Government Executive

Managing Your Retirement Money

By Tammy Flanagan

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The Thrift Savings Plan has been around for more than 27 years, so by now many federal employees who have been contributing since the beginning have sizeable nest eggs for their retirement years. In many cases, money invested in the TSP is the largest asset, besides a home, that a federal employee has control over. For many employees, the time is nearing to make the biggest decision of all: what to do with this money after they retire.

For those under the Federal Employees Retirement System, the basic retirement benefit and Social Security represent income streams that will last a lifetime. In many cases, they will cover day-to-day living expenses. But TSP savings have the potential of making the retirement years much more comfortable.

For many, the TSP has represented a significant learning experience over the years, requiring them to:

Figure out how much to save out of each paycheck.
Understand how to manage risk and volatility in the stock market and use bonds to offset some of the risk.
Determine how to diversify between the varieties of TSP investment options based on the time horizon of when the money might be needed in the future.
Understand the role retirement savings will play in conjunction with Social Security and a FERS annuity.

Most financial experts would agree that the TSP has been a success story. The balance in the traditional TSP funds was more than $406 billion as of April 30. The participation rate in April was more than 87 percent for FERS employees.

Now that retirement is nearing for many federal employees who have been hired under FERS since 1984, the time has come to figure out what to do with this accumulated wealth. Of course, those under the older Civil Service Retirement System also have to determine what to do with their savings. But for them, the decision may not have as big of an impact on their overall retirement picture, because their retirement benefit may provide adequate income security.

Withdrawal Options

For many people, weighing what to do with their retirement savings raises lots of questions, including: Should I keep the money in the TSP or move it to an IRA? Should I hire a financial adviser?

This week, Kevin Laird, program manager for TSP education and agency liaison at the Federal Retirement Thrift Investment Board, which runs the TSP, presented a webcast with the Office of Personnel Management for agency retirement specialists. It was designed to help them provide guidance to federal employees who are preparing for retirement. Many employees will find the information presented in the hour-long program very useful.

When teaching my classes on federal retirement benefits, I like to quote the famous retailer, Sy Syms: “An educated consumer is our best customer.” For some employees, leaving their money in the TSP and using a monthly payment option or purchasing a life annuity might be the best choice. When the FERS basic benefit and Social Security benefit will not provide adequate monthly cash flow, an additional stream of income might be the best option.

Providing a monthly income stream is very easy to do directly through the TSP. You can get a monthly payment of a specific dollar amount or a payment that is computed based on your life expectancy. Or you can use some or all of your TSP funds to purchase a monthly annuity payment through a contract the TSP has with MetLife.

The monthly payment options allow you to maintain control of your TSP account while you are receiving payouts. You can modify your choices later, and you can leave the balance in your account to your beneficiary to withdraw as a lump sum or move to an IRA later on.

The annuity option is much more restrictive. The balance used to purchase the annuity is no longer available to the participant, but the tradeoff is a monthly payment that provides a lifetime stream of income. Laird used the word "guaranteed" to describe the annuities in his presentation, but MetLife includes the following disclaimer on its website: "MetLife income annuities, like all annuities, are insurance products and not insured by the FDIC, the NCUSIF or any other government agency, nor are they guaranteed by, or the obligation of, the financial institution that sells them."

The other option is to move your TSP balance to an IRA so that you will have additional investment options and more control over the timing and amount of your distributions. This requires adequate knowledge of managing investments, so that you don't run out of money or make poor choices that jeopardize your financial security. If you don't believe you have the knowledge and skill to do this yourself, then you may need to hire someone who can help you. I'll cover that topic in my next column.

One last thing: If you missed the opportunity to enroll in the webinar series I conducted this month with Micah Shilanski, we are going to repeat it in July. The three-part series is called "FERS: Three Irreversible Mistakes." You can register for the webinars here.

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