



Your TSP – Love it or Leave it



Your TSP - Love it or Leave it

Welcome

- » About today's topic
- » Our audience today
- » Q&A – the ProFeds Support Team standing by
- » Handouts – available for download
- » Recorded – how to get the replay
- » Stay until the end!

Your TSP - Love it or Leave it

Your ProFeds Presenter



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- » Host of the FedImpact Podcast



Support Team

- » Standing by for your questions

Your TSP - Love it or Leave it

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Helping federal employees understand their often complicated relationship with the TSP – and deciding if a breakup is in their future

Agenda

- » **ADVANTAGES:** Unique elements of the TSP that are great for employees to capture
- » **CHALLENGES:** Functions of the TSP that are frustrating or disadvantageous for employees and retirees
- » **BLACK SWANS:** When you don't know what you don't know
- » **EYE OPENERS:** How misplaced loyalty to the TSP can cost you big time

FAIR WARNING:

This session will be very candid about the TSP (the good and bad). We're not here to bash the TSP, but we're not here to defend it either. Show up with an open mind and set aside your preconceived beliefs to get the most out of this webinar.

**What this webinar
will NOT cover**



**When You
First Met**

Love at First Sight

- » In the beginning...
 - It looked so **simple** (only 5 funds)
 - It looked so **easy** (set it and forget it)
 - It looked so **sweet** (the FERS 5% match)
 - It looked so **smart** (tax advantages)
 - It looked so **cheap** (the fees appear so low)
 - It looked so **safe** (the G fund)
 - It looked so **perfect** (it must be forever)



Your Relationship with the TSP

Defining the Relationship

- » The TSP's sole job is to make the plan available
- » But you should know:
 - They are not permitted to give advice
 - They are good order takers, but not financial strategists
 - They do not see the full scope of your financial picture
 - They are not responsible for the outcome



Three Sides of the TSP Coin

- » Capability
 - Will the TSP allow you to perform a certain action?
 - Will the TSP limit you in any way?
- » Guidance
 - Will the TSP give advice if you ask?
 - Will the TSP warn you even if you don't ask?
- » Transparency
 - Will the TSP process your request efficiently?
 - Will the TSP be fair in their assessment of your other options?



What's to Love?

When Things Get Complicated

- » Over time...
 - Your needs change
 - Your situation gets more complex
 - Your expectations grow
 - Your sophistication evolves

When evaluating any relationship...

**It's easy to look at the "good" parts
(those are the easy things to live with)!**

**It's harder to look at the "bad" parts
that we've outgrown or that
don't serve us well anymore.**

Low Fees

- » **GOOD:** The TSP has relatively low fees for investing in the G, F, C, S & I funds
- » **BAD:** They're not the lowest (and there's a catch!)
 - If we're looking apples-to-apples, you can invest in a similar account in the private sector and pay even lower than what you pay in TSP
 - The catch is that you get what you pay for – you're left to make decisions without guidance or caution from TSP

Combine Federal & Military TSP

- » **GOOD:** The TSP allows you to combine your federal and military TSP accounts
- » **BAD:** Combining them may not be in your best interest
 - If you are separated/retired from the military and have a military TSP, that money is accessible to you right now (albeit with a penalty if you're under 59 ½)
 - If you combine it with your federal TSP, you won't have access to it until you separate/retire from federal service or turn 59 ½

Naming Beneficiaries

- » **GOOD:** You can name beneficiaries to receive your TSP after you die
- » **BAD:** The TSP erased thousands of beneficiaries in June 2022 (was yours one of them?!)
 - Login to TSP.gov to check (and change) your beneficiaries
 - Challenges with updating

Setting Auto-Pilot

- » **GOOD:** You can “set it and forget it”
- » **BAD:** You may become complacent (either in the investments you choose, the tax options or the amount you contribute)
 - “I've always just done it that way” isn't a good reason
 - The TSP doesn't ask, “does this strategy still work for you?”

Tax Advantages

- » **GOOD:** You choose to contribute to Traditional or Roth TSP (each have their own advantages)
- » **BAD:** What happens when you need money for a reason *other than retirement*?
 - Having all of your money tied up in retirement vehicles (called “qualified plans”) may leave you with little access when you need it before you retire

Tax Strategies (Going In)

- » **GOOD:** You choose the tax strategy that is best for you (Traditional and/or Roth TSP)
- » **BAD:** How do you know what that “best” option is?
 - Tax strategies require some sophisticated maneuvering to get it right
 - The TSP is not able to give advice on this

Tax Strategies (Coming Out)

- » **GOOD:** You choose which tax bucket (Traditional and/or Roth TSP) to pull from
- » **BAD:** How do you know what that “best” option is?
 - Tax strategies require some sophisticated maneuvering to get it right
 - The TSP is not able to give advice on this

Changing from Traditional to Roth

- » **GOOD:** Your Roth TSP contributions will grow tax-free as long as some basic conditions are met
- » **BAD:** For the money you currently have in the Traditional TSP, you aren’t allowed to change that to be Roth TSP money
 - This strategy is known as a “Roth conversion” and it can only be done in a private sector account once you separate/retire from federal service

The G Fund is Safe

- » **GOOD:** You are guaranteed not to lose any or your principal or interest in the G fund
- » **BAD:** Your money may barely keep up with inflation
 - The G fund is not where feds go to “make it rich”
 - Many are in the G fund only because they’re unsure about what to do, or they’re scared that they’ll make a big mistake (but being “too conservative” can be harmful, too!)
 - Congress has a “debt ceiling” addiction to the G fund

Several Fund Choices

- » **GOOD:** You can choose from the available funds to invest in (Regular, Lifecycle, Mutual Fund Window)
- » **BAD:** The TSP won’t help you decide which is best
 - You may not have a full understanding of “risk tolerance” and may select funds that are either too risky or too conservative based on your timelines and goals
 - The TSP bears no responsibility for determining whether the choice you make is appropriate given your circumstances

Agency Match

- » **GOOD:** The agency matches the FERS employee’s contributions up to 5% of their salary
- » **BAD:** You must contribute at least 5% every single pay period to get the full match
 - Any pay periods where you are not contributing at least 5%, you are losing out on “free” money from your agency!

Accessing TSP “Early”

- » **GOOD:** If you meet certain requirements when you separate/retire, you can access TSP funds before age 59½ without paying an early withdrawal penalty
- » **BAD:** The TSP often uses this as a reason that federal employees should not move money out of the TSP when they retire
 - You can leave money in the TSP (to use if needed prior to 59½), and the remainder of your money can be moved

Peer Pressure

- » **GOOD:** You may be encouraged by co-workers to participate in the TSP
- » **BAD:** Sometimes, you may feel pressured to invest a certain way or make a change that you are not comfortable with
 - The “Self Appointed Office Expert” may offer advice that might be great for them, but not for you

TSP Loans

- » **GOOD:** You can take a loan from your TSP while you are working
- » **BAD:** Taking from retirement accounts can be counterproductive (and jeopardize your end goal)
 - While the money is out of the TSP, it's not earning interest
 - When you repay your loan, you pay that with after-tax money (defeating the purpose of the tax-deferred status)

Required Minimum Distributions

- » **GOOD:** The TSP will make sure you take your RMD so you don't suffer a penalty
- » **BAD:** Currently, the Roth TSP is included in this calculation which causes participants to perhaps take more from their account than they needed
 - Luckily, in 2024 this rule changes to not include the Roth TSP in the calculation

If Your Spouse is the Beneficiary

- » **GOOD:** The TSP will allow your spouse to take over your TSP account and they can leave it in TSP
- » **BAD:** There are some unexpected issues that arise
 - If your spouse leaves the money in TSP and names a new beneficiary, when your spouse dies, the next beneficiaries are required to take all of the money in cash (no opportunity to stretch out payments)
 - This causes an enormous (and unnecessary) tax issue

Tax Diversification

- » **GOOD:** You can contribute to the Traditional and/or Roth TSP in any combination you wish
- » **BAD:** You aren't allowed to invest Traditional and Roth funds differently
 - For instance, you cannot invest your Traditional contributions into the G fund, but the Roth contributions into the C fund

Fund Distribution

- » **GOOD:** You are able to take money from the various funds in which you were invested in the TSP
- » **BAD:** You are NOT permitted to decide which FUND to pull your money from when it comes out of the TSP
 - When money is withdrawn from TSP, it comes out proportionally to the funds it is currently invested in
 - Example: If you have 50% in G and 50% in C, the money will come out in that same ratio



Having “The Talk”



Some Observations

TSP's Transition (June 2022)

- » Fumbled transition (beneficiaries, past statements, site access, withdrawal process)
- » Unnecessary changes (website, new statements)
- » Nobody seems responsible for TSP's mistakes (transfers out, participants not receiving payments)

Blind Loyalty

- » Federal employees often have a loyalty to the TSP that may not serve them well into the future
 - Blindly believing that the TSP is the perfect product can be dangerous
 - You have to be honest with yourself whether you're capable of properly managing the strategy for this money you have accumulated
 - Get help if you need it

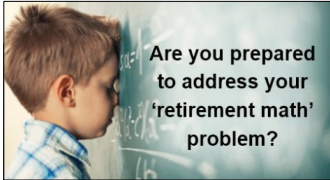
As Time Changes

- » We need different things at different times
 - While working, you are in the accumulation phase
 - Gather/grow assets & create future tax opportunities
 - In retirement, you are in the distribution phase of investing
 - Strategically use assets & capitalize on tax opportunities

WRAP-UP

Your TSP - Love it or Leave it

How does this fit into the bigger picture?



Are you prepared to address your 'retirement math' problem?

DOUBLE-CHECK YOUR NUMBERS TO MAKE SURE YOUR RETIREMENT MATH IS ON TRACK



- » Attend a workshop:
 - In-person training
 - No cost to attend
 - Covers all of the federal benefit topics and decisions to be made
 - One-on-one help available
- » See all the details at: FedImpact.com/Attend

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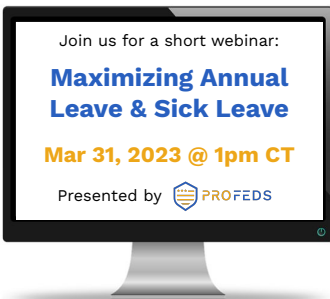
Handouts and Replay



- » Handouts
 - Download
 - Emailed
- » Replay
 - Link will be emailed to all registered participants

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Next Webinar



- » Next webinar topic!
 - **Maximizing Annual Leave & Sick Leave**
Highlighting the differences between Annual leave and Sick leave when it comes time to retire and how to maximize each one
- » Sign-up at: FedImpact.com/Webinar

Thank you for joining us

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