

## Get free money



**Ron Watson**

**E**very letter carrier covered by the Federal Employees Retirement System (FERS) should take full advantage of the agency's matching contribution to the Thrift Savings Plan (TSP). It's free money. The maximum agency contribution is 5 percent of basic pay, of which 1 percent is automatic. The U.S. Postal Service must automatically contribute 1 percent into the TSP account of letter carriers covered by FERS. To obtain the maximum contribution of 5 percent from the USPS, letter carriers must themselves save a minimum of 5 percent of basic pay.

To illustrate: If a letter carrier makes \$50,000 annually, and saves 5 percent (\$2,500) into his or her TSP in a year, the Postal Service is required to contribute its own \$2,500 into the letter carrier's TSP account.

The letter carrier then has \$5,000 in his or her TSP account. That is a huge return on investment. In addition, it is an immediate return on investment, and further interest or market increases (depending on the investment choices of the letter carrier) will accrue on both the letter carrier savings and the matching amount from the date the letter carrier first makes the savings contribution. Why not get all of it?

**To place the agency-matching TSP requirement in context,** consider the following background information. The TSP is one of the three components of FERS. Career letter carriers first hired after Jan. 1, 1984, are covered by FERS. It was designed to approximate the retirement benefits of its predecessor, the Civil Service Retirement System (CSRS).

The CSRS provides a defined benefit at retirement. The benefit is an annual pension calculated at a little less than 2 percent per year of covered service times the employee's average annual salary over the highest consecutive three-year period. CSRS-covered letter carriers may save money into their own TSP accounts, but they receive no matching funds from the USPS.

The FERS also provides a pension at retirement. However, the FERS annual pension is calculated at 1 percent per year of covered service times the employee's average annual salary over the high-3 period. Since the FERS pension is roughly half as much as the CSRS pension, and since Congress intended FERS benefits to approximate CSRS benefits, FERS employees receive TSP matching funds (as well as Social Security benefits).

The USPS matching TSP percentages are made as follows:

You Save	USPS Automatic 1%	USPS Matching	USPS Total
0%	1%	0%	1%
1%	1%	1%	2%
2%	1%	2%	3%
3%	1%	3%	4%
4%	1%	3.5%	4.5%
5%	1%	4%	5%

**The agency-matching funds provision of the TSP is a good deal** for letter carriers. There are a number of additional TSP provisions that also are a good deal. The administrative expenses of operating the TSP funds are low; the available investment choices are ideal; there is never a load or sales fee.

TSP administrative expenses are low, especially in comparison to securities sold by private investment bankers. A common method of measuring the overhead expenses of investment funds is known as the net expense ratio. That is the total administrative expenses charged to a fund for a set period of time divided by the average balance of that fund for the same period of time. The average net expense ratio for TSP funds in 2013 was 0.029 percent. That tiny percentage is not an outlier. For each of the years from 2007 through 2012, the average TSP fund expense ratio has been below 0.029 percent. Compare this to typical expense ratios for actively managed mutual funds of 1.5 percent. Even commercial index funds (which are tied to market indexes and so require less active management) have expense ratios of around 0.25 percent. Since administrative costs are paid by investors every year, it is clear that the low TSP costs are a great benefit.

TSP investment choices are ideal. Choices include funds that mirror the S&P 500, the Dow Jones average, a major international stock index fund, a major bond index fund, as well as an ultra-safe government securities fund and five life-cycle funds. Life-cycle funds are professionally determined investment mixes that are tailored to meet investment objectives based on various time horizons. The available TSP investment choices are sufficient and ideal for all investors, other than perhaps those who seek to analyze and buy/sell individual stocks.

**There are no TSP fund sales fees. Investors who purchase** stocks from investment advisors, including stocks in index funds that seek to track overall market movements, usually pay a sales fee, sometimes called a load. Those fees pay for the salaries or commissions of the selling investment advisors, for advertising costs promoting the stocks, for typical multimillion-dollar benefit packages of the companies' CEOs, etc. There never are any sales fees or loads associated with TSP investments.

The TSP is an important and valuable benefit available to career letter carriers. It has a number of advantageous features, especially when compared to securities offered by private investment bankers. Active letter carriers should carefully consider those features when making savings and investment decisions. Retired letter carriers should carefully consider them when making post-retirement investment decisions.

### An important note about the retirement hotline

Director of Retired Members Ron Watson and the Retirement Department staff will attend the national convention in Philadelphia. The toll-free retirement hotline will not be available beginning Friday, July 18. It will resume operation on Monday, July 28. For immediate assistance with retirement matters during that time, please contact the Office of Personnel Management toll-free number, 888-767-6738.