Government Executive

When to Seek Financial Help

By Tammy Flanagan

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I recently received an email from someone who was considering hiring a financial adviser. Wisely, she had some questions she wanted to ask before she decided to turn over control of her financial future to someone else.

I told her to anticipate that her adviser would come up with a portfolio of stocks, bonds, and other types of investments aimed at keeping her on track financially to meet her financial goals. I said she needed to consider her risk tolerance (how well she can handle the ups and downs of the stock and bond markets) and her time horizon (how long the money should last).

There are also several other questions anyone considering hiring a financial adviser should ask themselves. Let's look at some of them.

Are you going to continue to work after you retire?

If so, you probably won't need to begin monthly withdrawals from your Thrift Savings Plan. You may continue to leave your money invested in the TSP and make interfund transfers as needed to rebalance your account to minimize risk and maximize growth.

You will no longer be permitted to contribute new money to your account or to borrow from your TSP once you are retired, but you can remain invested in the C, F, G, S, and I Funds, along with the five life cycle funds. The TSP also will accept transfers of money from other retirement accounts, such as an IRA or a rollover 401(k). Here's more information on moving your money into the TSP.

Do you need to take a lump sum withdrawal from the TSP to cover a large expense or to pay down your debt?

You may not receive as much as you think. If you choose to take a $30,000 lump sum partial withdrawal from the TSP, you will receive a payment of $24,000. Why? Because the TSP withholds 20 percent to help you pre-pay your taxes. And that may not cover all the taxes you have to pay on your withdrawal. Also, have you considered the early withdrawal tax penalty of 10 percent? If you're leaving federal service before the year you turn 55 and take a distribution before age 59 ½, you may be subject to this penalty. Here's a TSP publication with tax information about payments.

Do your FERS basic retirement benefit and any other sources of defined benefit income (such as Social Security or other pension benefits) cover your monthly living expenses?

If not, you may need to set up a monthly payment option from the TSP or other retirement savings plans that you may have. You can choose a specific dollar amount each month from the TSP (and change it annually) or have the TSP compute the payments for you based on your life expectancy. You can also purchase a life annuity to receive a lifetime stream of payments, but that involves giving up control of your money. Each of the different types of withdrawals can be done directly through the TSP using Form TSP-70.

What are the pros and cons of leaving your money in the TSP?

One of the main advantages of keeping your money invested in the TSP is its low administrative costs. The costs can be much higher when using private investments and a financial adviser. The Department of Labor has a publication titled *A Look at 401(k) Plan Fees* that outlines the kinds of fees you could incur when moving your TSP to a private investment.

Other advantages of leaving your money in the TSP include:

Simplicity—its fund choices are limited and relatively easy to understand.
It includes the G Fund, which invests exclusively in a nonmarketable short-term U.S. Treasury security that is specially issued to the TSP.

Of course, there are some advantages to an IRA, too, including:

The ability to take multiple partial withdrawals
A wider array of investment choices

A 2013 Government Accountability Office report highlighted the complexity in rolling over funds to an IRA versus the simplicity of leaving the funds in an employer plan (such as the TSP). When rolling over, a participant must:

Choose an IRA provider from a multitude of choices.
Allocate assets between equities, fixed income funds and other investments.
Review complicated financial and legal documentation.
Calculate the fees and administrative expenses to determine the true cost of a “no-fee” IRA.
Make a direct transfer to the new plan to avoid the automatic tax withholding when requesting a lump sum distribution from a retirement account.

Also, be aware that some states do not tax TSP distributions, but do tax IRA distributions. For example, in North Carolina, TSP distributions are not taxed for certain CSRS retirees (those who had three years of service by Aug. 12, 1989). If TSP funds are moved to an IRA, the IRA distributions (or income from a TSP annuity) may be taxed. Here’s a state-by-state tax guide for retirees.

So what should you do? Weigh your options carefully. As the great philosopher Dr. Phil says, “Every pancake has two sides.” Remember, some of your decisions are irrevocable. Look at all of the available choices for withdrawal and future investment options for the money you will keep invested. Consider your legacy. What will happen to your money if you don’t live long enough to spend it all? This raises a whole other set of questions.

Start by reading the TSP’s basic information on withdrawal options. If you’re still not sure how to evaluate your options, it may be time to seek professional guidance. But remember, there’s no one-size-fits-all option. What’s good for your neighbor, your co-worker or your brother may not be best for your situation.

Finally, keep the old adage in mind: “If it sounds too good to be true, it probably is.”

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