Government Executive

# Leave It or Roll It?

By Tammy Flanagan

September 26, 2013

This week, the question of whether it is better to leave your money in the Thrift Savings Plan at retirement or transfer it to an Individual Retirement Arrangement came up for me three times: twice I was asked it at my seminars, and then my husband said it came up at lunch with his co-workers. That's a strong indication this is a worthy subject for a column.

But first, a disclaimer: I'm a benefits specialist, not a financial adviser, so my thoughts on this subject are from a benefits point of view.

To begin assessing what to do with the money you've put away in the TSP throughout your career, you first need to determine what you need it to do for you. Do you need immediate monthly income? Do you want to continue to save money for future use? Do you want to leave money behind as an inheritance for your spouse or children?

Most federal employees will have at least three sources of retirement income: a government retirement benefit (through either the Civil Service Retirement System or the Federal Employees Retirement System), Social Security retirement, and retirement savings. The latter category includes TSP funds, other IRAs you may have and possibly other employer savings plans from work you've done prior to or after your federal career. If you have multiple accounts, you made need the help of a financial adviser to determine whether you want to consolidate them at retirement.

Before you can decide what you should do with your TSP, it is important to answer two questions:

Will your monthly retirement benefits (CSRS or FERS and Social Security) be enough to cover your recurring monthly expenses (including rent or mortgage, utilities, insurance, groceries and health care)?
Are you fully retiring or are you going to continue working after you leave federal service?

If you are fully retiring and you need additional monthly income from your savings, then you will need to evaluate the monthly income options available from the TSP compared to the advantages of moving the TSP to an IRA.

If you are going to continue to work after you retire, you will probably not need to start drawing on your TSP funds. So you'll need to evaluate whether the best place to keep this money is in the TSP or whether you should move it to an IRA for future use.

**Leave It**

Here are some reasons to consider leaving your money in the TSP:

**Lower administrative expenses:** According to a *Forbes* report, the average equity mutual fund fee for administrative expenses is 1.4 percent, and the average bond fund fee is .92 percent. In 2012, the administrative expenses of all of the TSP investment options (G, C, F, S, I, and L Funds) were .027 percent. Consider an account balance of $300,000: The difference in one year's fees between .027 percent and 1.4 percent is $81 vs. $4,200.

**The G Fund:** The G Fund is unique to the TSP. It offers the opportunity to earn rates of interest similar to those of government notes and bonds but without any risk or loss of principal and very little volatility of earnings. This fund will generally maintain a rate of return that is at least slightly higher than inflation without the risk of negative returns.

**Ability to access your money earlier:** If you retire from government in the year you turn 55 or older, you can get penalty-free access to your TSP account. IRA rules require you to wait until age 59 ½ to gain access to your funds without penalty.

**Lawsuit protection:** Retirement plans, including the TSP, are fully protected against lawsuits and bankruptcy. According to *Forbes*, contributory IRAs are only protected against bankruptcy up to $1.17 million. While most rollover IRAs from qualified plans (like the TSP) are exempt from bankruptcy beyond the $1.17 million limit, state laws vary considerably when it comes to other kinds of lawsuits.

**Simplicity:** What's easier than doing nothing? If you want to leave your money in the TSP, the only thing you really need to do is fill out a form if your address changes. When you are required to take a mandatory distribution when you're older than 70 1/2, the TSP will notify you.

**Roll It**

Here are two reasons to consider rolling over some or all of your TSP to an IRA:

**Partial withdrawals:** Technically, the TSP allows only three kinds of partial withdrawals after you leave government: An initial partial withdrawal that can be elected on a form TSP 77; a single payment option when taking a full withdrawal after a series of monthly payments or an annuity; and the option to take a final lump sum distribution when you elect a monthly payment. IRAs are more flexible.

**More investment choices:** For some people, the C, F, G, S and I Funds are too limiting. If you are comfortable managing your investments, you may want to diversify into more specific choices such as technology specific funds or real estate Investment trusts. More choices, of course, don't necessarily lead to better investing decisions.

There are also some inheritance issues to consider when you choose to leave your money in the TSP. I wrote about them earlier this year.

By Tammy Flanagan

September 26, 2013

http://www.govexec.com/pay-benefits/retirement-planning/2013/09/leave-it-or-roll-it/70890/