

Maximize your Thrift Savings Plan



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Career employees (hired after 1983) participate in the retirement “three-legged stool,” as we often refer to it. The three legs of retirement are the Federal Employees Retirement System (FERS), Social Security and the Thrift Savings Plan (TSP). The first two are not discretionary. They are mandatory and there are no decisions to be made regarding contributions or investments by participants. However, regarding the TSP, participants have a variety of decisions that can be made. These decisions, along with the performance of the stock market, can have major implications on one’s retirement.

If letter carriers only know one thing about the TSP, it should be about employer contributions. By contributing 5 percent of base pay, one will double their money even before any interest is earned in the stock market. This is due to the Postal Service contributing 5 percent when you contribute 5 percent. That means a new career employee in Step B contributing 5 percent from their own pay will receive more than \$2,600 from the Postal Service into their TSP. I know I’m not about to pass up an additional \$2,600 per year, and I implore everybody to contribute at least 5 percent to maximize the Postal Service contribution.

Fortunately, the default employee contribution for new employees is now 5 percent, so they will get a full match unless they decrease their contributions. To increase contributions, one must go through the Postal Service’s PostalEase portal.

Contributions by the Postal Service are not the only benefit of the TSP. The TSP also provides tax advantages to help you save and grow your money for retirement. There are two tax vehicles in the TSP: the traditional TSP and the Roth TSP. In general, with the traditional TSP you pay taxes later, and with the Roth TSP you pay taxes now.

Once you’ve got money in your traditional TSP, Roth TSP or both, you can make decisions about your investment mix. There are five individual funds that provide for a diverse portfolio. The TSP explains the objective of the five funds as follows:

- **The Government Securities Investment Fund (G):** Ensure preservation of capital and generate returns above those of short-term U.S. Treasury securities.

- **Fixed Income Index Investment Fund (F):** Match the performance of the Bloomberg U.S. Aggregate Bond Index.
- **Common Stock Index Investment Fund (C):** Match the performance of the Standard and Poor’s 500 (S&P 500) Index.
- **Small Cap Stock Index Investment Fund (S):** Match the performance of the Dow Jones U.S. Completion Total Stock Market Index.
- **International Stock Index Investment Fund (I):** Match the performance of the MSCI ACWI IMI ex USA ex China ex Hong Kong Index.

The TSP also offers nearly a dozen Lifecycle Funds (L Funds). Each of these L Funds is just a mix of the G, F, C, S and I Funds explained above. However, every three months the target allocations of the L Funds are automatically adjusted, gradually shifting from higher risk and reward to lower risk and reward as the target date gets closer. These L Funds take the guesswork out of allocating funds as we age and get closer to our target retirement so that we aren’t as vulnerable to market swings when it comes time to access the money. The default investment fund for new participants is now a Lifecycle Fund based on the participant’s expected retirement age of 63. To change funds or reallocate, log into your account at tsp.gov.

Speaking of market swings, things have been a little hectic this year. It’s a good time to remind everyone that we can’t predict the future, and trying to time the market or panic sell after prices have already dropped is generally not advisable. Remember that your retirement savings are long-term investments. Many studies have shown that simply leaving your money in the market outperforms those who try to time the market. The adage is “time in the market beats timing the market.”

A reason to invest as much and as early as you can is compounding interest. Compounding interest can help your nest egg grow faster than you can contribute. Even a 5 percent growth rate would turn \$100,000 into approximately \$430,000 over 30 years. What could be better than your money earning money for you?

The TSP is an important benefit that all career carriers should be taking advantage of from Day 1. To learn more about the TSP, head to nalc.org and tsp.gov. City carrier assistants (CCAs) who want to start saving and invest in their future should look at the Mutual Benefit Association’s CCA Retirement Savings Plan. When converted to career, you can transfer your CCA Retirement Savings Plan traditional IRA funds into the Thrift Savings Plan. Learn more about MBA’s products at nalc.org/mba.