TSP delivers on retirement investments

Many career letter carriers prepare for retirement by participating in the Thrift Savings Plan (TSP). For most of us, the TSP is just another deduction from our paycheck. But what exactly is the TSP and how does it work?

The TSP is similar to a 401(k) savings plan that many private-sector employers offer. Like a 401(k), the TSP allows federal employees to save a few dollars each month in an account before paying income tax on the savings, making it easier to save faster. Also like a 401(k), the TSP sometimes comes with employer contributions, boosting the savings even more, and offers investment choices to help the contributions grow.

The TSP is an integral part of the Federal Employees Retirement System (FERS), the system for most career letter carriers that also administers postal and federal employee pension plans. These two, plus Social Security benefits, are the three components of FERS that can lead to a comfortable, secure retirement.

"The way you're going to succeed in retirement is by contributing to a TSP account," said Kim Weaver, the TSP's director of external affairs. "If you don't, you're only getting two of the three legs of the stool."

How it works

The Federal Retirement Thrift Investment Board (FRTIB) administers the TSP. The FRTIB is an independent federal agency managed by five presidentially appointed board members, who are confirmed by the Senate, and an executive director. They are required by law to manage the TSP only in the interest of TSP participants and their beneficiaries.

Much like the U.S. Postal Service, the FRTIB is funded only by the fees it charges enrollees—it receives no taxpayer funds.

The FRTIB also consults with the Employee Thrift Advisory Council (ETAC), a group of representatives of unions and other employee organizations, including NALC, that provides advice on investment policies and administration of the TSP.

With 5 million TSP participants to serve, the FRTIB has a workforce of about 250 employees, including Weaver, who process accounts and handle funds at its headquarters in Washington, DC. "We have participants through the entire life cycle," Weaver said. "We have people who are mid-career; we have people who are retired and taking monthly payments. We need to be able to answer their questions and process all of that information."

Those 5 million active and retired federal employees have a total of $490 billion in savings deposited in TSP accounts. This enormous size gives the TSP some advantages over a typical 401(k). The largest private-sector 401(k), for IBM employees, has only about one-tenth the assets of the TSP. With its size advantage, the TSP can charge very low management fees compared to a 401(k), and this can give participants a big boost in savings in the long run.

The average TSP account for civilian employees, including those who are near retirement and those who are just starting out, is just shy of $130,000. They are boosting their balances using the multiple advantages the TSP offers.

Some are receiving matching funds from their agency to supplement their own savings. The investment funds they choose for their TSP savings are adding to their money. And because the money deducted from a carrier's paycheck to go to TSP is "pre-tax,"

TSP funds

	G Fund	F Fund	C Fund	S Fund	I Fund	L Funds
Description of Investments	Government securities (specially issued to the TSP)	Government, corporate and mortgage-backed bonds	Stocks of large and medium-sized U.S. companies	Stocks of small to medium-sized U.S. companies (not included in the C Fund)	International stocks of more than 20 developed countries	Invested in the G, F, C, S and I Funds
Objective of Fund	Interest income without risk of loss of principal	To match the performance of the Bloomberg Barclays U.S. Aggregate Bond Index	To match the performance of the Standard & Poor's 500 (S&P 500) Index	To match the performance of the Dow Jones U.S. Completion TSM Index	To match the performance of the MSCI EAFE (Europe, Australasia, Far East) Index	To provide professionally diversified portfolios based on various time horizons, using the G, F, C, S and I Funds
Volatility	Low	Low to moderate	Moderate	Moderate to high (historically more volatile than C Fund)	Moderate to high (historically more volatile than C Fund)	Asset allocation shifts as time horizon approaches to reduce volatility

the growth is faster because you earn interest on your savings before paying taxes on it—in general, the savings are taxed as income only when they are withdrawn. Finally, many retirees pay less in income tax on the withdrawals because they are in a lower tax bracket in retirement.

The TSP recently added a new option called the Roth TSP. Similar to a Roth IRA, the Roth TSP account treats taxing of the savings in reverse. The participant can put money already taxed as income into the Roth TSP, but the withdrawals are not taxed. It's a new option that may make sense for some letter carriers. Participants can have both a traditional and Roth TSP at the same time.

"The advantages of the TSP really add up," said NALC Director of Retired Members Ron Watson. "Letter carriers should consider TSP as part of a smart retirement plan."

Opening an account and investing

Career letter carriers hired on or after July 31, 2010, have been automatically enrolled in TSP and 3 percent of their paycheck is deducted and deposited in a TSP account. (Carriers hired earlier and covered by FERS were automatically enrolled in a TSP account with 1 percent contributed by the Postal Service and no deductions from pay.) But letter carriers may increase the amount deducted each pay period for TSP—and if they do, the TSP will match the donations, making them even more valuable. For carriers covered by FERS, the match from TSP is an amount equal to 4 percent of their pay when they deduct 5 percent or more. (Letter carriers may also lower or stop TSP deductions as well, but very few do.)

Letter carriers who participate in the older Civil Service Retirement System (CSRS), which was replaced by FERS in 1986, aren't left out—they can open a TSP account too, though they were not automatically enrolled. Carriers age 50 or older enrolled in either FERS or CSRS who meet other eligibility requirements can also make contributions that exceed the normal limits on tax-deferred accounts as "catch-up" contributions to boost their savings.

TSP participants can choose how the money in their account is invested. The investments are stable and reliable options set by law, not chosen by the FRTIB.

Participants have a choice of six funds and can allocate a percentage of their savings to each fund.

The G Fund invests in U.S. government bonds. Because these are guaranteed by the government, the G Fund will not lose money. This fund is managed by the FRTIB internally.

The FRTIB contracts with BlackRock Institutional Trust Company to manage the F, C, S and I Fund assets. These funds are index funds invested to follow a particular benchmark. For instance, the C Fund invests in stocks to mirror the performance of the S&P 500 stock index. These funds may bring more reward, but with higher risk, than the G Fund.

A TSP participant can also opt for a TSP Lifecycle fund, or L Fund, which invests in a mix of the other five funds. Each L Fund invests the participant's savings in a professionally determined investment mix of the G, F, C, S and I Funds tailored to meet investment objectives based on a time horizon—how far in the future the participant expects to begin withdrawals. The L Funds are tools for automatically allocating the fund mix to balance risk and return.

To learn more about the Thrift Savings Plan and how to enroll, change deductions or investments, choose investment options or answer other questions, go to tsp.gov or call TSP-YOU-FRST (877-968-3778). Be sure to check out the planning tools and calculators that can help you with retirement decisions at tsp.gov/PlanningTools. **PR**