



TSP and You

A NARFE Federal Benefits Institute Webinar

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TSP Basics

- **Defined Contribution Plan**
 - You define the contributions
 - You manage the account
 - Your retirement value is based on performance of investments
- **Maximum salary deferral contribution**
 - \$19,000; plus additional \$6,000 if over age 50
- **May direct contributions to**
 - Traditional
 - Roth, or
 - Both
- **Agency Contributions**
 - 1 percent is automatic
 - \$1 for \$1 up to first 3 percent of salary, and \$0.50 for \$1 on next 2 percent of salary
 - Agency contributions always go to Traditional TSP



TSP Investment Funds

- **5 Individual Funds**
 - C, S, I, F and G
 - All, but G track indexes
 - Provide exposure to specific asset classes
- **5 Lifecycle Funds**
 - L Income, L 2020, L 2030, L 2040, L 2050
 - Consist of a target allocation to 5 individual funds
 - Provide diversified exposure to multiple asset classes



TSP Investment Funds

Fund	Investment Objective	Investments
C Fund	Match performance of S&P 500 Index	Stocks of large- and medium-sized U.S. companies
S Fund	To match the performance of the Dow Jones U.S. Completion TSM Index	Stocks of small to medium-sized U.S. companies (not included in the C Fund)
I Fund	To match the performance of the MSCI EAFE (Europe, Australasia, Far East) Index	International stocks of more than 20 developed countries
F Fund	To match the performance of the Bloomberg Barclays U.S. Aggregate Bond Index	Government, corporate and mortgage-backed bonds
G Fund	Interest income without risk of loss of principal	Government securities (specially issued to the TSP)



TSP Investment Funds

Lifecycle Funds

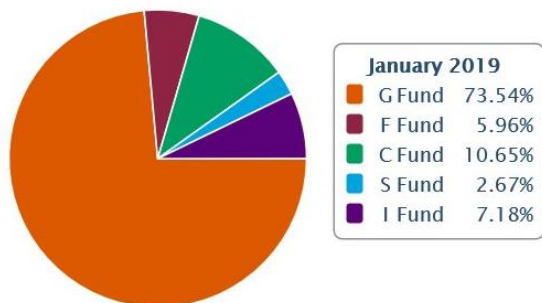
- **Invest in an appropriate mix of the G, F, C, S and I Funds**
 - based on a particular time horizon or target retirement date.
- **Becomes more conservative as its target date approaches**
- **Strategy Assumes**
 - The greater the number of years you have until retirement, the more willing and able you are to tolerate risk (fluctuation) in your TSP account value to pursue higher rates of return.
 - For a given risk level and time horizon, there is an optimal mix of the G, F, C, S and I Funds that provides the highest expected return
- **L Funds are designed to**
 - Simplify investment selection
 - Provide broadly diversified portfolio
- **L Funds are not designed to prevent losses**



TSP Investment Funds

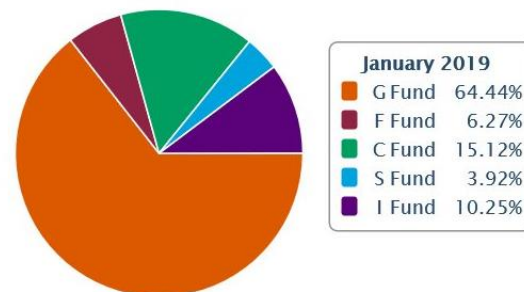
L Income

Percentage Fund Allocation



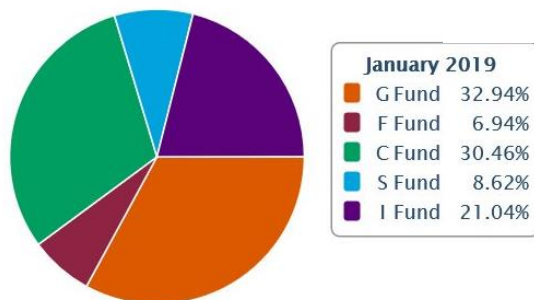
L 2020

Percentage Fund Allocation



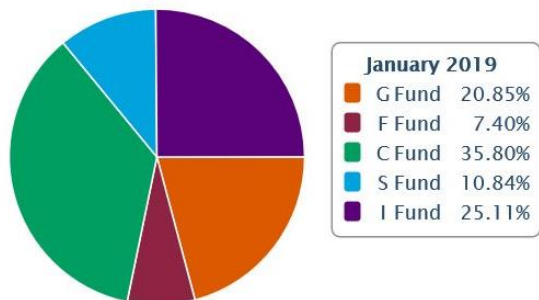
L 2030

Percentage Fund Allocation



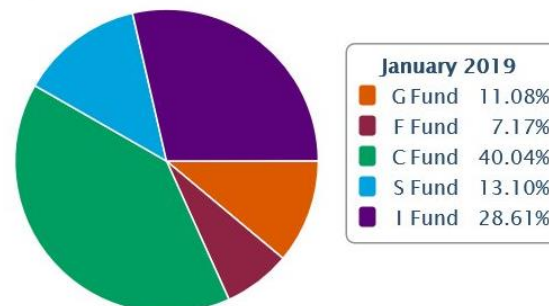
L 2040

Percentage Fund Allocation



L 2050

Percentage Fund Allocation





TSP Investment Funds

- Which L Fund is right for you?
- TSP's Recommendation

Choose:	If your target date is:
L 2050	2045 or later
L 2040	2035 through 2044
L 2030	2025 through 2034
L 2020	2020 through 2024
L Income	If you are already withdrawing your account in monthly payments or expect to begin withdrawing before 2020



How Much Should You Contribute to the TSP?

Creating a sound financial house

- Ensure you have cash reserves
- Create additional sources of liquidity
 - Taxable accounts
 - Roth IRA
- If you have the cash flow to max your TSP AND contribute to a Roth IRA or taxable account, then that's what you should do
- If your savings are more limited
 - Contribute enough to max out your match, then
 - Contribute to a Roth IRA, then
 - Contribute additional to TSP



Is Traditional TSP or Roth TSP Better?



Traditional TSP vs Roth TSP

- **Traditional TSP**

- Funded with pretax contributions
- Pretax contributions grow tax-deferred
- Distributions are taxed as ordinary income
- Required minimum distributions (RMDs) typically required beginning at age 70½
- \$19,000 contribution limit (under age 50); \$25,000 (above 50)
- No adjusted gross income (AGI) limit

- **Roth TSP**

- Funded with after-tax contributions
- Distribution of contribution are always tax-free
- Distribution of are tax-free when distribution is Qualified
- RMDs typically required beginning at age 70½
- \$19,000 contribution limit (under age 50); \$25,000 (above 50)
- No adjusted gross income (AGI) limit



Roth TSP Versus Roth IRA

- **Roth TSP**

- Distributions consist of contributions and earnings
- Required minimum distributions (RMDs) typically required beginning at age 70½
- \$19,000 contribution limit (under age 50); \$25,000 (above 50)
- No adjusted gross income (AGI) limit
- May not convert from Traditional TSP, Traditional IRA or other tax-deferred plan to Roth TSP

- **Roth IRA**

- Distributions = IRS Ordering rules
 - Contributions
 - Non-taxable conversions
 - Taxable conversions
 - Earnings
- No RMDs for the original owner
- \$6,000 contribution limit (under age 50); \$7,000 (above 50)
- Contributions subject to AGI limits
- May convert from Traditional TSP, Traditional IRA, or other tax-deferred plan to Roth IRA



Qualified Distributions for Roth Accounts

Must meet 2 thresholds:

- Taken at least 5 years after creation of account*
and
- Distribution meets one of the following
 - IRA owner is at least 59½
 - IRA owner is disabled
 - Distribution made to beneficiary/estate upon owner's death**

*5-year rule must be satisfied separately for Roth TSP and Roth IRA

**5-year rule for beneficiary is based on deceased participant's first contribution



Traditional TSP Versus Roth TSP

Traditional Versus Roth TSP: Constant Tax Rates

	Traditional TSP	Roth TSP
Contribution	\$10,000	\$7,800
Tax liability (22%)	\$2,200	\$0
After-tax balance	\$7,800	\$7,800
Return = 7.2%		
Balance after 10 years	\$20,000	\$15,600
Tax liability (22%)	\$4,400	\$0
After-tax balance	\$15,600	= \$15,600

All things equal, no economic difference!



Traditional TSP Versus Roth TSP

Traditional Versus Roth TSP: Increasing Tax Rates

	Traditional TSP		Roth TSP
Contribution	\$10,000		\$7,800
Tax liability (22%)			
Return = 7.2%			
Balance after 10 years	\$20,000		\$15,600
Tax liability (25%)	\$5,000		\$0
After-tax balance	\$15,600	<	\$15,600



Traditional TSP Versus Roth TSP

Traditional Versus Roth TSP: Decreasing Tax Rates

	Traditional TSP		Roth TSP
Contribution	\$10,000		\$7,800
Tax liability (22%)			
Return = 7.2%			
Balance after 10 years	\$20,000		\$15,600
Tax liability (12%)	\$2,400		\$0
After-tax balance	\$17,600	>	\$15,600



Why Worry If There's No Economic Difference?

Things are rarely equal (not a one-time decision)

- **Deferral limit is same for both Traditional and Roth**
- **Tax Cuts and Jobs Act rates are temporary**
- **Stealth Taxes**
- **Required Minimum Distributions***
- **Change in tax filing status**
- **Estate planning objectives**
 - Heirs' tax rates
- **Changes to the rules**

* Roth TSP is subject to RMDs; Roth IRAs are not for the original owner



Should You Contribute to the Traditional or Roth TSP?



It's Never All or Nothing

Assumptions: Ed & Judy

- 55 years old
- Married filing jointly
- Income before TSP contribution = \$115,000
- TSP contribution = \$25,000
 - Traditional = \$25,000
 - Roth = \$0

Effect on taxable income

- Income before deductions: \$115,000
 - Less standard deduction: \$24,400
 - Less TSP Contribution: \$25,000
- Taxable income: \$65,600

\$115,000

Less
Standard Deduction
\$24,400

Less
TSP Contribution
\$25,000

\$65,600

Ed & Judy's Income



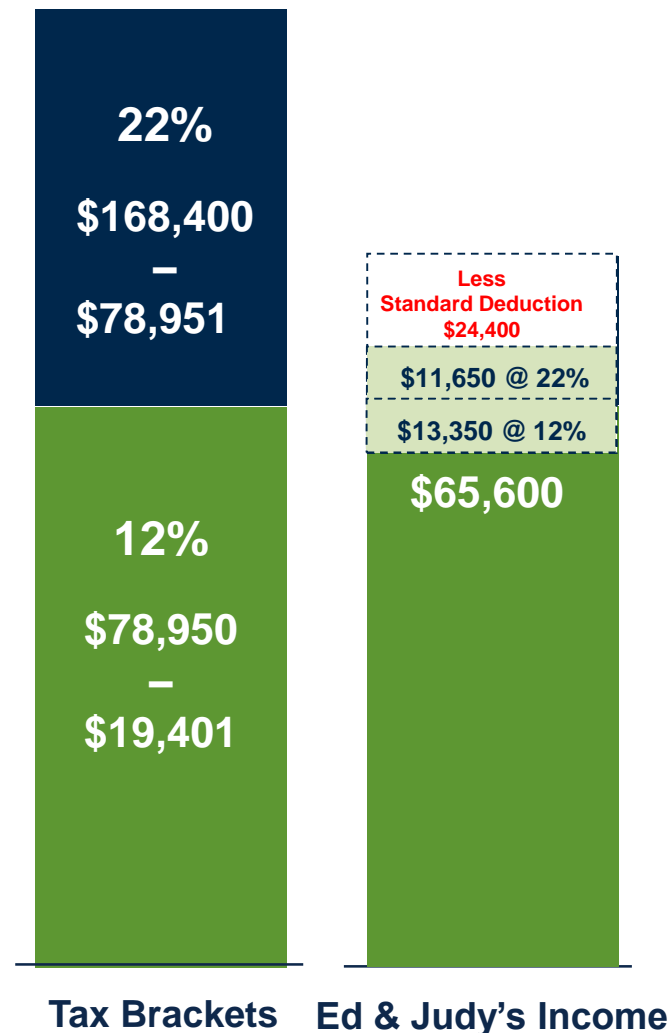
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- Income before TSP contribution = \$115,000
- Standard deduction = \$24,400
- TSP contribution = \$25,000
 - Traditional = \$25,000
 - Roth = \$0

Tax Effect

- Traditional TSP contribution: \$25,000
 - Income deferred @ 22% \$11,650
 - Income deferred @ 12% \$13,350
- Taxable income: \$65,600





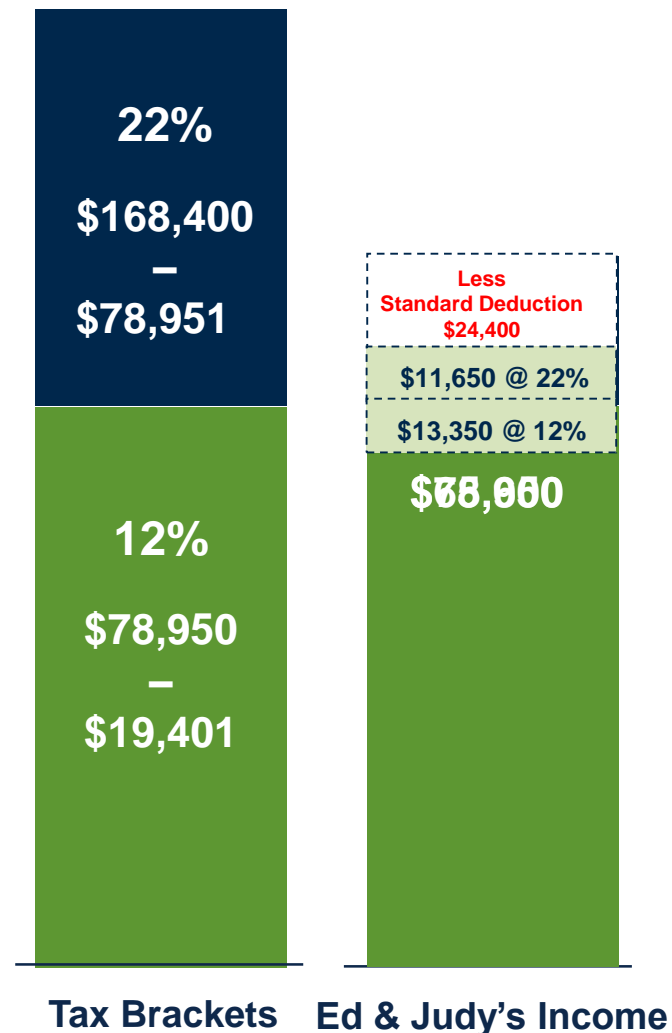
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Assumptions: Ed & Judy

- 55 years old
- Married filing jointly
- Income before TSP contribution = \$115,000
- Standard deduction = \$24,400
- TSP contribution = \$25,000
 - Traditional = \$11,650
 - Roth = \$13,350

Tax Effect

- Traditional TSP contribution: \$25,000
 - Income deferred @ 22% \$11,650
 - Income deferred @ 12% \$0
- Taxable income: \$78,950





Accessing Your TSP Account

While Employed

- **Loan**
 - General purpose: 1-5 year repayment plan
 - Residential loan: 1-15 year repayment plan
 - Maximum loan amount is smaller of:
 - Your contributions and earnings on those contributions
 - 50 percent of vested account balance, or \$10,000 if greater
 - \$50,000 less highest outstanding loan balance within past 12 months
- **Hardship Withdrawal**
 - Recurring negative monthly cash flow
 - Medical expenses not yet paid and not covered by insurance
 - Personal casualty loss(es) that you have not yet paid and that are not covered by insurance
 - Legal expenses that you have not yet paid for separation or divorce from your spouse
 - May incur 10 percent early distribution penalty
- **In-service withdrawal**
 - One time
 - Attained age 59½



Accessing Your TSP Account

Distributions prior to age 59½

- **10% early withdrawal penalty applies, unless**
 - Certain exceptions
 - Death – beneficiaries can always withdraw penalty free
 - Disability
 - Medical expenses
 - Series of substantially equal periodic payments
 - Age 55+ and retired**
 - Education*
 - First-time homebuyer*
 - Unemployment/health insurance*

*IRAs Only **Employer Plans only



Accessing Your TSP Account

After Separating From Service (Current Rules)

- **Partial withdrawal**
 - One lifetime
- **Full withdrawal**
 - Single payment
 - Series of monthly payments
 - Specified amount
 - Based on life expectancy
 - Annuity
 - Mixed withdrawal
 - Combination of any 2, or all 3 full withdrawal options



Accessing Your TSP Account

After Separating From Service (Current Rules)

- **Monthly periodic payments**
 - Once elected, may not be stopped
 - Specific amount
 - May only change amount during annual change period
 - \$25 minimum
 - Based on life expectancy
 - One-time change to specific amount during annual change period
- **Withdrawal election deadline**
 - Must elect a full withdrawal option by April 1 following the year you turn 70½, or separate from service if later
 - You DO NOT have to withdraw your entire account
- **Withdrawals come proportionately from Traditional and Roth balances**
- **Withdrawals come proportionately from investment funds**



Accessing Your TSP Account

After Separating From Service (New Rules)

- **Eliminates the withdrawal election deadline**
- **Multiple partial withdrawals are permitted**
- **Periodic payments**
 - Monthly, quarterly and annual
 - May change anytime; even stop altogether
 - Including participants who elected monthly payments under old rules
 - May take partial withdrawal while receiving periodic payments
- **May direct withdrawals from Traditional and Roth balances**
- **Withdrawals come proportionately from investment funds**



RMD Rules for Owners

- **IRA and Employer Plans, such as TSP and 401(k)s**
 - Includes Roth TSP and Roth 401(k) plans
- **RMDs start with the year owner turns 70 ½**
- **Required Beginning Date (RBD)**
 - Deadline for taking first RMD
 - April 1 following the year owner turns 70½
 - Exception if still working
 - RBD is April 1 following year of retirement
 - Applies only to current employer's retirement plan only
- **RMDs due by 12/31 every year thereafter**



TSP Beneficiary Rules

Understand the difference

- **TSP participant**
 - Federal employee who contributed to TSP account
- **TSP beneficiary participant**
 - Spouse who inherited TSP from TSP participant
 - Only a spouse may maintain a beneficiary participant account



TSP Beneficiary Rules

TSP participant dies

- **Spouse is beneficiary**
 - Spouse may maintain a Beneficiary Participant Account
 - Subject to TSP distributions rules
 - Subject to beneficiary Required Minimum Distribution rules
 - Spouse may take a distribution
 - Payable to an IRA of his or her own
 - Payable to self
- **Non-Spouse Beneficiary**
 - Must take a full distribution
 - Payable to an inherited IRA
 - Payable to self



TSP Beneficiary Participant Account

Two Key Rules to Understand

- 1. Required Minimum Distributions (RMDs)
for beneficiary participants**
- 2. What happens when the beneficiary
participant dies**



TSP Beneficiary Participant RMD Rules

- **Participant died before required beginning date**
 - RMDs start by the later of:
 - 12/31 of the year the TSP participant would have turned 70½, or
 - 12/31 of the year following the year of the TSP participant's death
- **Participant died after required beginning date**
 - RMDs must begin by 12/31 of the year following the year of the TSP participant's death
- **RMDs based on beneficiary participant's age using the Single Life Table**



When The Beneficiary Participant Dies

Beneficiary Options

- **Spouse Beneficiary (if remarried)**
 - Must take full distribution
 - Payable to self
- **Non-Spouse Beneficiary**
 - Must take full distribution
 - Payable to self



Minimizing TSP Quirks

- **Proportionate distributions from investment funds**
 - Take annual distribution and transfer to IRA
 - Rebalance TSP as necessary
- **Limited withdrawal options**
 - Partial withdrawal and transfer to IRA
 - Take withdrawals as needed from IRA
 - Transfer IRA back to TSP when new rules take effect
 - Mixed withdrawal (if already taken partial withdrawal)
 - Lump sum transferred to IRA
 - Take withdrawals as needed from IRA
 - Transfer IRA back to TSP when new rules take effect
 - Monthly payments as low as \$25
 - May change amount, or stop altogether when new rules take effect
- **Limited investment options**
- **Roth TSP RMDs**



Resources

- 1. Withdrawing Your TSP After Leaving Federal Service**
 - <https://www.tsp.gov/PDF/formspubs/tspb02.pdf>
- 2. Important Tax Information About Payments From Your TSP Account**
 - <https://www.tsp.gov/PDF/formspubs/tsp-536.pdf>
- 3. A Guide For Beneficiary Participants**
 - <https://www.tsp.gov/PDF/formspubs/tspb33.pdf>
- 4. Tax Information About TSP Withdrawals and Required Minimum Distributions for Beneficiary Participants**
 - <https://www.tsp.gov/PDF/formspubs/tsp-776.pdf>



Thank You!

A NARFE Federal Benefits Institute Webinar

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