Government Executive

You've Invested for Retirement. Now What?

By Tammy Flanagan

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Federal employees have done a fabulous job of accumulating wealth in the Thrift Savings Plan since 1987. Collectively, the nearly 4.7 million TSP participants have more than $400 billion in traditional (tax-deferred savings and growth) TSP accounts and a little over $2 billion in Roth (after tax savings, tax-free growth) accounts.

That's incredible, considering that the TSP is still relatively young -- it will celebrate its 28th anniversary in April. Some of you may remember that in the early years there were many more restrictions on how much you could contribute and how you were able to manage your investments. For example, it wasn't until 1992 that you were able to invest 100 percent of your money in the C and F funds. The S and I funds didn't exist until 2001, and the Lifecycle options weren't available until 2005.

So now the question is, what's going to happen with all the money that federal employees have diligently put away? Remember, there are three stages to investing for retirement:

- Accumulating wealth
- Preserving wealth
- Distributing wealth

Both the people who manage the TSP and many of its participants have reached the point where they're concerned about the distribution of all this wealth.

As of November 2014, there were 4.7 million TSP participants and about 13,000 beneficiary participants (spousal accounts after the primary participant died.) The number of post-separation withdrawals from the TSP has been steadily increasing. About half are one-time partial withdrawals, while others are initial monthly payments. (More than 140,000 TSP participants now get regular monthly payments from their accounts.) A very small number went to purchase TSP annuities.

Single-payment withdrawals of TSP balances are also on the rise. Most of these are cash payments, but they also include transfers to IRAs, 401(k)s and other retirement accounts. In 2013-2014, there were more than 150,000 such transactions. In each of the past two years, more than $8 billion left the TSP annually in the form of post-separation single payments.

Leaving It In

According to the TSP, there are several advantages to keeping your money in the TSP after you separate from federal service. These include:

- For every $1,000 invested, your net expenses are only 28.5 cents per year.
- There are no additional annual fees, commissions, or charges.
- The TSP does not make a profit on your investments.
- The TSP has a responsibility to put your interests ahead of its own.
- The TSP will protect your retirement funds from creditors' claims.
- When you're ready, you can set up a series of scheduled withdrawals so you can receive income without giving up control of your account.

- There are no “back-end” charges when you change your investments or take withdrawals.

If you’re planning to move your money from the TSP to another retirement account or investment option after you retire or leave government, you should ask the provider about each of the above points. I would add to this list the fact that the TSP includes the always popular, extremely safe G Fund, available exclusively to TSP participants.

Moving It Out

There are a lot of valid reasons to keep your money in the TSP after you separate. But there are some good reasons to move your money out, too. In the process of preparing for a new webinar series on the TSP with certified financial planner Micah Shilanski, I’ve learned that these include the following:

- The costs of the TSP are kept low due to relatively simple investment choices, passive investment options and large economies of scale. This is not necessarily good or bad. It’s just something to be aware of.
- The TSP’s distribution rules don’t allow you to choose which investment option from which to withdraw your single payment or monthly payment. Payments are pro-rated between traditional and Roth TSP investments, and also in the percentages in which your money is divided between the TSP’s investment options. So you can’t for example, just take money out of the G Fund.
- There are penalties and/or taxes on your Roth TSP contributions if you don’t pass the test of being at least 59 ½ years old, with at least five years since your first Roth contribution. By moving your TSP into an IRA, you can separate the Roth money from the tax-deferred traditional TSP investments.
- The broad-based index funds used for the TSP are wonderful tools to accumulate wealth. But during the preservation and distribution stages, you may wish to ride a slower roller coaster that doesn’t have the big ups and downs of the C, S, F and I funds, but with more diversification and growth potential than the G Fund.
- If you want to take out money on an “as-needed” basis, the TSP doesn’t offer the ability to take more than three partial distributions.
- Keeping your money in the TSP may raise certain estate planning issues, especially for a surviving spouse who inherits a TSP account and has a beneficiary participant account established.
- The TSP annuity option is not the same as electing a monthly payment directly from your TSP account. You will be giving up control of your investment in exchange for a monthly annuity payment. For example, there will be restrictions on the disbursement of the account upon your death and caps on the increasing payments if you add inflation protection.

The point is that it pays to take the time to separate fact from fiction and become informed and educated about your options. Doing so will help you enjoy a financially secure and rewarding retirement.

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http://www.govexec.com/pay-benefits/retirement-planning/2015/02/youve-invested-retirement-now-what/105636/