Government Executive

The 5 Percent Solution to Retirement Security

By Tammy Flanagan

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It's April, and that means warmer temperatures are finally here and it's time to plant flowers. It also means it's time to consider your financial literacy. For more than 10 years, April has been officially designated as Financial Literacy Month in the United States. (Maybe that has something to do with the April 15 federal tax deadline.)

The website dedicated to this effort to educate Americans on personal finance and goal-setting features a 30-step program -- one step for each day of April -- designed to help users target areas where they might need additional education and assistance to achieve financial "wellness." Each step comes with links to quizzes, blogs and other useful information.

There's no better tool for federal employees to control their financial security in retirement than the Thrift Savings Plan. This month, the TSP is introducing a new initiative called "Take Five for Your Future." It emphasizes that saving 5 percent in your TSP results in 5 percent agency automatic and matching contributions. It also notes you have five funds to choose from for investing your retirement nest egg (along with five life cycle fund options), and notes that taking five minutes to make a change in your savings can help secure your financial future. Here's a video about the initiative.

Take Five

The TSP campaign is targeted toward those in the Federal Employees Retirement System who are younger than 45 and contributing less than 5 percent to their TSP accounts. A little more than 22 percent of all FERS employees fell into that category in 2012.

Even those who are contributing 5 percent may need to learn more about diversifying their funds. Some people apparently don't really understand what this term means. They "diversify" by investing 10 percent in each of the G, C, F, S, and I Funds, and divide the remaining 50 percent between the five life cycle (L) funds.

The L funds, of course, are already diversified between the five standard TSP funds. So if you're not sure how to diversify your TSP investments, you should consider just choosing the L Fund with the target date closest to when you want to start using the money in your TSP (which is not necessarily the date you plan to retire). So if you were going to start to withdraw from your TSP savings in the year 2039, then you could choose the L2040 fund.

A Little Loan Secret

OK, so all of that sounds great, but what about car payments, rent, college loans and more immediate goals, like saving for a down payment on a house or for your children's college education? For that, there is the TSP Loan Program.

Now I know what you're thinking: Who would recommend borrowing from their retirement savings for non-retirement expenses? So I want to go on record as saying I am strongly in favor of having separate savings accounts for vacations, college and other goals such as a down payment on your first home. In fact, I still remember when my husband and I were saving for our first house back in 1981. We would take a calculator with us to the grocery store, and when we got to $25, we would stop shopping and take home our weeks' worth of groceries. (What can I say? I started my career as a GS-3.)

So, with that qualification out of the way, I will let you in on a little secret: You get to keep the agency automatic and matching funds in your TSP account even if you borrow from it. This could be an easy way to save the down payment for your first home and put away money for your retirement at the same time. Knowing that your money will be available for loan before you retire might be the incentive you need to save at least 5 percent of your salary and get the full agency match on your TSP account.

If you do borrow from your TSP account, remember that you will have to repay the loan through payroll deductions and the interest will be paid back to your account. Make sure that you can afford the loan payments while you continue to make new contributions to your TSP account. If you are using the money you're borrowing for the purchase or construction of your primary residence, then you may qualify for a residential loan, which allows up to a 15-year repayment period.

Start Early

When retirement for federal employees consisted of the single benefit of the Civil Service Retirement System, financial literacy consisted of working a full career in federal service and trying not to spend more money than what you earned. Today's employee, however, has a three-level set of benefits. Two—the FERS basic benefit and Social Security—are based on salary and service. The third, the TSP, is completely up to you to use to your advantage. It only works well if you participate throughout your career.

Just how much might your TSP savings be worth if you stick with the program for the long haul? Check out this chart. It may surprise you.

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http://www.govexec.com/pay-benefits/retirement-planning/2014/04/5-percent-solution-retirement-security/81865/