



Maintaining Solid Habits in the Thrift Savings Plan



Maintaining Solid Habits in the TSP

Welcome

- » 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!

Maintaining Solid Habits in the TSP

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

Maintaining Solid Habits in the TSP

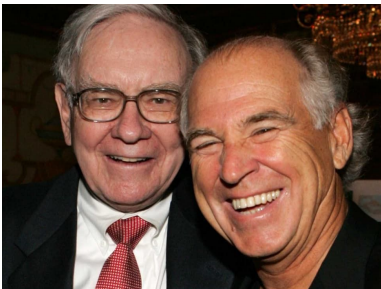
Maintaining Solid Habits in the Thrift Savings Plan

What you do regularly in the TSP is more important than what you do every once in a while—no matter how long you have left

Agenda

- » **CONTRIBUTIONS:** Choosing how much to invest and which funds to use
- » **TEMPERAMENT:** Choosing how to react to changing market conditions
- » **TIMELINE:** Choosing how to view your access to money in the TSP

What this webinar will NOT cover



Picking Your Heroes

Picking Your Heroes

- » The financial gurus don't know you, and neither does the water cooler expert in your office!
- » Be sure that you're listening to people who help you know HOW to think through financial matters and not WHAT to think
- » To fully understand what YOU should be doing in the TSP, you need to be looking at your entire financial situation
- » Instead of looking for a "hero," look for a "guide"



Defining the Role of Your TSP

Defining the Role of Your TSP

- » TSP is the long game - not your “get rich quick” account
- » Plan not to need the money until 59 ½ or retirement
- » Have money outside of the TSP for shorter goals
- » TSP is a money game, but don't stare at the scoreboard
 - Don't put up zeroes (get started early)
 - Show up to practice (put in the work)
 - Be ready for game day (when you retire)



Deciding How Much to Contribute

Deciding How Much to Contribute

- » Push yourself, but not to the point of resentment
- » As you move through your career:
 - How do you get to 5% of your salary?
 - How do you get to 10% of your salary?
 - How do you get to max out what the IRS allows?
- » By contributing to accounts like the TSP, you're creating a habit of living on less than you make



Choosing Your Funds

Choosing Your Funds

- » Different funds carry different risks (and rewards)
 - Regular funds include the G, F, C, S & I
 - L Funds offer a pre-set mixture of regular funds that adjust as you get closer to retirement
- » As an investor gets closer to retirement, they tend to become more conservative in their fund choices



Timing Your Contributions

Timing Your Contributions

- » Trying to time the market is dangerous
- » Instead, invest regularly and consistently
- » This concept is known as “Dollar Cost Averaging”
 - Invest the same amount regardless of market conditions
 - Buy fewer shares when prices are high
 - Buy more shares when prices are low
 - Objective: Buy shares at an average cost below the average price



Delaying Gratification

Delaying Gratification

- » Immediate vs. Delayed consequences
 - By investing today, you are choosing “less now, more later”
 - Naturally, this comes with giving up some standard of living today, so that you have a larger pool of money for the future
- » Many investors suffer from “hyperbolic discounting” choosing smaller immediate rewards over larger delayed rewards (they’d rather have \$100 now vs. \$200 later)
- » This concept is the leading contributor to procrastination



Recognizing the Value of Time

Recognizing the Value of Time

- » Putting time on your side allows you to take advantage of compound interest
- » Compound interest is the 8th wonder of the world
- » What kills compound interest:
 - Taking loans/distributions
 - Buying/Selling shares at inopportune times
 - Procrastination
- » “I wish I would have started sooner!”

The Price of Procrastination

- » Let's look at two scenarios:
 - Mary: Invests \$10,000/year from age 25-34 and stops
 - Sam: Invests \$10,000/year from age 35-44 and stops
- » Both:
 - Invested in the same funds
 - Got the same interest rate (we'll assume a modest 6%)
 - Are the same age and want to begin retirement at age 65

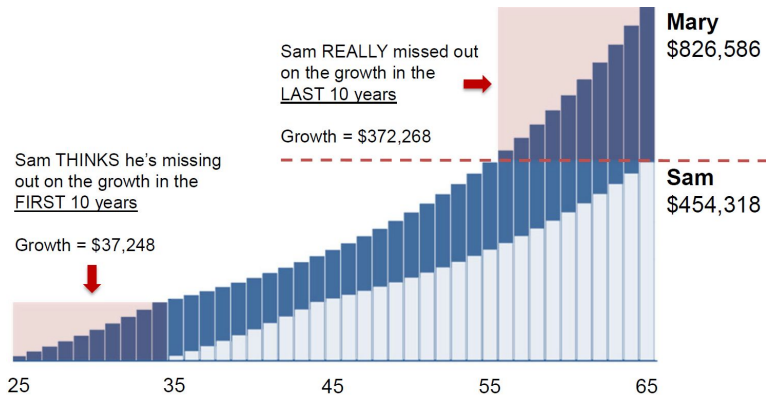
The Price of Procrastination

- » We'll evaluate by asking 3 questions:
 - How much have they each invested?
 - At 65, what is the value of each account (principal + growth)
 - At 65, what was the REAL cost of procrastination?

| Mary's Scenario | |
|--------------------------|-----------------------------------------|
| <u>Age</u> | <u>Contributions</u> |
| 25 - 34 | \$10,000/year |
| 35 - 64 | \$0 |
| ... | ... |
| At 65 | \$100,000 principal \$726,586 growth |
| TOTAL = \$826,586 | |

| Sam's Scenario | |
|--------------------------|-----------------------------------------|
| <u>Age</u> | <u>Contributions</u> |
| 35 - 44 | \$10,000/year |
| 45 - 64 | \$0 |
| ... | ... |
| At 65 | \$100,000 principal \$354,318 growth |
| TOTAL = \$454,318 | |

Maintaining Solid Habits in the TSP



Maintaining Solid Habits in the TSP

Observations

- » Both Mary and Sam invested the same amount of money, but compounding interest over a long period of time made a significant difference
- » If you wait to invest, compare what you might have given up (in the first 10 years of contributions) compared to what you will really give up (last 10 years of growth)

Maintaining Solid Habits in the TSP

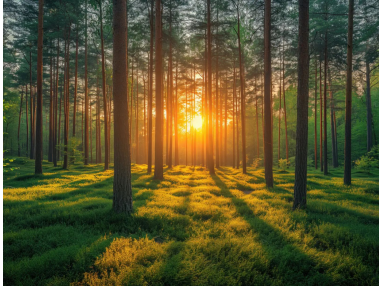


Reacting to the Market

Maintaining Solid Habits in the TSP

Reacting to the Market

- » How you react depends on your investment stage
- » Understanding your risk tolerance is important
- » What you do when the market is up (or down) matters
 - We know we're supposed to "buy low & sell high"
 - So why are we so happy when the market is up?
- » The market feels different whether we're buying shares or selling them!



Gaining Tax Awareness

Gaining Tax Awareness

- » Choices you make now will affect your tax obligations in the future, so choose wisely!
- » Traditional vs. Roth TSP
 - Traditional: Immediate tax benefit, but pay taxes later
 - Roth: No immediate tax benefit, but no taxes later
- » This is a form of hyperbolic discounting



Keeping Your Beneficiaries Updated

Keeping Your Beneficiaries Updated

- » Ensure that you have up-to-date beneficiaries named for your TSP account (in the event you die)
 - Login to TSP to see your beneficiaries
 - Primary
 - Contingents
 - Double check your account (some were removed!)
 - Resubmit if necessary

Some Final Thoughts

- » Creating (and maintaining) solid investment habits is simple, but it's not always easy
- » Investing feels different when you're contributing vs. when you're living off the money
- » Keeping your eyes focused on the future financial goals you have will help fuel your good habits
- » Get professional help to cover more complicated aspects of TSP like fund choices, tax options and how to structure this money to accomplish your goals in retirement



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U.S. Office of Personnel Management

FED IMPACT
Investment Training by PROFEDS

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L.B., Department of Defense

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