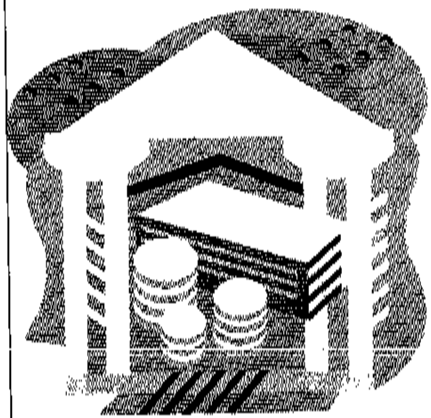
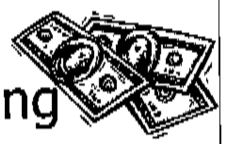
Thrift Savings Plan (TSP)



Developed by
the U. S. Department of Agriculture
Animal and Plant Health Inspection Service
and
Food Safety and Inspection Service
Human Resources
Minneapolis, MN
April 2007

The Thrift Savings Plan is the largest employee investment plan with over 4 million participants and more than $190 billion dollars invested. The TSP offers you an opportunity to save for retirement and reduce your taxable income at the same time.

Thrift Savings Plan
The Magic of Compounding



- Mary:
  - Saves $2,000 per year, for her first 8 years of work, then stops saving for the next 32 years.
  - Mary's total contributions: $16,000.
- Mike:
  - Does not save for the first 8 years of work, then starts saving $2,000 per year in year 9, and for the next 32 years.
  - Mike's total contributions: $64,000.

Assume an interest rate of 10% each year for 40 years.

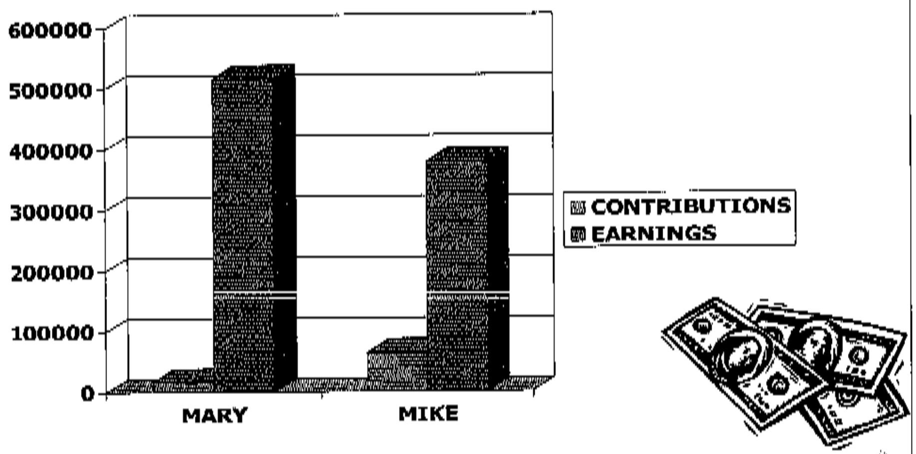
Before we discuss the specifics of the Thrift Savings Plan, lets take a look at an example of compounding, which will show why it is so important to start saving early in your career.

Mary saves $2,000 each year, for her first 8 years of work. Then she stops saving for the next 32 years. Her total contributions equal $16,000.

Mike, on the other hand, does not save anything for the first 8 years of work. He then starts saving $2,000 each year in year 9 which continues for the next 32 years. His total contributions equal $64,000.

Let's assume an interest rate of 10% each year for 40 years.

Thrift Savings Plan
The Magic of Compounding



At the end of 40 years, Mary's total investment of $16,000 is now worth approximately $515,000.

Mike's investment of $64,000 is now worth approximately $378,000.

Because of compounding, Mary earned more than Mike, even through Mike invested 4 times more money than Mary.

Thrift Savings Plan

TSP Contribution Rules:

FERS employees may contribute:

- Up to the maximum IRS annual limit.
- FERS employees receive Agency Automatic 1% contributions whether they contribute or not.
- FERS employees receive Agency Matching contributions on up to 5% of employee contributions.

The Thrift Savings Plan is the third component of FERS (the first was the Basic benefit, and the second was Social Security). It is a valuable optional benefit for CSRS employees, as well. From our earlier examples of the differences in the basic annuity benefit under CSRS and FERS, you can see how a FERS employee needs the TSP to make up the difference in order to have a comfortable retirement.

The Thrift Savings Plan offers an important feature to help FERS employees save for retirement – government matching contributions to your TSP account. Don't throw away free money! If you are a FERS employee and are contributing less than 5% to the TSP, you are throwing away free money. Only those who contribute 5% or more receive the full government 5% contribution – you double your investment instantly.

Thrift Savings Plan

TSP Contribution Rules:

<u>CSRS and CSRS-Offset employees</u> may contribute:

- Up to the maximum IRS annual limit.
- CSRS and CSRS-Offset employees receive no government matching contributions.

Although CSRS and CSRS-Offset employees do not receive the government matching on their contributions, the TSP is a great way to supplement their retirement and reduce their taxable income while they are working.

Thrift Savings Plan

- Tax Benefits:
  - Your TSP contributions are taken from your salary before taxes are withheld, so your taxable income is lower. You pay less Federal tax now. This also applies to most State taxes.
  - Taxes on your TSP contributions and their earnings are deferred until you withdraw the money from your account, usually when you are retired and in a lower tax bracket.

Not only is saving for retirement important to your future, but you get a tax benefit right now! Your TSP contributions are deducted from your salary before taxes are withheld, so your taxable income is lower. You pay less Federal tax and in most cases, less State tax..

You <u>will</u> pay taxes on your TSP contributions and their earnings when you withdraw the money which is usually when you are retired and in a lower tax bracket.

Thrift Savings Plan

- Contributions can be started, changed, or stopped at any time.

- HOW?
  - Use the NFC Employee Personal Page
  - or submit a TSP-1 form to Human Resources.

You can start, stop, or change your contributions to TSP at any time by using the National Finance Center's Employee Personal Page, or by submitting a TSP-1 form to Human Resources.

TSP elections are effective no later than the first full pay period after they are filed.

Thrift Savings Plan

- Transfer Money into your TSP Account
  - You can transfer or roll over money from a traditional IRA or an eligible employer plan into your TSP account.
  - Transfers must be before-tax money.
  - See form TSP-60 for more information.

If you have money in a traditional IRA or an eligible employer plan, you can transfer or roll it over to your TSP account using a TSP-60 form.

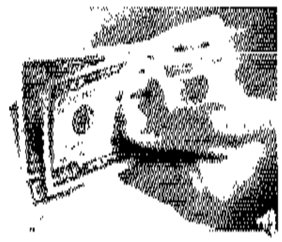
TSP Catch-Up Contributions

Eligibility

- Must be age 50 or older by December 31 in the year the contributions are made
- Must be in pay status
- Must be contributing the maximum TSP amount which will result in reaching the IRS elective deferral limit.

Catch-Up contributions:

- Are in addition to employee's regular contributions
- Do not count against the IRS elective deferral limit.



TSP participants who are age 50 or older are eligible to make tax deferred catch-up contributions from their basic pay to their TSP accounts. These contributions are in addition to an employee's regular contributions and do not count against the IRS elective deferral limits.

You are eligible to make Catch-Up contributions if you will be age 50 or older by December 31.

You must also be in a pay status and be contributing the maximum, based on the IRS elective deferral limit, in regular TSP contributions. Since Catch-Up contributions are over and above your regular TSP contributions, there is no point in making Catch up contributions if you are not contributing the maximum in regular TSP contributions.

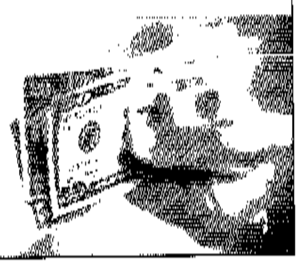
Just like your regular TSP contributions, Catch-Up contributions are tax deferred and must be made through payroll deduction. Catch-Up contributions are NOT eligible for matching contributions.

TSP Catch-Up Contributions

Elections:

- Use TSP-1-C to make or change your election (send to Human Resources) or use NFC Employee Personal Page.
- Elections are made in whole dollar amounts.
- Make a new election each year.

Contributions stop pay period 24, or earlier, if maximum is reached.



Elections for Catch-Up Contributions are separate from your regular contributions.

Catch-Up contribution elections are made in whole dollar amounts which will be deducted from your basic pay each pay period until the annual catch-up limit is reached, or the calendar year ends, or you elect to stop the contribution. You can elect any whole dollar amount up to the yearly limit. Unlike regular TSP contributions, you must make a new election each year.

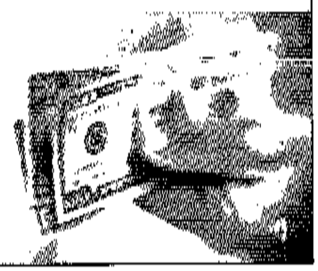
If you enter a nonpay status during the year, the catch-up contributions stop. When you return to pay status, you cannot make up missed payments, but you can submit a new election increasing the catch-up contribution amount.

You can contribute to both a civilian and a uniformed services account, so long as the total for both accounts combined does not exceed the annual catch-up limit.

TSP Catch-Up Contributions

Terminations:

- If you stop your regular contribution, your catch-up contributions stop.
- If you receive a financial hardship in-service withdrawal, your regular and catch-up contributions stop.
- Catch-Up contribution automatically terminates with the last pay date of the year to which the contribution applies (usually pp 24).



Your Catch-Up contribution election terminates automatically with the last pay date of the year to which it applies unless you have previously terminated the election or have reached the annual catch-up limit.

Are you confused regarding which TSP forms are processed by Human Resources? TSP-1 and TSP-1-C are the ONLY Thrift Savings Plan forms you can send to your Human Resources office. All other TSP forms go directly to the Thrift Savings Plan. There are instructions on every TSP form explaining where to send it.

Thrift Savings Plan Investment Funds

TSP Funds

- G Fund – Government Securities Investment Fund
  - Short-term US Treasury securities specially issued to the TSP.
- F Fund – Fixed Income Index Investment Fund
  - A broad index representing the US bond market.
- C Fund – Common Stock Index Investment Fund
  - A broad index of stocks of 500 medium to large-size companies.
- S Fund – Small Capitalization Stock Index Fund
  - A broad index of stocks of small to medium-size companies.
- I Fund – International Stock Index Investment Fund
  - A broad international market index

There are two approaches to investing in TSP. One is to pick and manage your own investments within the G, F, C, S, and I Funds. The G Fund is the least risky fund. It is invested in short-term US Treasury securities specially issued to the TSP. The I Fund is the most risky because of fluctuations of world markets and exchange of currency.

Information regarding returns, share prices and fund sheets is available on the TSP web site.

Thrift Savings Plan

- Managing your TSP:

  If you choose to manage your investments, please consider the following:

  - Determine your time horizon.
  - Consider both risk and return.
  - Be comfortable with the risk you take.
  - Diversify to reduce risk.
  - Periodically review your investment choices.

If you want to manage your own investments, you will need to ***Determine your time horizon.*** The more time you have before you need to withdraw your account, the more risk you can take. This is because early losses can be offset by later gains. You will need to ***Consider both risk and return.*** Stocks and bonds have higher potential returns than the G Fund or Government securities. But stocks and bonds also carry the risk of investment losses. On the other hand, investing entirely in the G Fund may not give you the returns you need to meet your retirement savings goal.

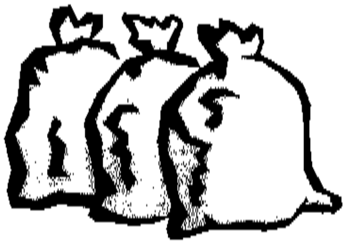
You should ***Be comfortable with the amount of risk you expect to take.***

You should ***Diversify to reduce risk.*** Generally, it's best not to put all of your contributions in one fund.

And you should ***Periodically review your investment choices.*** Rebalance your account to keep the allocation appropriate for your

situation.

Thrift Savings Plan



TSP Funds

L Fund – "Lifecycle" Funds

Divides investments into TSP's five existing funds to create a target portfolio depending on the individual's expected date for withdrawing the money.

The other approach to investing in TSP is to pick a Life Cycle Fund, or L Fund, and have your investments managed for you. The L fund invests in a professionally determined mix of the individual TSP funds to create a target portfolio depending on when you expect to withdraw your money.

The TSP Board created the Lifecycle Fund because they were concerned that participants are not well diversified or knowledgeable about the funds, and are not actively managing their fund allocations. Participants are either taking too much risk or too little risk.

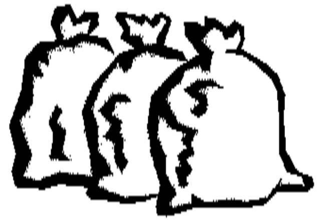
The Lifecycle funds, also called "Target asset allocation funds" in the mutual fund industry, automatically adjusts the fund allocations to take into account the differing returns and the time of expected withdrawal. The timeline determines the risk level, becoming more conservative as the withdrawal date approaches.

Thrift Savings Plan

TSP Funds

L Fund – "Lifecycle" Funds

L 2040 – 2035 and later
L 2030 – 2025 through 2034
L 2020 – 2015 through 2024
L 2010 – 2008 through 2014
L Income – Currently (or before 2008) withdrawing your account



You must determine your time horizon by answering the following question, After I leave Federal service, when will I need the money in my TSP account?

L Funds with longer time horizons are focused on growth, so they are invested more aggressively. As the L Fund matures, its mix gradually shifts to more conservative investments. The more conservative mix is designed to preserve assets while still protecting against inflation.

When an L Fund matures, it will roll over into the L Income Fund, and TSP will add a new fund with a more distant time horizon. For example, when the 2010 L Fund rolls into the L Income Fund, a new L 2050 Fund will be created.

Thrift Savings Plan

TSP Funds

L Fund – "Lifecycle" Funds

- TSP will rebalance each L Fund automatically - generally each business day – to adjust the mix as a result of price changes in the underlying funds.
- Each quarter, TSP will shift investments in each L Fund to a slightly more conservative mix.
- Experts will periodically review investment mixes of each L Fund to be sure they are still appropriate.

TSP rebalances each L Fund automatically to adjust the mix, generally, each business day; and each quarter, TSP will shift investments in each L Fund to a slightly more conservative mix. Experts periodically review investment mixes of each L Fund to be sure they are still appropriate. Because of this, it is recommended that you put your entire TSP account into just one L Fund – the one with the target date that is closest to your time horizon. If you invest in an L Fund as well as in the individual funds, you will duplicate some of your investments, and you may find that your allocation is not what you wanted. Putting your entire TSP account into one of the L Funds allows you to achieve the best expected return for the amount of expected risk.

Thrift Savings Plan

Fund Allocations

- Choose how contributions are distributed from payroll to investment funds.

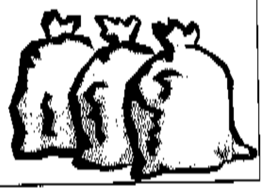
- To allocate funds, must have SSN and TSP PIN:
  - Use web site www.tsp.gov or
  - Use Thrift line (877) 968-3778

There are two types of transactions which affect where your money is invested. One is called a Fund Allocation, which dictates which funds you want your contributions from your paycheck to go into. When you first began, your contributions were automatically invested in the G Fund. Then TSP sent you a welcome letter which also included a TSP PIN. You can make changes in your allocations at any time. As long as you have your Social Security number and your TSP PIN, you can use the TSP web site or the Thrift line. You can also request a new pin from either of these sources.

Thrift Savings Plan

Interfund Transfers

- Transfer money already invested between funds.
- Must have SSN and TSP PIN:
  - Use Thrift line (877) 968-3778
  - Use web site www.tsp.gov



The second type of transaction is called an Interfund Transfer, which allows you to transfer money already invested from one fund to another. Using your Social Security number and your TSP PIN, you can make an Interfund Transfer by calling the Thriftline or using TSP's web site. Electronic contribution allocations and interfund transfers received by 11 a.m. central time will be effective at close of business the same day.

Thrift Savings Plan

TSP <u>In-Service</u> Withdrawals

- You may withdraw your TSP funds while employed by the Federal government for:
  - Age (Age 59 ½ or older) – one time only
  - Financial hardship (proof required)
- Permanently depletes your TSP account, and you cannot repay this money to TSP.
- Apply directly to TSP.

The Thrift Savings Plan was established to give you an opportunity to save for retirement; therefore, you are not allowed to withdraw your money while you are still employed with two exceptions. One is if you are age 59 ½ or older and the other is if you qualify for a financial hardship withdrawal. Both of these are referred to as In-Service Withdrawals. These withdrawals permanently deplete your account and you cannot repay this money. You may apply directly to TSP by using their website.

Thrift Savings Plan

TSP Withdrawal Options

- Leave the money invested in your TSP account.
- Roll your account to an IRA or other eligible plan.
- Make a Partial Withdrawal of $1000 or more.
- Make a Full Withdrawal
- Make a Mixed Withdrawal (combination of above options)

When you separate from the Federal government, there are a number of different options for withdrawing your TSP savings. You may leave the money invested in your TSP account; roll your account to an IRA or other eligible plan; make a partial withdrawal of $1,000 or more; make a full withdrawal; or make a mixed withdrawal which is a combination of the above options.

You will be sent a TSP Withdrawal Booklet which gives you information regarding these options. You can also call the TSP Thriftline for assistance if you have questions.

Thrift Savings Plan

TSP Withdrawal Options

- You must withdraw your TSP account by April 1 of the year following the year you become age 70 ½.
- TSP payments are taxable as income in the year in which the payments are made.
  - 20% Federal tax withholding
  - 10% penalty if you leave government before age 55 and withdraw account before age 59 1/2
  - No penalty if you leave during or after the year you reach age 55 and withdraw account before age 59 1/2

You must withdraw your TSP account by April 1 of the year following the year you become age 70 ½. The TSP payments are taxable as income in the year in which the payments are made. They are subject to a 20% Federal tax withholding. There is a 10% penalty if you leave the government before age 55 and withdraw the account before age 59 ½. There is no penalty if you leave during or after the year you reach age 55 and withdraw your account before age 59 ½.

Be sure to review the TSP Tax Notice, Important Tax Information About Payments From Your TSP Account. Also keep in mind that if you are a married FERS participant, your spouse must consent to your withdrawal. If you are a married CSRS participant, your spouse must be notified of your withdrawal.

Thrift Savings Plan Resources

TSP Website – www.tsp.gov

- for current information on all aspects of TSP
- Publications and forms
- Personal account access
- Make fund allocations and inter fund transfers
- TSP calculators

Thrift line – (877) 968-3778

- Personal account access
- Make fund allocations and inter fund transfers
- Current rates of return
- General Information

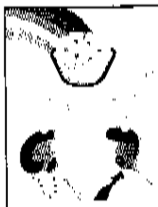
TSP Participant Statement and TSP Highlights – issued quarterly

The TSP Participant Statement is an important document – make sure to review it – are your contributions and earnings being posted? Is it time to make an interfund transfer or fund allocation change? The TSP Participant Statement is issued quarterly and is posted on TSP's web site, in your account access section. You need to have your Social Security number and your TSP PIN to see it.

Financial Planning

- U.S. has lowest national savings rate in the industrialized world
- Many Americans are not saving adequately for retirement-unprepared for unexpected life events such as medical emergencies
- Increasing concern over public programs such as Social Security and Medicare hasn't changed American saving habits
- Despite publicity, programs, and legislation, most Americans do not think financial literacy is a critical issue

Planning and saving for retirement may seem like a goal that is far off in the future; but saving should start early and continue throughout your lifetime. The United States has the lowest national savings rate in the industrialized world. Many of us are not saving adequately for retirement and are unprepared for unexpected life events such as medical emergencies. Although there is increasing concern over public programs such as Social Security and Medicare, we have not changed our saving habits. Despite publicity, programs and legislation, most of us do not think financial literacy is a critical issue.

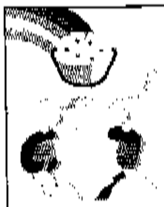


Financial Planning

The Office of Personnel Management is required to:

- Develop and implement retirement financial literacy and education strategy for Federal Employees
- Educate Federal Employees on the need for retirement savings and investment
- Provide information on how to plan for retirement and how to calculate retirement investment needed to meet retirement goals

Public Law 108-469, passed in 2004, required the Office of Personnel Management to develop and implement a retirement financial literacy and education strategy for Federal employees. OPM is required to educate Federal Employees on the need for retirement savings and investment. OPM is also required to provide information on how to plan for retirement and how to calculate retirement investment needed to meet retirement goals.



Financial Planning

- YOU are responsible for your own retirement planning.
- YOU are responsible for your own financial success.
- It is YOUR responsibility to gather information, make decisions, and plan for the best outcome!

While OPM, the TSP, Social Security and your employing agency can provide you with important information, keep in mind that at the end of the day, you are responsible for your own retirement planning. You are responsible for your own financial success. It is your responsibility to gather information, make decisions and plan for the best outcome!

Financial Planning Tools

A good place to start is: http://www.mymoney.gov

American Savings Education Council – includes Ballpark estimate and over 100 financial planning calculators – www.asec.org

The US Securities and Exchange Commission – how to invest wisely and avoid fraud - http://www.sec.gov/investor.shtml

The Investor's Clearinghouse - educates investors - http://www.investoreducation.org/

Savings Bonds – http://www.publicdebt.treas.gov/sav/sav.htm

Here are some good resources for retirement planning.

Do you need to hire an investment counselor or money manager? Maybe not. You can do a lot of research yourself using the internet, or just by reading investment magazines.

The Ballpark estimate calculator is an easy way to determine if you are on the right track to saving enough for retirement. There is a lot of information on the internet – start with government web sites and follow approved links.

Thank you for your attention!

- Contact your servicing Human Resources Benefits Specialist if you have any questions about retirement or your other Federal benefits!

Thank you for listening to this information about the Thrift Savings Plan.

Please contact your servicing Human Resources Benefits Specialist if you have any questions about retirement or your other Federal benefits!