

# AN OVERVIEW OF — THE THRIFT SAVINGS PLAN — FOR FERS EMPLOYEES



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## The Thrift Savings Plan

The Thrift Savings Plan (TSP) was established by Congress in the 1986 Federal Employees' Retirement System Act (FERS). It was designed to provide a retirement savings option for qualified civil service employees and members of the uniformed services, including the Ready Reserve.

Administered by the Federal Retirement Thrift Investment Board, the traditional TSP is a tax-deferred retirement savings and investment plan similar to 401(k) plans offered by private sector corporations.<sup>1</sup>

You can also choose to participate in a TSP-Roth account in which you make contributions with after-tax earnings. Regardless of the type of TSP account you choose to participate in, TSP administrative fees are far lower than fees charged on traditional retirement savings plans in the private sector.

An overview of TSP advantages includes:

- Automatic payroll deductions.
- Offers choice of five investment fund options for diversification.
- Choice of tax treatments for your contributions (traditional pre-tax contributions and tax deferred investment earnings or Roth after-tax contributions).
- Agency contributions for employees covered by the Federal Employees' Retirement System (FERS).
- Access to funds while employed by the Federal Government under certain circumstances.
- A beneficiary participant account established for your spouse in the event of your death.
- A variety of withdrawal options after you leave federal employment.

### Automatic Enrollment & Contributions

If you were hired (or rehired) after July 31, 2010, you're automatically enrolled in the TSP. Three-percent of your pre-tax basic pay is automatically

deducted from your paycheck and deposited into your TSP account (unless you elect to stop or change your TSP contribution).

Additionally, your agency will automatically contribute an additional 1% of your basic earnings (this 1% is not deducted from your pay). If you're a civilian FERS employee, your agency will also match the first 5% of your TSP contributions (see section titled, Three Types Of Contributions for more details).

As a result, the earnings potential of a TSP account can significantly increase your retirement income if you elect to participate early in your career with the federal government.<sup>2</sup>

Earnings Potential of  
Your TSP Account



Information in this chart assumes a salary of \$40,000, employee and agency contributions of 5% each, and a 6% rate of return.

1. <https://www.tsp.gov/planparticipation/about/purposeAndHistory.shtml>

2. <https://www.tsp.gov/PDF/formspubs/tspb08.pdf>



## How The TSP Fits Into FERS

For FERS employees, the TSP is one part of a three-part retirement package that includes their FERS basic annuity pension and their Social Security benefits. While your FERS annuity pension and social security are fixed-dollar amounts based on your salary, the TSP enables you to control how much money you want to contribute toward your retirement.

As a result, the TSP enables you to take a more active role in planning and managing your retirement. Choosing to participate in the TSP will not interfere with your basic FERS annuity pension or Social Security benefits in any way.<sup>3</sup>

## THREE TYPES OF CONTRIBUTIONS

### 1. Regular Employee Contributions

You can elect to begin making regular TSP contributions, at an amount or percentage of your choice, at any time. The amount you choose will automatically be deducted each pay period.<sup>4</sup>

Employees hired after July 31, 2010, are automatically enrolled in the TSP. Three-percent (3%) of your pre-tax basic pay is automatically deducted from your paycheck and deposited into your TSP account (unless you elect to stop or change your contribution).<sup>5</sup>

If you're over age 50, you are allowed to make "Catch-up Contributions" to your TSP account. "Catch-up Contributions" are supplemental employee contributions beyond the maximum amount allowed by the IRS through regular contributions. All employee contributions are automatically invested in the Government Securities G Fund unless or until you elect to choose different fund(s) for your investment (see section titled, TSP Funds Overview for more details).<sup>6</sup>

### 2. Agency Automatic (1%) Contributions

An amount equal to 1 percent of your base pay will be deposited by your service agency into your TSP account each pay period. Agency automatic contributions are invested in the Government Securities G Fund unless or until you elect to choose a different fund (see section titled, TSP Funds Overview for more details).

There is no waiting period for the Automatic 1% Contribution and it is not deducted from your pay. Your agency will

deposit these funds whether or not you elect to contribute your own money to your TSP account.

Should you leave federal government employment before completing three years of service you will not be able to keep the agency automatic (1%) contributions and related earnings (this vesting period does not apply to any other type of TSP contribution).<sup>7</sup>

### 3. Agency Matching Contributions

If you're a non-military FERS employee contributing to your TSP account, your agency will match up to 5% of the contributions you elect to make in your TSP account for each pay period (currently, members of the uniformed military do not receive matching agency contributions).

The first 3%, your contributions are matched by your agency dollar-for-dollar while the next 2% is matched at 50-cents on the dollar. Keep in mind, any TSP contributions you make above 5% of your pay will not receive matching contributions, however you will still benefit from before-tax savings and tax-deferred earnings when you contribute more than 5% (as long as it doesn't exceed the IRS elective deferral limit). In the event you elect to stop contributing a portion of your pay, Agency Matching Contributions will also stop.<sup>8</sup>

3. <https://www.tsp.gov/planningtools/electivecontributions/electiveContributions.shtml>

4. <https://www.tsp.gov/planparticipation/eligibility/typesOfContributions.shtml>

5. <https://www.tsp.gov/lifeevents/entering/enteringGovService.shtml>

6. <https://www.tsp.gov/PDF/formspubs/oc03-03.pdf>

7. <https://www.tsp.gov/planparticipation/eligibility/typesOfContributions.shtml>

8. <https://www.tsp.gov/PDF/formspubs/tspbk08.pdf>

## A Quick Note On IRS Contribution Limits

The IRS Code places limits on the amount of tax-deferred income you can contribute each year to your TSP account. All TSP contributions are governed under the same IRS regulations as other tax-deferred retirement savings plans. Known as the IRS Elective Deferral Limit it may be changed annually based on the IRS' cost of living index.<sup>9</sup>

According to the TSP.gov website, when you reach the IRS annual limit, your employee contributions toward the elective deferral are suspended for the rest of that calendar year. Your Agency Matching Contributions are also suspended at this time because these are based on the amount of your employee contribution. Simply stated, if there are no employee contributions in a pay period, there can be no Agency Matching Contributions. Your elective contributions, and any applicable agency matching contributions, will automatically resume the first pay date in the following calendar year. However, all FERS employees are entitled to continue receiving the Agency Automatic (1%) Contribution, even when you reach the IRS deferral limit.<sup>10</sup>

## What Happens If You Leave Service Before Retirement Age?

The TSP offers a number of options when you decide to separate from government service:

- Leave your money in your TSP account until you reach age 70½.
- Roll your TSP account assets into an IRA.
- Roll your TSP account into new employer's 401(k) plan.
- Withdraw your TSP account assets in a lump sum.

The TSP also allows transfers and rollovers of tax-deferred funds from other retirement accounts into an existing TSP account. These include traditional IRAs; eligible employer plans; plus Roth 401(k)s, Roth 403(b)s, and Roth 457(b)s. If there is no Roth balance in your existing TSP account, the transfer will create one.<sup>11</sup>

9.<https://www.tsp.gov/planparticipation/eligibility/contributionLimits.shtml>

10.<https://www.tsp.gov/PDF/formspubs/oc91-13.pdf>

11.<https://www.tsp.gov/lifeevents/separating/separatingFromGovService.shtml>

## WHO IS ELIGIBLE FOR TSP?

The majority of federal employees are eligible to participate in the TSP however benefits will differ depending on your retirement system. Eligible participants include:

- FERS employees hired on or after January 1, 1984.
- CSRS employees hired before January 1, 1984, who did not elect to convert to FERS.
- Members of the uniformed services in active duty or Ready Reserve.
- Civilians in certain other government services.
- Rehired FERS or CSRS employees who had a break in service (participation is determined by the length of your break and whether or not you participated in the TSP before the break).
- Spouse beneficiaries of deceased TSP participants.
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TSP eligibility also requires that you are actively employed by the Federal Government in "pay status" and working full or part time.<sup>12</sup>

12.<https://www.tsp.gov/planparticipation/eligibility/participantEligibility.shtml>

## TSP FUNDS OVERVIEW

The TSP offers a selection of diversified market investment options. According to the TSP.gov website, you can choose to invest your retirement dollars in everything from a short-term U.S. Treasury security to index funds comprised of domestic and international stocks. Note, TSP funds are not mutual funds, which means they cannot be invested in by the general public.<sup>13</sup>

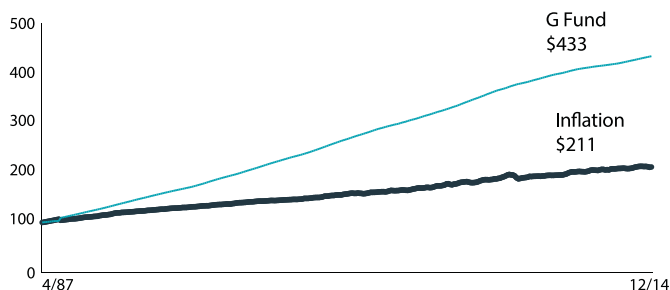
### The G Fund

G Fund earnings consist entirely of interest from a non-marketable short-term U.S. Treasury security that is specially issued to the TSP. As a result, it's considered the safest of the TSP funds because payment of G Fund principal and interest is guaranteed by the government.

The monthly G Fund interest rate is calculated based on the weighted average yield of all outstanding Treasury notes and bonds with four or more years to maturity. This means G Fund participants benefit from a long-term rate on a short-term security.<sup>14</sup>

Although the G Fund's objective is to produce a rate of return higher than inflation, it is possible your G Fund investment may not grow enough to offset inflation. Since its inception, interest on G Fund securities has, over time, proven to outpace inflation and 90-day T-bills.<sup>15</sup> Historical returns are no guarantee of future results.

Growth of \$100  
Since Inception



13. <https://www.tsp.gov/planparticipation/eligibility/participantEligibility.shtml>

14. <https://www.tsp.gov/investmentfunds/investmentFunds.shtml>

15. [https://www.tsp.gov/investmentfunds/fundsheets/fundPerformance\\_G.shtml](https://www.tsp.gov/investmentfunds/fundsheets/fundPerformance_G.shtml)

16. <https://www.tsp.gov/PDF/formspubs/GFund.pdf>

17. <https://www.tsp.gov/PDF/formspubs/FFund.pdf>

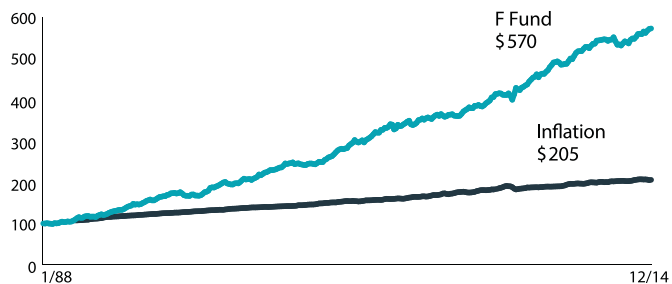
18. [https://www.tsp.gov/investmentfunds/fundsheets/fundPerformance\\_C.shtml](https://www.tsp.gov/investmentfunds/fundsheets/fundPerformance_C.shtml)

### The F Fund

The F Fund's investment goal is to match the performance of the Barclays Capital U.S. Aggregate Bond Index. This index includes fixed-income securities representing the U.S. Government, mortgage-backed, corporate, and foreign government sectors of the U.S. bond market. Earnings consist of interest income on the securities and gains or losses in the value of the securities.<sup>16</sup>

The risk of nonpayment is relatively low because the fund includes only high-quality, investment-grade securities with maturities of more than one year. However, possible market risks include the decline in value of the underlying securities and changes in interest rates.<sup>17</sup>

Growth of \$100  
Since Inception



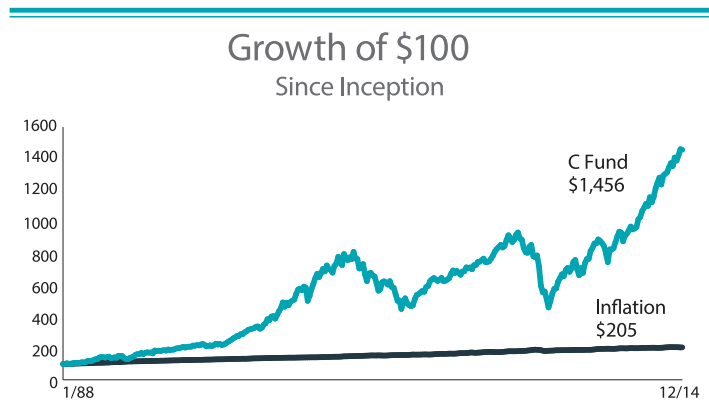
### The C Fund

The investment goal of the C Fund is to match the performance of the Standard and Poor's 500 Index (also known as the S&P 500). This is a broad market index made up of the stocks of 500 large to medium-sized U.S. companies.

C Fund earnings consist primarily of dividend income and gains or losses in the price of these company stocks. As a result, your investment is exposed to some market risk – when the overall market does well, the C Fund does well. But, when overall stock market values fall, the value of the C fund suffers. Keep in mind, though the C Fund carries these market risks, it also offers the advantages of gains from equity ownership of large and mid-sized U.S. company stocks.<sup>18</sup>

As of December, 2014, the top 10 S&P companies<sup>19</sup> include:

- Apple Inc.
- Wells Fargo & Company
- Exxon Mobil Corporation
- General Electric Company
- Microsoft Corporation
- Proctor & Gamble Company
- Johnson & Johnson
- JP Morgan Chase & Company
- Berkshire Hathaway Inc, Class B
- Chevron Corporation

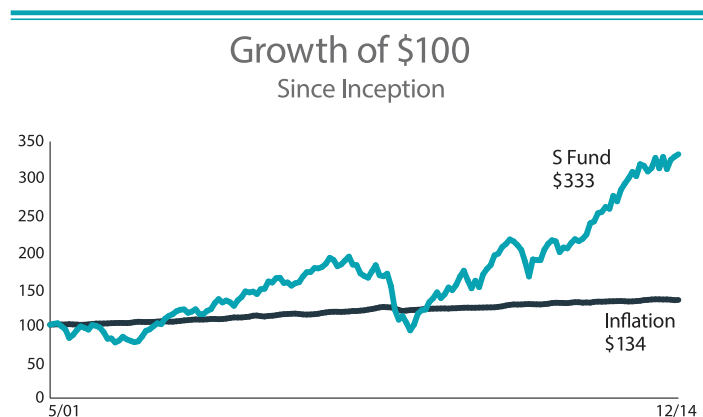


## The S Fund

The S Fund is a small capitalization stock index investment fund designed to match the performance of the Dow Jones U.S. Completion Total Stock Market Index. The Dow Jones is a broad market index made up of stocks of U.S. companies which are not included in the S&P 500. Although the S Fund offers another means to diversify your domestic stock holdings, it is also subject to market risks when the Dow Jones Index declines in response to U.S. economic conditions.<sup>20</sup>

As of December 31, 2014, the top 10 Dow Jones Holdings<sup>21</sup> include:

- American Airlines Group, Inc.
- Liberty Global PLC Class C
- Illumina, Inc.
- United Continental Holdings, Inc.
- LinkedIn Corporation Class A
- HCA Holdings, Inc.
- Graphic Packaging Holding Company
- Tesla Motors, Inc.
- Las Vegas Sands Corporation
- Twitter, Inc.



19. <https://www.tsp.gov/PDF/formspubs/CFund.pdf>

20. [https://www.tsp.gov/investmentfunds/fundsheets/fundPerformance\\_S.shtml](https://www.tsp.gov/investmentfunds/fundsheets/fundPerformance_S.shtml)

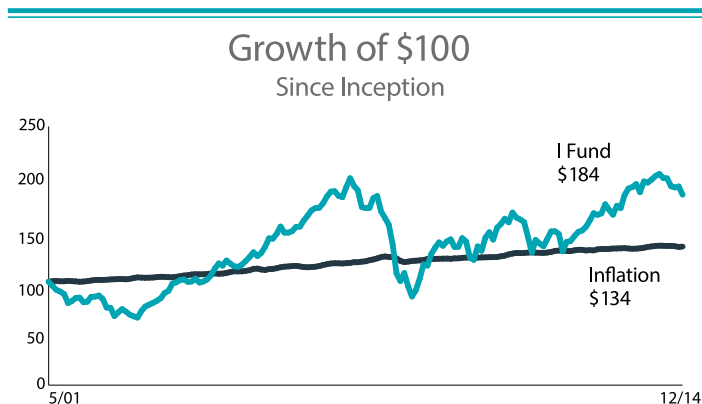
21. <https://www.tsp.gov/PDF/formspubs/SFund.pdf>

## The I Fund

Known as the International Stock Index Fund, the I Fund is designed to match the performance of the Morgan Stanley Capital Investment EAFE (Europe, Australasia, and Far East) index. This provides you with the opportunity to invest in companies outside the United States. Earnings are comprised of stocks, dividends, and the change in the relative value of foreign currencies. Since a significant portion of your return results from changes in the value of the U.S. dollar relative to foreign currency, the I Fund is exposed to currency risks as well as market risks.<sup>22</sup>

As of December 31, 2014, the Morgan Stanley Capital Investment EAFE<sup>23</sup> includes:

- Nestle SA
- Novartis AG
- Roche Holding AG-Genusschein
- HSBC Holding PLC
- Toyota Motor Corporation
- Royal Dutch Shell PLC
- BP PLC
- Commonwealth Bank Of Australia
- Bayer AG
- Total SA



## The L Funds

Also known as the Lifecycle Funds, the L Funds diversify TSP accounts among the G, F, C, S, and I Funds using professionally-determined investment mixes tailored to different retirement time horizons. These include:

- L 2050 — For participants who will need their money in the year 2045 or later.
- L 2040 — For participants who will need their money between 2035 and 2044.
- L 2030 — For participants who will need their money between 2025 and 2034.
- L 2020 — For participants who will need their money between 2015 and 2024.
- L Income — For participants who expect to begin withdrawing their money before 2016.

Each L Fund is automatically rebalanced each business day to restore the fund to its intended investment mix. Each quarter, asset allocations are adjusted to slightly more conservative investments. When an L Fund reaches its designated time horizon, it rolls into the L Income Fund, and a new fund will be added with a more distant time horizon.<sup>24</sup>

As always, the L-Fund's expected risk and rate of return are based on assumptions about future economic conditions and investment performance. There is no guaranteed rate of return for any period, either short-term or long-term.<sup>25</sup>

22.[https://www.tsp.gov/investmentfunds/fundsheets/fundPerformance\\_I.shtml](https://www.tsp.gov/investmentfunds/fundsheets/fundPerformance_I.shtml)

23.<https://www.tsp.gov/PDF/formspubs/IFund.pdf>

24.<https://www.tsp.gov/planparticipation/investing/lifecycleFunds.shtml>

25.<https://www.tsp.gov/PDF/formspubs/LFunds.pdf>

## WITHDRAWAL STRATEGIES

When making withdrawals from your TSP account it's prudent to tailor your decision based on your projected retirement needs. Do you expect to work after you separate from service? Do you plan to pay off a mortgage during your retirement? If you're planning to relocate in your retirement, will your living expenses be higher or lower than they are now? Also consider how much you may have in other types of retirement savings.

Withdrawals from your TSP account may be subject to Federal income taxes depending on the type of balance you withdraw from – traditional (non-Roth), Roth, or both. Keep in mind, that different tax rules may apply to civilian employees and to members of the uniformed services.<sup>26</sup>

Without a doubt, TSP withdrawals require a lot of thought and planning. As a result, the following is intended as simply a broad overview of your basic TSP's withdrawal options. For comprehensive details, please go to the federal government's website: [www.tsp.gov](http://www.tsp.gov).

### One Time Partial Withdrawal

You're eligible for a one-time partial withdrawal if you did not take an age-based withdrawal while actively employed. Depending on your age at the time of a partial withdrawal, you may have to pay the IRS early withdrawal penalty. You will also likely owe income tax on the taxable portion of your withdrawal. However, if the total amount of your withdrawal from your TSP account is being transferred directly to an IRA, you will not owe taxes.<sup>27</sup>

### Full Withdrawal Options<sup>28</sup>

When you're ready to make a full withdrawal, the TSP gives you a few options:

- Full Withdrawal As A Single Payment – if you want to withdraw your entire TSP account in one lump sum.
- Full Withdrawal As A Series Of Monthly Payments – when you withdraw your entire account you can

choose from two types of monthly payments: a specific dollar amount determined by you; or "Life Expectancy Payments" based on your age and the total amount of your account balance.

- Full Withdrawal A Life Annuity – you can withdraw all (or part of) your TSP account to purchase a Life Annuity (monthly payments made to you or your spouse for life) as long as the amount used to purchase the annuity is at least \$3500.
- Full Withdrawal As A Combination Of Options – You can withdraw your entire account balance using a combination of any of the above options: single payment, monthly payments, or life annuity.

### What Happens If You Leave Your Money In Your TSP Account?

Leaving your money in your TSP account is one way to put off paying taxes on your tax-deferred TSP contributions. However, you will have to make a final withdrawal decision no later than April 1st of the year after you turn age 70½.<sup>29</sup>

### The TSP Is An Important Part Of Your Total Retirement Plan

From tax-deferred retirement savings and agency matching contributions, to a choice of diversified investment options and low administrative fees, the TSP offers eligible participants the tools to lay the foundation for a strategic retirement plan. However, it's up to you to take advantage of its full potential.

**If you have any questions or want to learn more, please feel free to contact us, or visit the TSP government website for complete information: [www.tsp.gov](http://www.tsp.gov)**

26. <https://www.tsp.gov/PDF/formspubs/tspb02.pdf>

27. <https://www.tsp.gov/planningtools/living/withdrawalStrategies.shtml>

28. <https://www.tsp.gov/planparticipation/withdrawals/withdrawingAccount.shtml#partial>

29. <https://www.tsp.gov/PDF/formspubs/tsplf15.pdf>



