



Thrift Savings Plan Lifecycle Funds



TSP Lifecycle Funds

Welcome

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- » Our audience today
- » Q&A – the ProFeds Support Team standing by
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- » Stay until the end!

TSP Lifecycle Funds

Your ProFeds Presenter



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- » ProFeds Founder
- » Developer of the FedImpact Retirement Workshop
- » Host of the FedImpact Podcast



Support Team

- » Standing by for your questions

TSP Lifecycle Funds

The TSP Lifecycle Funds

**Why, when, and how to
use this investment strategy**

Agenda

- » **DESIGN:** review the intended purpose of the lifecycle funds
- » **FUNDS:** explore the makeup of the various lifecycle funds
- » **STRATEGY:** identify who the ideal candidates are for this method

What this webinar will NOT cover



Regular Fund Choices

Fund	Description	Index	10-yr Compound	20-yr Compound
G	Government securities	No index (interest rate based)	1.93%	2.95%
F	Mix of government & corporate bonds	Barclays Capital U.S. Aggregate Bond	3.13%	4.47%
C	Large-cap U.S. stocks	Standard & Poor's 500	16.57%	9.54%
S	Small & mid-cap U.S. stocks	Dow Jones U.S. Completion Total Stock Market Index	15.06%	10.83%
I	Mostly large-cap foreign stocks	Morgan Stanley Capital Int'l EAFE (Europe, Australasia, Far East)	8.38%	6.53%

Returns as of EOY 2021

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Year	G Fund	F Fund	C Fund	S Fund	I Fund
2012	1.47%	4.29%	16.07%	18.57%	18.62%
2013	1.89%	(1.68%)	32.45%	38.35%	22.13%
2014	2.31%	6.73%	13.78%	7.80%	(5.27%)
2015	2.04%	0.91%	1.46%	(2.92%)	(0.51%)
2016	1.82%	2.91%	12.01%	16.35%	2.10%
2017	2.33%	3.82%	21.82%	18.22%	25.42%
2018	2.91%	0.15%	(4.41%)	(9.26%)	(13.43%)
2019	2.24%	8.68%	31.45%	27.97%	22.47%
2020	0.97%	7.50%	18.31%	31.85%	8.17%
2021	1.38%	(1.46%)	28.68%	12.45%	11.45%
10-Year Compound	1.93%	3.13%	16.57%	15.06%	8.38%

TSP Lifecycle Funds



The Lifecycle Funds

TSP Lifecycle Funds

The Creation of the TSP Lifecycle Funds

- » In 2005, the TSP Lifecycle Funds were created
- » Many federal employees felt unsure how to invest, so the lifecycle funds were created to give some direction based on a time in the future when the employee would need to access the money
- » These were modeled after strategies in the private sector called “horizon-based” or “target-date” funds

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The Objective

- » The objective is to strike an optimal balance between the expected risk and return of each fund
 - Each fund is a mixture of the 5 regular funds that adjust automatically over a long period of time
 - As you get closer to needing the money from TSP, the account gets more conservative
- » The real objective? Keeping federal employees from making a SWAG with their TSP investment choices!

TSP Lifecycle Funds

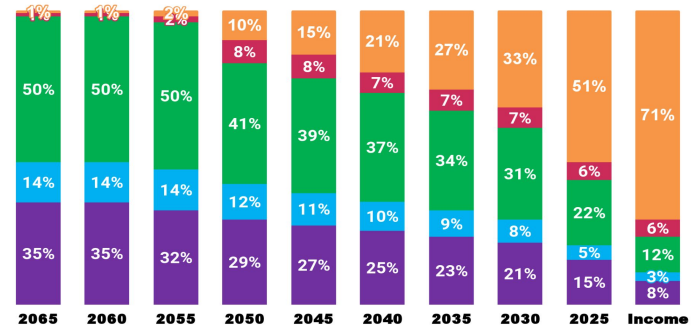
The Design

- » The Lifecycle Funds are designed to put 100% of your TSP balance into ONE Lifecycle fund
- » Pre-set mixtures for each Lifecycle Funds
 - Future changes to the mixture of each Lifecycle Fund are pre-determined when the fund is created
 - Each Lifecycle Fund rebalances quarterly to maintain its pre-set mixture
 - Every 5 years, one Lifecycle Fund “retires” and a new Lifecycle Fund is created

TSP Lifecycle Funds

G F C S I

10 TSP Lifecycle Funds*



*Allocations shown as of 1/2022. Each quarter, fund reallocates to become more conservative.

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The Returns

- » The Lifecycle Funds do not have their own inherent rate of return
- » Instead, the returns are based on the performance of the underlying funds (G, F, C, S & I)
- » Any return you see for the Lifecycle Funds are simply constructed based on the performance of the funds in its current mixture

TSP Lifecycle Funds



Some
FAQs

Q: *Can the Lifecycle Funds lose money?*

A: Yes – each of the Lifecycle Funds carry different levels of risk
They all have the potential to lose money based on market conditions
When it comes to the Lifecycle Funds, do not confuse “simplicity” with “safety”

Q: *Are the Lifecycle Funds “set it and forget it” funds?*

A: Yes and No
Yes – with the way these are designed, they’re intended to make the changes along the way without you needing to intervene or take action
No – we don’t want you to ignore this account and pretend that everything will be fine in retirement

Q: *Am I allowed to have more than one Lifecycle Fund and regular funds (G, F, C, S & I), too?*

A: Yes – you are allowed to have more than one Lifecycle Fund, but that was not how these funds were intended to be used
When you have money in more than one Lifecycle Fund (or along with the regular funds), you throw off the “optimal balance” that this strategy was designed to create for you

TSP Lifecycle Funds

Example

- » Teresa is in her 30’s and has \$200k all in the L 2050
- » She gets some advice to, “maybe have some G Fund too... just in case”
 - She decides to take \$50k of the \$200k and put it toward the G Fund
 - What happened to her mixture?



Q: *Can I do both Traditional and Roth in the Lifecycle Funds? Can I invest Traditional and Roth separately?*

A: Yes – you are allowed to decide how your investment will be taxed regardless of which fund you invest it in

No – you cannot invest Traditional and Roth separately (for example, you can't invest your Traditional contributions in the G fund, but your Roth contributions in the L2050 fund)

Q: *Are the Lifecycle Funds “actively managed”?*

A: No – these funds have a pre-set mixture of funds that are determined when it is created

There is no active management of these funds (meaning, there is not a fund manager actively seeking opportunities for bigger gains or proactive movement to safety)

Q: *In retirement, can I decide which fund to pull money from when I need it?*

A: No – when you withdraw money from the TSP, you must take money proportionally to how it is currently invested

You cannot “decouple” the underlying funds to pull what you want

Example: If you have all of your money in the L Income Fund, you aren't allowed to say you just want to withdrawal G fund portion of the money

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**My
Observations**

Observation #1

- » When employees ask us, *“Is it best to invest in one of the Lifecycle Funds?”*...
...the answer is always, *“Compared to what?”*
 - **Compared to staying in the G Fund for your whole career?** Yes – the Lifecycle Funds will likely serve you better over a long-term career.
 - **Compared to having a dialed-in approach with a financial professional?** No – the Lifecycle Funds are not a substitute for proper holistic financial guidance.

Observation #2

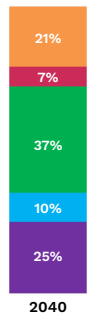
- » The Lifecycle Funds’ pre-set mixtures assume you have no other factors of your financial life like:
 - No other assets growing aggressively (like market-based accounts such as IRAs, mutual funds, 401(k)s)
 - No other assets that are relatively safe (like cash in the bank, annuities, significant home equity, inheritance)
- » If you don’t consider these other factors, is the “optimal balance” the L Funds are trying to strike for you *really* on target?

Observation #3

- » The Lifecycle Funds’ pre-set mixture means that regardless of how the market is performing, the funds can only take certain actions
 - This may be disadvantageous to the investors if the fund is required to “buy” or “sell” in undesirable market conditions
 - Actively managed accounts outside of the TSP allow for fund managers to be proactive in both “good” and “bad” markets
- » Does this strategy serve your investments well?

Observation #4

- » Generally, the Lifecycle Funds are too conservative for younger employees
 - At a time when younger feds can be taking advantage of long-term market gains, the Lifecycle Funds can hold them back
 - For instance, the L 2040 fund is designed for those who plan to need their money about 20 years from now (but 28% is safe or relatively safe)
- » Is it sometimes risky to be too safe?



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Observation #5

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Observation #6

- » For a strategy like the Lifecycle Funds to work, there have to be some major assumptions
 - That everyone retiring around the same time has the same tolerance for taking risk
 - That by the time you retire, everyone needs 71% of their money to be available for withdrawal all at once with no risk
- » Is being lumped in with everyone else serving your needs to their fullest capacity?

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Observation #7

- » The Lifecycle Funds suffer the same fate as the 5 regular funds when it comes to taking money out
 - You must take money out proportionally to how it is invested (causing you to take money from poor-performing funds)
 - You aren't allowed to invest Traditional and Roth balances separately to take advantage of true tax diversification
- » Why not have a more tailored approach to how you invest (and how you take money out)?

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Observation #8

- » In retirement, the investing game changes
 - The strategy for wealth ACCUMULATION is quite different from the strategy for wealth DISTRIBUTION
 - TSP can be great at the first, but not very savvy at the second
 - Everyone wants a "set it and forget it" program, but the reality is that ***your future needs your input and action***
- » Why wouldn't you play an active role in making sure your TSP is on track to give you what you need?

Observation #9

- » Broad-brush advice can cause serious harm to your long-term financial well-being
 - Friends & family
 - Co-workers
 - Facebook groups / apps / subscription services
- » Why take advice from the proverbial water cooler, when those people don't know the whole picture?

Observation #10

- » The Lifecycle Funds very well may be the right option for you and your situation
- » We suggest: "TRUST BUT VERIFY"
- » We are not suggesting that the Lifecycle Funds are right or wrong for any employee, but they can never be a substitute for having a real plan for your money



Wrap-Up

Wrap-Up

- » Understanding your investment strategy in the TSP is the first step in making sure you're on the right track (don't take a SWAG!)
- » There's no one-size-fits-all approach (and be weary of advice – even from well-intentioned people)
- » As you accumulate more and approach your retirement window, you'd be wise to ensure you have a tailored approach that is unique to you

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