Government Executive

The 4 Keys to Boosting Your Savings

By Tammy Flanagan

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Some of you may not believe this, but I still find federal employees who think they're limited to contributing 10 percent of their salary to the Thrift Savings Plan. I suppose I shouldn't be surprised, given that 22 percent of federal employees under 45 don't even save 5 percent of their salary in the TSP and that there used to be limits on TSP contributions.

For the record, the percentage limits were lifted eight years ago. Now there's only the elective deferral limit the IRS places on all tax-deferred savings plans. That limit is $17,500 for 2014. Employees who turn 50 in 2014 can also make catch-up contributions of an additional $5,500. And this doesn't count the agency automatic and matching contributions for those under the Federal Employees Retirement System.

Of course, not everyone can afford to max out their TSP, but there do seem to be some common themes among those who have been accumulated substantial wealth in their TSP accounts. Here are the four things I learned when I asked people with big balances about their strategies. It might surprise you that there is nothing magical or lucky about these approaches.

1. Save Early

Taking advantage of dollar cost averaging and compound growth requires a long-term approach. Consider the following examples:

Judy saves $500 per month for 40 years (age 22-62) and earns an average rate of return of 6 percent. At the end of 40 years, Judy has a balance in her account of $953,838: Her contributions of $240,000 plus growth of $713,838.64.

Joyce saves $1,000 per month for 20 years (age 42-62) and earns an average rate of return of 6 percent. At the end of 20 years, Joyce has a balance of $453,438: her contributions of $240,000 plus growth of $213,438.

Judy accumulated more than twice as much money as Joyce, even though they both set aside $240,000. To help make up the difference, Joyce could delay her retirement from 62 to 70. If she saves $1,000 a month for 28 years at a 6 percent rate of return, she would have $844,713 instead of $453,438.

If you'd like to compute how much your savings could add up to, try this simple calculator from the TSP.

2. Save a Lot

At the very least, be sure to take full advantage of government matching contributions by setting your minimum TSP savings goal at 5 percent. Think of it as a deferred 5 percent pay raise. If you're in FERS, you'll get dollar for dollar matching on your first 3 percent of payroll contributions and 50 cents on the dollar on the rest. There's no way to make up for these lost matching funds if you don't take advantage of them every pay period. Add to that the 1 percent agency automatic contribution and you have a 5 percent additional contribution to your TSP account as long as you contribute 5 percent yourself in every biweekly paycheck.

Five percent is a good start, but it probably shouldn't be your final goal. For those who have the means, one approach is to set your savings to achieve the maximum allowable contributions -- and after age 50, take advantage of the catch-up contributions as well. In 2014, that would mean contributing $17,500 from your basic pay by electing a contribution of $673.08 biweekly. (If you were 50 or older, you'd put in an additional $211.54 each pay period.) If you're not able to save this much, put away as much as you can. Keep in mind that investments in the TSP are tax-deferred, so your take home pay won't go down by the full amount of your contributions.

3. Live Beneath Your Means

I met a fascinating woman recently while I was teaching at the Education Department. She said that as she progressed through her career, she kept her spending about the same, even as she received promotions and step increases. That meant that after paying her monthly expenses she had more and more money left over in her bank account. So she continued to increase her retirement savings every time she got a pay increase until she was contributing the maximum allowed.

She boosted her savings not by becoming a GS-15 or making it into the Senior Executive Service, but simply by not expanding her lifestyle every time she received a pay increase. This was a sobering thought for me, since I happened to be wearing a brand new spring outfit that I *had to have* when I went shopping. I need to take a page from her playbook and evaluate my own spending decisions. The reality is that the $150 I spent on the outfit could have added $360 to my future retirement if I had invested it and gained a 6 percent return over the next 15 years.

4. Invest Mostly in Stocks

Another common denominator I've seen in the TSP millionaires I've met is that they invest almost exclusively in equities. (That would be the C, S, and I funds when it comes to the TSP.) This is a very aggressive strategy and should be evaluated carefully based on your own personal risk tolerance.

I've found a few rules of thumb when it comes to how much of your investment portfolio should be invested in stocks. One common strategy is to subtract your age from 100 (some say 120), and put this percentage of your investments in the stock market.

Using this asset allocation strategy, if you are 35 years old, then you should have either 65 percent or 85 percent of your portfolio invested in stocks and the remaining 35 percent in bonds and government securities. Using this approach and looking at the TSP Lifecycle Funds, the L2050 Fund might be appropriate for a 35-year-old who could have 35 years to go before he or she needs to start withdrawing from the TSP. The L2050 Fund is invested 86.25 percent in stocks, with the remainder split between the G Fund (10.68 percent) and F Fund (3.07 percent). If you want to be a little less aggressive, you could choose to split the balance between the L2040 and the L2050 Funds. Here are the key features and the allocations of each of the TSP Lifecycle Funds.

Although few federal employees are putting all of their investments in the C, S, and I Funds, learning more about stocks and bonds and understanding risk, expectations and setting retirement goals can help make you a better investor.

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