return.

Investment Choices (Cont'd)

Choose a Target Date:

How to Invest in the L Funds

Determine the date when, after leaving Federal service, you will need the money that is in your TSP account. Then identify the L Fund that matches your target date:

Choose	If your target date is:
L 2050	2045 or later
L 2040	2035 through 2044
L 2030	2025 through 2034
L 2020	2015 through 2024
L Income	If you are already withdrawing your account in monthly payments or expect to begin withdrawing before 2015

TSP Fund Returns

- For TSP fund returns use the link:
  - https://www.tsp.gov/investmentfunds/returns/returnSummary.shtml

Individual/Index Funds Annual Returns (past 5 years)

Year	G Fund	F Fund	U.S. Agg. Bond Index	C Fund	S&P 500 Index	S Fund	DJ U.S. Completion TSM Index	I Fund	EAFE Index
2009	2.97%	5.99%	5.93%	26.68%	26.46%	34.85%	37.43%	30.04%	31.78%
2010	2.81%	6.71%	6.54%	15.06%	15.06%	29.06%	28.62%	7.94%	7.75%
2011	2.45%	7.89%	7.84%	2.11%	2.11%	(3.38%)	(3.76%)	(11.81%)	(12.14%)
2012	1.47%	4.29%	4.22%	16.07%	16.00%	18.57%	17.89%	18.62%	17.32%
2013	1.89%	(1.68%)	(2.03%)	32.45%	32.39%	38.35%	38.05%	22.13%	22.78%

Percentages in ( ) are negative.
The returns of the four benchmark indexes do not reflect any deductions for administrative expenses, trading costs, or investment fees.

TSP Fund Returns (Cont'd)

Individual Funds Annual Returns since 2004 (10 Year Summary)

Year	G Fund	F Fund	C Fund	S Fund*	I Fund*
2004	4.30%	4.30%	10.82%	18.03%	20.00%
2005	4.49%	2.40%	4.96%	10.45%	13.63%
2006	4.93%	4.40%	15.79%	15.30%	26.32%
2007	4.87%	7.09%	5.54%	5.49%	11.43%
2008	3.75%	5.45%	(36.99%)	(38.32%)	(42.43%)
2009	2.97%	5.99%	26.68%	34.85%	30.04%
2010	2.81%	6.71%	15.06%	29.06%	7.94%
2011	2.45%	7.89%	2.11%	(3.38%)	(11.81%)
2012	1.47%	4.29%	16.07%	18.57%	18.62%
2013	1.89%	(1.68%)	32.45%	38.35%	22.13%
10 Year Compound	**3.39%**	**4.65%**	**7.44%**	**10.43%**	**7.08%**

Percentages in ( ) are negative

- The returns shown reflect the actual performance of the S and I Funds for May 2001 and subsequent months. For the first four months of 2001 and for prior years, the returns shown for the S and I Funds reflect the performance of the Dow Jones U.S. Completion TSM Index and EAFE Index (without deduction of any administrative expenses, trading costs, or investment management fees), respectively.

Plan for the Effects of Inflation

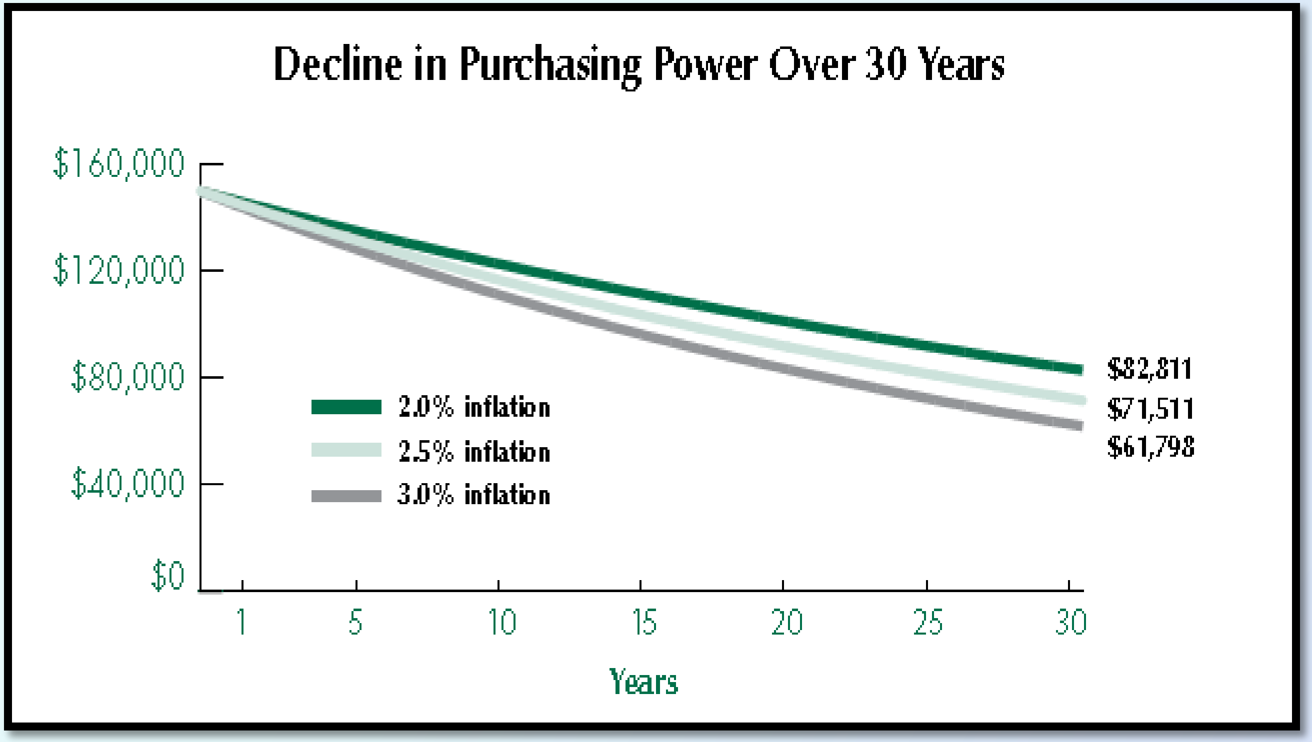
- Remember that ***inflation erodes the purchasing power of your savings.*** Even a relatively low rate of inflation can have a significantly diminishing effect on the purchasing power of your retirement savings.

- The following example illustrates how your account may be affected by seemingly modest inflation.

  Suppose that the value of your account thirty years from now is $150,000. An inflation rate of 2% per year would reduce that $150,000 to the purchasing power of only $82,811 today.

- Higher rates of inflation have an even more drastic impact.

Plan for the Effects of Inflation (Cont'd)



Agency Contribution Match

As a FERS employee, you receive:

1. **Automatic 1% contribution** from your Agency.
2. **Matching contribution** from Government as follows:
   - For 1 to 3% contribution = 100% match
   - For 4 to 5% contribution = 50% match
   - Total match by the Government is 4% of your salary, if you contribute 5% or more to TSP.

Therefore, together with the automatic 1% and 4% matching contribution, your agency puts in a total of 5% to your TSP account if you contribute 5% or more of your salary.

Agency Contribution Match – Cont'd.

Employee Contribution	Agency Automatic 1%	Agency Matching Contribution	Total 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%

Annual deferral limit is $17,500

Agency Contribution Match (Cont'd)

Up to 3% contribution = 100% match
4 to 5% contribution = 50% match

EXAMPLE

- You make $50,000 a year
- You contribute 5% or $2,500. The agency matches you 100% for the first 3% contribution and then 50% for the next 2% contribution for a total of $2,000. Together with your 1% Automatic Contribution = $2,500 in match
- So for a 5% contribution, you are saving an amount equal to 10% of your salary, or $5,000 in this example.
- As contributions are pre-tax, you also reduce your tax liability

But don't Stop Yet!!

- While contributing 5% enables you to capture the entire agency match, if able, you should go beyond contributing 5% of your salary.

- All contributions you make to the Traditional TSP up to the IRS annual maximum limit* (in 2014 $17,500) are tax deferred and help your retirement nest egg grow even faster.

- You are eligible to contribute an additional "catch-up" in a given year starting in January of the year you turn 50. For 2014, the "catch-up" limit is $5500.

  *For a complete details on contribution limits see the link: https://www.tsp.gov/planparticipation/eligibility/contributionLimits.shtml

But, can I Afford It?...

You can't afford NOT to!

- Consider Increasing Your TSP Contribution with Each Pay Raise Until You Reach the Maximum.

- Traditional TSP (vs Roth TSP) Contributions are Pre-tax Dollars and Investment Earnings are Tax Deferred which lessens the impact on your take home pay.

    Roth TSP Contributions are Post-tax dollars so your take home pay is reduced by the full amount of your contribution; however, if you comply with IRS regulations your earnings are tax free.

- Reap the Benefits of Low Administrative Expenses & Compounding Over Time.

- Think of it as Paying Yourself First!

Impact of TSP Contributions on your Take Home Pay.

Contributions to traditional (non-Roth) TSP are ***pre-tax***, which means the impact of your contribution on your take home pay will be less than the value of your contribution.

For example: For a typical GS 5 Step 5 ($35,487):

- If you contribute 5% each pay period—$69—to TSP, your take home pay will only decline by $49.
- However, your TSP account will Increase by $138 once you include the match, more than double what your take home declined.
- At the end of the year you'll have saved $3588 while your contributions were $1794 but your take home pay was reduced by only $1274.

(2014 GS Scale and marginal tax rate for a non-married taxpayer, does not factor in exemptions claimed)

The Compounding Advantage

Even a small amount held for a long time can add up to more than a larger amount held for a shorter period of time.

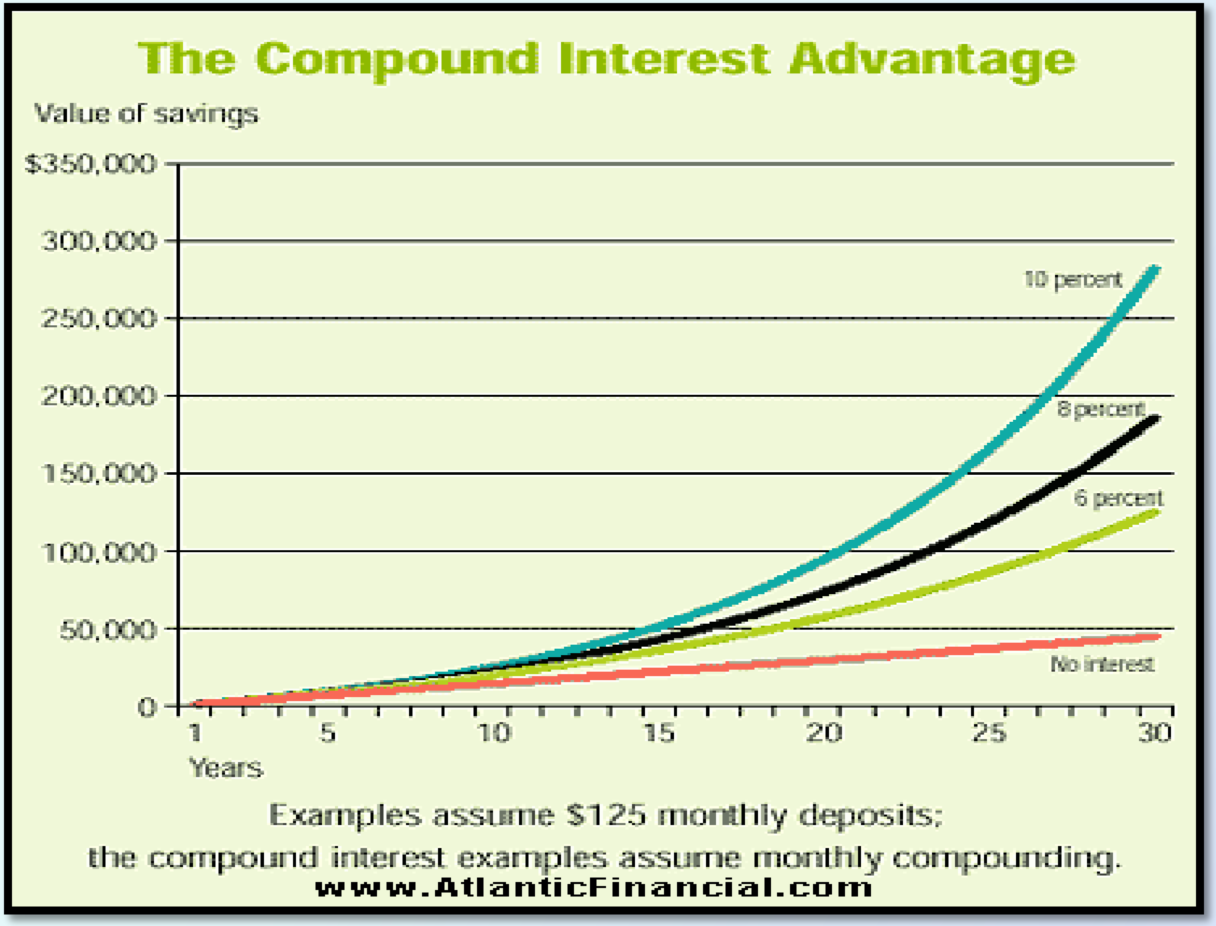
As an example:

- A **20 year old** who saves $1,000 a year for 11 years in a row, then stops but leaves it there to earn 7% interest, will have $168,514 at age 65.

- However, a **30 year old** who starts saving $1,000 a year for 35 years, also earning 7% will have only $147,913 at age 65.

Even though the 30 year old has put in more money for more years, it has less time to earn that compound interest.

The Compounding Advantage-Cont'd.



Transferring Eligible Funds into TSP from Eligible Plans / IRAs

Typically, TSP contributions are made based on a percentage taken from annual federal salary. However, if you have retirement funds from prior employment in an eligible 401K Plan or IRA, you can also transfer these funds into your TSP account through:

1. **Direct Transfer**
2. **Roll-over non-Roth Money**

You have 60 days to do a rollover from the date you receive the funds without incurring a tax penalty.

TSP After Federal Service

- If you leave the Government or Retire, your ability to continue to make contributions from your federal wages ceases. However, you do not have to take your funds out of the TSP. *Your funds continue to grow invested in the TSP.*

- Further, if you continue to work and you invest in an eligible 401K Plan or IRA, you can transfer from the 401K Plan or IRA into the TSP and still enjoy the benefit of the TSP's low expenses.

TSP Withdrawal Options

- Once you've separated from Federal service or the uniformed services, you are required to make a withdrawal choice for your TSP account balance by April 1 of the year following the year you become age 70½.

- You **do not** have to withdraw your TSP account all at once (though you have this choice). However, you must start to withdraw the IRS "Required Minimum Distribution" which is the amount that you must withdraw each year.

TSP Withdrawal Options (Cont'd)

You can choose to:

- Receive TSP monthly payments (you can change the dollar amount during the annual change period at the end of each calendar year);
- A life annuity;
- Withdraw part of your TSP account; or
- Any combination of those three options.

For more details, see www.tsp.gov/PDF/formspubs/tspbk02.pdf

Investing Outside the TSP

Common investment avenues outside the TSP are:

- Broker Dealers
- Investment Advisers
- Funds
- Insurance Companies

If you Choose to Invest Outside the TSP, Know who You're Dealing With!

The Securities and Exchange Commission has an Investment Adviser Public Disclosure website:
http://www.adviserinfo.sec.gov/IAPD/Content/IapdMain/iapd_SiteMap.aspx

You can learn more about brokers and their representatives through the FINRA webpage:
www.finra.org/Investors/ToolsCalculators/BrokerCheck

For accredited designations of financial professionals, use the link:
http://www.finra.org/Investors/ToolsCalculators/ProfessionalDesignations/AccreditedDesignations/index.htm

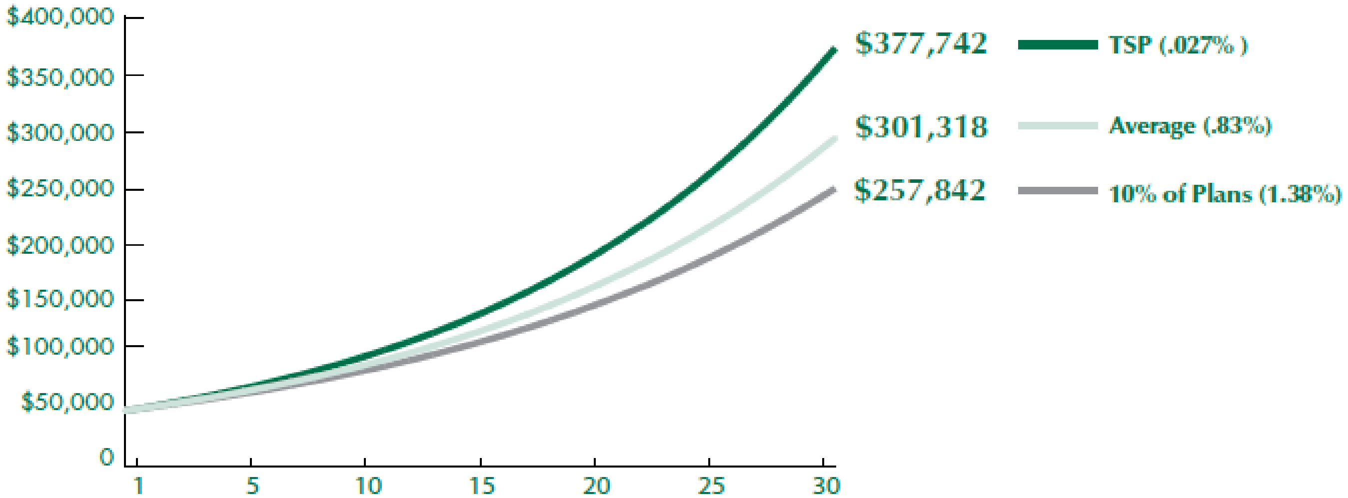
Know Your Investment Costs!

- Do not focus solely on the rate of return of an investment.
- Before investing, be sure you understand both the initial expenses and the annual expenses (fees) that will lower your investment returns over time.
- If you use brokerage or financial adviser, be sure you know the amount of broker commission or adviser's annual fee before you invest.

What Will it Cost Me?

- The Thrift Savings Plan ("TSP") charges an approx. annual fee of 0.027%, or 2.7 cents on a $100 investment.
- The average 401(k) annual fee is 0.83%, or 83 cents on a $100 investment.
- 10% of 401(k) plans charge 1.38%, or $1.38 on a $100 investment.

Impact of Administrative Costs on Earnings



* Deloitte. "Inside the Structure of Defined Contribution/401(k) Plan Fees: A Study Assessing the Mechanics of the 'All-In' Fee." Investment Company Institute, 2011.

Tools - Calculators

- A *cost calculator* can help you understand the impact that many types of fees and expenses can have over time. It takes only minutes to compare the costs of different funds. For example, see links:
  - http://apps.finra.org/fundanalyzer/1/fa.aspx
  - http://www.bankrate.com/calculators/retirement/mutul-funds-fees-calculator.aspx
- How much you should be saving for retirement? use the link below to estimate:
  - http://www.choosetosave.org/ballpark

Conclusion

Take charge of your future now!

- Investing in the TSP can be good for your long term retirement financial health.

- If you can invest up to 5% of your annual salary to your TSP, you would earn an additional 4% due to the Government's matching contributions + 1% Agency automatic contribution = a total of 5% of "**free money**"

- Before moving your retirement savings out of your TSP account be sure to research the costs and risks associated with any other investment types.

More information is available at the TSP website:

www.tsp.gov

FED2FED

- This presentation was created by Feds for Feds by the Fall 2013 Excellence In Government Fellows Program, Project Team Results R Us (Steven A. Jones Executive Coach) in collaboration with the Federal Retirement Thrift Investment Board and OPM.

- The Excellence in Government Fellows program is designed to strengthen the leadership skills of experienced federal employees through a proven combination of innovative coursework, best practices benchmarking, challenging action-learning projects, executive coaching, and government wide networking.

Results R Us Executive Sponsors

Marshall M. Gandy, Associate Regional Director – OCIE/ Fort Worth Regional Office, Securities & Exchange Commission*

Rick A. Fleming, Investor Advocate, Securities & Exchange Commission*

**"The Securities and Exchange Commission, as a matter of policy, disclaims responsibility for any private publication or statement by any of its employees. The views expressed herein are those of the author and do not necessarily reflect the views of the Commission or of the author' s colleagues upon the staff of the Commission."*

Results R Us Project Team

Thomas Falconer, National Defense University

Tonia Gray, Health and Human Services

Yolanda Lavery, Securities & Exchange Commission*

Donnie Landon, Office of the Director of National Intelligence

Matthew Lucia, DVM, Food & Drug Administration

Victoria Prescott, Securities & Exchange Commission*

Refaat Shafkey, Department of Transportation

Chris Windsor, Securities & Exchange Commission*

“The Securities and Exchange Commission, as a matter of policy, disclaims responsibility for any private publication or statement by any of its employees. The views expressed herein are those of the author and do not necessarily reflect the views of the Commission or of the author’ s colleagues upon the staff of the Commission.”