Understanding Your T.S.P. Options and Decisions.

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Longevity Risk, Investment Risk, Guarantees, Withdrawal Options, IRS life-span, Assumed Growth, Payment Adjustments, Control of Assets, Beneficiaries

When you retire there are a number of decisions to consider that will impact the financial quality of your future years. For Federal and USPS employees, nothing is more critical than managing your TSP funds properly. TSP is part of your FERS retirement "package", that 3 legged stool of Social Security, FERS pension and TSP—all guaranteed income streams for a worry-free retirement.

You have FOUR OPTIONS for your TSP when you retire:
1.) <u>Take it all out</u> (not advisable unless you have a specific need or purpose for the money)
2.) <u>Leave it there</u> (and decide later).
3.) <u>Begin</u> <u>taking regular payments</u> (according to one of three different TSP schedules).
4.)<u>Transfer your balance</u> to your own IRA.

This paper is intended to briefly and objectively explain these Four Options. Certainly more discussion is required for one's individual and personal situation. Please note that the vast majority of this information is compiled <u>directly</u> from the <u>TSP.GOV</u> website.

Let's consider a few retirement income planning questions:

<u>Question #1.</u> (and it is ALWAYS Question #1 !) What is the purpose of that money? What do you want that money to do for you? (it's the same question) Do you need those funds to live-on, to pay bills ? Or, is it "just-in-case" money? Or will you be passing on to beneficiaries?

<u>Question #2</u>. What is the worst thing that could happen to that money?

<u>Question #3</u>.What is your risk tolerance in retirement? Does "risk" have its place, or do you prefer to have your retirement funds <u>100% safe</u>, and your income GUARANTEED?
This is important because TSP "asks" you to accept two forms of risk:

<u>Longevity Risk</u>: "How long do think you are going to live?" (yes, TSP actually wants you to answer that question and base your retirement income planning on such an answer!)

<u>Investment Risk</u>: "How do you want to allocate your money in the five TSP funds –G,F,C,S,I ?" (Why do your retirement funds need to be put at risk?)

Longevity and Investment Risk are vital to TSP's pay-out structure. Your answers determine "how much", and for "how long" you'll be able to receive payments. Once you understand your risk tolerance, you can elect one of the three withdrawal options. (see #4 below)

NOTE: Be Advised---of absolute importance to TSP payout in retirement is what is called "assumed growth". In order to meet your desired payout, TSP assumes a certain level of required growth of your account. Without it, any choice except the Guaranteed Lifetime Payout option is at risk and subject to market volatility. Do you remember '08 and '09 ???

Question #4. "What are my withdrawal options?" Once you decide to begin taking regular withdrawals, you have four choices—once elected, you are subject to TSP's rules regarding changes (unless you request a total withdrawal). Here are your Four Withdrawal Options:

IRS Life-Span: The IRS uses an average age of 84 (men are lower, women are higher) to calculate mortality. TSP uses this arbitrary age (as one of the schedules) to pay you an equal amount each month to 84. (as long as your chosen investment fund has performed as planned). This option is designed to exhaust all your money by age 84. Your beneficiary will receive any remaining balance if you die before 84. Your payments will adjust if your investment doesn't do well.

Fixed Period: You will receive regular monthly payments for the number of years of your choosing—any balance goes to your heirs if you die before that time. If you live longer, you get a lump sum. As with the IRS Life-Span, your payments can/will adjust if your account doesn't generate sufficient returns to meet your desired amount for that number of years.

Fixed Amount: You will receive regular monthly payments in the amount of your choosing until your money is exhausted or you die. Any remaining balance will go to your beneficiaries. As with the Fixed Period option, your payments are dependent upon your TSP fund "performing" adequately enough to provide the growth needed to keep your payments coming as you had hoped.

Lifetime Income Option: Also known as the "Life Annuity Payment" option. This is the ONLY TSP payment guaranteed for life. In short, you "trade" your lifetime of accumulated cash for a lifetime monthly payment—sort of like Social Security. Once chosen, you're committed –your cash is GONE. You get your monthly check…and if you die, Met Life gets to keep any balance (subject to certain conditions).

THOUGH IT IS THE WORST OF OPTIONS—IT REMAINS THE MOST POPULAR.

Question #5. **"What about guarantees and control?"**
According to the Retirement Calculator on TSP.GOV, your monthly TSP payments are guaranteed ONLY if you select the Life Annuity Payment option.
Control? You can change your TSP fund (G,F,C,S,I), or request a lump sum final payment anytime; or change the amount of your payments once per year. You can't change your previously-selected payment option.
Bottom line? There is little control and almost no guarantees.

Question #6. **What is "Assumed Growth"?**
In order to meet desired payment amount levels for the Fixed Period, Fixed Amount and IRS Life Span options, it is necessary for your TSP funds to continue to perform at a certain "assumed" rate. Your principle amount + this rate of assumed growth enables TSP to calculate if it will be able to meet your desired monthly amount. During bad markets, (think '08-'09) your principle and growth will be at risk and your payments likely reduced. The relative safety of the G fund will probably not be adequate to provide the minimum level of growth to give you all that you want monthly.

Question #7. **"So, what else can I do with my TSP money?"**
TSP is the federal government's version of a 401k. It is great for long-term growth, but there is no mechanism for locking in gains without reducing growth. The G or F funds are safe, (though TSP will not "guarantee" your funds) but growth is minimal—barely keeping up with inflation. While the other funds (C,S,I) are directly invested in the "market" and are at constant risk of loss. When you are nearing retirement, you don't have the luxury of time—to "earn it back" when there is a market correction/melt-down like in 2008/2009. Will you consider working an extra 4-5 years to "earn your lost money back"?

The fact is, with TSP in retirement, you have very little control over a huge cash asset you worked hard to attain. You are forced to CHOOSE between safety or growth, and thus create a situation where either your money is at risk, or it's subject to growth that won't even keep up with inflation.

In paragraph two of this paper, we mentioned that your "4th Option" is transferring your TSP balance into your own Individual Retirement Account, or IRA.

Done correctly, this transfer is tax free and penalty free, and provides a number of superior benefits over the TSP program:

1.) **Your funds are NEVER at risk of loss.**
2.) **Your GUARANTEED lifetime payout is significantly higher than anything TSP can possibly offer.**
3.) **You have access to your cash for any reason.**
4.) **You have <u>control</u> over <u>your asset</u>.**
5.) **You are assured of keeping your balance "in the family".**
6.) **Your asset grows with the market but you are protected against loss, and your payment is never effected.**
7.) **You have several withdrawal choices to meet your needs, all of which are vastly superior to TSP's offered options.**

We think a transfer of your TSP funds into your own IRA is a better choice for your retirement, and we invite you to discuss this matter with a qualified federal benefit specialist to see what is right for you.

Finally, if you are 59 ½, and still working, you are eligible to take advantage of your one-time "In Service Withdrawal", and roll your TSP funds into an IRA. You can grow your account tax-deferred, and without risk of loss and get the same benefits as outlined above. You'll get 100% safety with a return that is typically 3-4 times better than the G fund.

If you are at, or near retirement, and have questions about any retirement issue (Spousal Survivor Benefit, FEGLI, CSRS/FERS pension), I encourage you to call. You do have options.

HOW MUCH IS YOUR PEACE OF MIND WORTH TO YOU ?

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