Government Executive

Making the Most of Your Money After You Retire

By Tammy Flanagan

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We all know what it means to accumulate assets for retirement. That's what you are (hopefully) doing in the Thrift Savings Plan and other savings plans while you continue to work. But have you given much thought to what you will do with this money after you move from employment to retirement?

It's important to think about how you'll manage your savings after you stop working, and how you'll create income from them that you may need to supplement your federal retirement benefit and Social Security.

The website of the National Endowment for Financial Education offers the following advice on a website called My Retirement Paycheck:

You do not know whether your retirement will last 10 years or more than 40 years. To be prepared for reaching advanced age, continue saving and making wise investments even during your retirement. At retirement, most retirees still need to invest in diversified assets that may need to last decades or help weather investment market turmoil.

In simple terms, here's how this applies to the TSP: Don't move everything to the G Fund just because you're retiring. Consider the allocation of the L Income fund, which was designed for use by separated employees who are spending down their TSP balance. About 80 percent of it goes into the G and F Funds, but 20 percent continues to be invested in the C, S, and I Funds.

Questions and Comments

Let's look at some other recent questions and comments I've received about post-retirement assets.

The withdrawal options have been a real concern for me as I approach the time when I will be drawing on my funds. My required minimum distribution starts immediately after my retirement and I called the TSP to ask about how it works. First, they use only one table from IRS Publication 590 and do not take into consideration the marital age difference table. So it will require a forced excess RMD in some cases. Second, the TSP office must be notified by your agency that you have separated before submitting a Form TSP-70 for the withdrawal and it will take a month or two to process that -- again causing a further increase in the immediate year RMD (or a shortage for the months missed between retirement and first distribution). And third, a person cannot roll a portion to another account.

The good news is you won't need to worry about missing the first RMD payout even if you are over 70 ½ when you retire. This is because you must take the first payment no later than April 1 of the year following the year you reach age 70½, or separate from government service, whichever is later.

For example, if a 74-year-old employee separates from federal service on Oct. 31, 2014, then they must begin receiving RMD payments by April 2015. This should allow enough time to process the withdrawal election.

Your agency should notify the TSP within 30 days of your separation. You will then receive a letter from the TSP letting you know that you may begin your withdrawal election. You are correct that the RMD rules apply to the TSP as a whole and you can't separate a Roth IRA from the traditional balance of your TSP.

Remember, if you don't make a withdrawal election by the required deadline, your account balance will be forfeited to the TSP. You can reclaim your account, but your balance will not accumulate earnings after it is forfeited.

Also, be aware that if you don't make a withdrawal election by the RMD deadline, there is an IRS penalty tax of 50 percent on the amount that was not paid to you on time. To avoid this, you must be sure the information in your TSP record is correct and your agency reports your separation promptly.

Can anyone explain why the TSP requires a notarized signature to change your monthly withdrawal in retirement? Why can't we do it online like we can change our account distribution?

By law, if you're married, your spouse has certain rights regarding your TSP account. In addition, if you have a former spouse, then the TSP must honor a valid court order that awards him or her all or part of a TSP account (including a separated spouse).

Any time you request a loan or withdrawal from your TSP account, your spouse must provide their notarized consent to your request in writing, if you are under the Federal Employees Retirement System or member of the uniformed services. If you are under the Civil Service Retirement System, your spouse must be notified of your request.

Here are more details from the TSP.

After my retirement, I needed to receive a lump sum payment from my TSP in order to pay closing costs on property that I was going to purchase. I submitted my first application for withdrawal from the TSP and was denied. The reason for denial was that I did not indicate where the check should be deposited, and needed to put a check mark in the checking or savings box on the form. OK, fine -- however, the routing and account numbers were on there. I darkened the correct circle to indicate to deposit the money into my savings account and resubmitted. I was denied a second time because I had submitted an obsolete form. As upset as I was, I asked why that wasn't in the letter they sent citing no box indicated for direct deposit. I needed this distribution to settle on property for my retirement home. According to the timeline, it appears that through no fault of my own I will lose out on this property. I am at the end of my rope, I can't get another date, and the house will go to the next bidder. This makes no sense to me.

In last week's column, I wrote about the online TSP wizards that can help alleviate situations like this when filling out paperwork for a TSP loan or a withdrawal.

Another option for those of who need money from their TSP accounts immediately following separation might be a TSP loan. You can apply for a TSP loan prior to your departure from federal service. The loan can't exceed the amount of your own contributions and earnings from those contributions. The maximum loan is $50,000, and you can't borrow more than 50 percent of your vested account balance. Be sure that you understand the tax consequences if you leave an unpaid loan balance when you separate because you will not be permitted to make loan payments once your paychecks have ceased.

At the time the TSP is told by the payroll office that you have separated (generally, but not always, at the time of your last paycheck), the TSP will send you a letter telling you that you have 90 days to repay the loan. Otherwise the taxable distribution will be declared. Then you have 60 days from the date of the taxable distribution to roll over the amount of the distribution into a traditional IRA to avoid paying the tax.

Final Advice

Here are a few things to remember when getting ready to withdraw money from your TSP:

- Take the time to understand each withdrawal option. You can see the impact of various choices using the TSP Retirement Income Calculator.
- Be sure you know how much income you will need to produce each month, considering all of your potential sources of

retirement income. These may include your CSRS or FERS retirement benefit, Social Security, and other pensions and annuities. Essential expenses, such as food, clothing, shelter, health care and utilities, should be covered by a monthly stream of income. Nonessential expenses, such as travel, dining out and entertainment, can be covered by your retirement savings.

- The TSP offers one partial distribution after separation and then a full distribution that allows a combination of a monthly payout, purchase of a TSP annuity and an additional partial distribution. Partial distributions from the TSP may be transferred or rolled over to an IRA or other employer plan (although there are exceptions to this).
- In order to have more control of the timing and amount of each distribution, you might consider moving some of your TSP account to an IRA. You will be trading the simplicity, low administrative expenses and the G Fund offered by the TSP for more flexibility in your withdrawal strategy and perhaps an easier method of obtaining your money when you need it.
- There is not really a “right time” to retire, but there may be a wrong time if you are not financially prepared. Try not to underestimate the length of time that you will be retired and also the impact of future inflation on the value of your retirement income. It is also essential to understand how your retirement benefits will be taxed and how much less income you will have after paying those required taxes.
- If there are two of you, try to imagine what your finances will look like if there was only one of you.

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http://www.govexec.com/pay-benefits/retirement-planning/2014/10/making-most-your-money-after-you-retire/96182/