

A New Tool from the TSP

By Tammy Flanagan

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Estimating your retirement income has become a lot easier thanks to a new calculator available on the Thrift Savings Plan web site. [The Retirement Income Calculator](#) makes it easy to compare a monthly payment option to a life annuity as methods of generating a monthly stream of income from your TSP investments to supplement your federal retirement benefit and Social Security benefits.

There are six steps to getting to your results from the tool.

Introduction

This screen provides links to general information about the differences between selecting a monthly payment directly from your TSP account versus purchasing a life annuity. There are also a few basic examples available to show how these options might play out in a variety of scenarios.

Retirement Income

Here, you can choose how much of your TSP balance you would like to use to produce a monthly income payment. The choice is not all or nothing. You may elect to receive a one-time partial distribution of your TSP and use the remainder to receive a monthly payout and/or a life annuity.

For example, you might decide to withdraw \$75,000 of your TSP to spend immediately and use a portion to reinvest in an individual retirement account. Remember that any amount you decide to spend from your traditional TSP account is money that has never been taxed. You'll need to consider taxes when deciding how much to withdraw to meet your expenses.

You can choose to use some of your balance to purchase a life annuity and some to receive a monthly payment directly from your TSP account. You could also take a partial distribution from the TSP and decide later what to do with the rest. You could ultimately choose a combination of monthly payments, a life annuity and/or another partial distribution. If you select a series of monthly payments of a specific dollar amount, you can change the amount once per year.

If you choose a series of monthly payments computed based on your life expectancy, you'll have a one-time opportunity to switch to monthly payments of a specific dollar amount. If you choose a life annuity, the decision is permanent.

Length of Retirement

After entering your current age, you'll have to make a basic assumption about your life expectancy. The calculator needs your current age and the age you plan to begin receiving payments. Between the two dates, there's potential for additional growth for your investment. According to an informational help screen about longevity, a 65-year-old woman in good health has a 50 percent chance of living to age 88 and a 25 percent chance of living to 94. There's a 25 percent chance that at least one member of a 65-year-old couple will live to age 97.

Monthly Income

How much income would you like to receive each month and how long will it last? That depends on the payment option you select. There are two basic choices: monthly payments directly from the TSP or a life annuity.

If you choose a monthly payment directly from the TSP, you will receive payments until you run out of money, die (in which case the balance will be paid to your beneficiary), or change your mind. For example, if you have \$3,500 and you withdraw \$50 a month, your money would be gone in less than six years. But, if you only withdrew \$10 each month, your money would last for almost 30 years.

A life annuity is different. Here, you're giving your money to MetLife, which has a contract with the TSP, and the company agrees to send you specified monthly payments for the rest of your life. That way, you no longer have control of your money, or assume the risk of investing it.

Annuity Options

Do you want the payments made only during your lifetime? You may choose to have a single life or a joint life annuity. Help screens in the tool show you the differences.

Results

This is where the fun begins. You can view your results as a graph or a table. In the graph view, you can see where your direct monthly payments will run out if you choose that option. You also can see if your payment choices will stay the same from year to year or increase with the option of life expectancy payments or an annuity with an inflation feature.

The table view allows you to see a side-by-side comparison of the monthly payment amounts and annuity payment amounts. You can change the information you enter to see how the different factors will affect the amount of your payment and how long your payments will last.

Factors that affect the amount and duration of TSP monthly payments include:

The dollar amount of the monthly payment you choose

The type of payment: fixed dollar amount or payment based on your life expectancy

Factors that affect the amount of life annuity payments include:

The annuity option you choose

The annuity features you choose

Your age when the annuity is purchased

The age of your spouse or other joint annuitant if you choose a joint annuity

The amount used to purchase your annuity

The interest rate index when your annuity is purchased

The TSP includes a disclaimer stating the calculator is provided for informational purposes only. I'd add my own disclaimer: You need to do some financial and tax planning before you can decide the best option for the disbursement of your TSP balance. If you are not sure how to proceed, it might be worth the expense of getting some professional help.

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<http://www.govexec.com/pay-benefits/retirement-planning/2013/09/new-tool-tsp/69976/>