

Federal Retirees—Don't Let Bad Information Cause You to Throw Away Thousands of Dollars of Thrift Savings Money Per Year!

Federal employees nearing or in retirement often get “advice” about what to do with their TSP account balances after they leave government service. But are they getting accurate and unconflicted advice? Consider these commonly held opinions:

1. You Must Close Out your TSP Account When You Retire. *No. This is not true!*

While you can no longer contribute to TSP after you stop working for Uncle Sam, you are not only permitted, but encouraged to keep your TSP account opened. In fact, you can transfer other qualifying retirement accounts into the TSP if you want. You can adjust your investments and manage your TSP account the same way you could while you were working. The only thing you can't do is add more money other than through transfers.



2. Moving Your TSP Assets to a Rollover IRA Will Give You Far Better Returns on Your Investment than Keeping Your Money in the TSP. *Very unlikely.*

TSP funds are high quality funds that have done generally as well over time as commercial index funds in the same asset categories. While it is possible that an investment manager who actively manages your money could have better results than the TSP, this is neither guaranteed nor likely to be a long-term result. The main issue with having someone manage your money is the cost to you, directly or indirectly. The TSP is an extremely inexpensive fund to manage, averaging 0.038% per year in expenses (as of 2016). The average managed account comes in at about 1.05% per year (or more). Your investment manager would have to do really well to make up the difference. For example, a TSP account with a \$500,000 balance would cost about \$190 per year if left in the TSP but would cost a whopping \$5250 per year if managed for 1.05%. You would need a lot of great return on investment to make up this difference! Don't burn your hard-earned money.



3. The TSP Does Not Have a Wide Enough Variety of Investment Options Compared to Other Choices.

Perhaps true but so what. The TSP offers funds that are equivalent to commercial funds that invest in large US company stocks, smaller US company stocks, developed country foreign company stocks, and quality US bonds. Yes, there are no real estate, commodities, or precious metals options, or other asset classes some investment advisors believe to be essential parts of a diversified portfolio. But we go back again to the management costs discussed above. If a retired Fed really wants these other asset classes he or she can invest in them outside of the TSP. But we believe the TSP offers good quality investment options at an extremely reasonable cost.



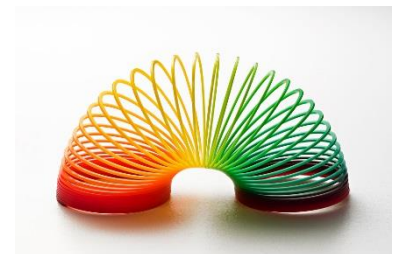
4. The TSP's Target Date Retirement Funds Get Too Conservative Too Early.

True in our opinion. But our suggested answer is to move the TSP money to a TSP Target Date Fund 5-10 years further into the future than your anticipated retirement date rather than a commercial Target Date Fund that may have a better investment "glide path" but a higher cost.



5. The TSP Is Not Very Flexible When It Is Time To Start Drawing Required Minimum Distributions.

Regrettably, this is true in our opinion. The TSP's withdrawal options are not flexible and require pro rata withdrawals from each fund. You can't tell them that you want your withdrawal from a particular fund. Nor can you change your withdrawal amount at any time. The TSP staff is well aware of these limitations and are hopeful that there will be changes in the future that will make the TSP more flexible when it comes to taking funds out. In the meantime we do recommend that our clients move at least some of their TSP assets to a roll-over IRA when they are preparing to get distributions, either voluntarily or due to the required minimum distributions after age 70 1/2. In our view, this is the time to consider moving your TSP funds out, not earlier.



One final piece of advice—if you do feel compelled to transfer your TSP funds to an IRA, don't immediately close down your TSP account. By leaving at least \$200 invested in TSP you retain the option to roll your retirement assets back into TSP in case you later decide the grass really isn't greener on the other side!

