Government Executive

The TSP's New Millionaires

By Tammy Flanagan

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Saving a million dollars for your retirement is quite an accomplishment. Saving a million dollars in an average of 25.7 years in the federal Thrift Savings Plan is a really big accomplishment. As of December 2013, more than 1,600 TSP participants can say that they have done just that. Some of these balances were started with seed money from other investments transferred from 401(k) plans, but there are some pure TSP millionaires. One TSP account holder has a balance of more than $3 million.

As for the rest of the more than 4.6 million participants in the TSP, the breakdown of balances looks like this:

Under $50,000: 2,798,820
$50,000 - $249,999: 1,424,999
$250,000 - $499,999: 335,638
$500,000 - $749,999: 71,272
$750,000 - $999,999: 11,063

So the reality is that 98 percent of the TSP participants have less than $500,000 in their accounts. But many of them are still early in their careers, and thus are in position for outstanding growth in their account balances. One key is to start investing early. Even if you aren't contributing 10 percent or even 5 percent of your salary to your TSP account, try to do 3 percent. When you get a pay increase, increase the percentage you contribute.

Another key is to be consistent. College, vacations, cars and other big ticket items should be funded in separate accounts from your TSP savings. And don't try to time the stock market. Jumping in and out of the market based on what happened yesterday or today is risky business. Stay diversified and periodically rebalance your funds. If you're not sure how to do this, use the Lifecycle (L) funds to do it automatically as you progress through your career or hire a financial adviser to help you set realistic goals.

And remember, you might not need $1 million in your TSP account to reach your retirement goals. Everyone's situation is different. Consider how much of your income will be replaced with your basic retirement benefit and Social Security. For many people, these benefits will cover living expenses. For some, especially those in the Civil Service Retirement System, the retirement benefit will provide even more than needed to meet day-to-day expenses. Others will have military retirement or other pensions to rely on.

Hitting the Million Mark

Jim, a NASA employee from California, told me he hit the $1,000,000 mark in his TSP just last week. And he admits he made several mistakes along the way. For example, he was fully invested in the C Fund right before 2000 and didn't diversify into other accounts until 2002. (Jim is perhaps being a little hard on himself here: His approach allowed him to ride the stock market to big gains from 1995 to 1999. And from 2000 to 2002, he was buying stocks when they were down, allowing him to get more shares at lower prices.) Then he did the same thing in 2007, returning 100 percent of his TSP balance to the C Fund and not diversifying until he had lost close to half the value of his account. And he waited until the market was six months into the recovery before he began to put money back in stocks.

You might say Jim had some luck in his efforts to time market gains, but nonetheless, in the end he succeeded. Jim will be retiring this year, so now he will need to manage his account in his retirement years. It will be even more critical to make wise choices for rebalancing and reallocating his funds. He will need continued growth to allow for many years of retirement.

Leave it to the Lifecycle Funds

Jim was obviously paying attention to his account, even if by his own admission he didn't always make the best investment decisions. For those with less tolerance for risk, the Lifecycle funds can keep you diversified into all five of the TSP investment choices. Not only that, but the L Funds adjust automatically to invest more aggressively when you are farther from needing the money and get more conservative as you get closer to the target date of the fund (roughly timed to your projected retirement date).

The final Lifecycle fund is the L Income Fund, aimed at those who are currently withdrawing monthly payments from their TSP accounts. It invests very conservatively. From its inception in 2005 through 2013, the L Income fund never went above a 9 percent annual rate of return or below a 9 percent loss. The fund is invested at the following balance:

G Fund: 74%
F Fund: 6%
C Fund: 12%
S Fund: 3%
I Fund: 5%

On the other hand, look at the L2040 Fund, aimed at those far away from retirement. This fund gained a 15 percent to 32 percent rate of return in some of the good years since its inception in 2005, but also lost more than 30 percent in 2008. The L2040 fund started out with the following diversification of investments:

G Fund: 5%
F Fund: 10%
C Fund: 42%
S Fund: 18%
I Fund: 25%

By January 2014, this same fund had gradually become more diversified, but still not too conservative, since the 2040 target date is still 26 years away:

G Fund: 14.35%
F Fund: 9.15%
C Fund: 38.6%
S Fund: 16.30%
I Fund: 21.60%

By 2040, the balances will roll into the L Income fund when they reach their target date. But note that even the L Income Fund is not 100 percent allocated to the ultra-safe government securities G Fund. And conversely, even the L 2050 Fund -- the farthest target date fund -- maintains 4.5 percent of its balance in the G Fund, just to provide a hedge against market dips.

Overall, the L funds allow participants to sleep better at night. So if you're not comfortable diversifying and rebalancing funds yourself, check them out. They might just provide you a little peace of mind.

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http://www.govexec.com/pay-benefits/retirement-planning/2014/02/tsps-new-millionaires/79145/