

# THRIFT SAVINGS PLAN



# THRIFT SAVINGS PLAN: WEALTH-BUILDING MADE EASY

## MODULE DESCRIPTION

*The Thrift Savings Plan* is a 75-minute interactive workshop suitable for all service members. It is designed to provide detailed information on the Thrift Savings Program (TSP) and to help learners understand how TSP can contribute to financial security during retirement.

## LEARNING OBJECTIVES

**Terminal:** The learner should be able to explain the benefits of participation, enroll in TSP and successfully choose and manage their TSP investments.

**Enabling:**

- In the *TSP and You: Why, How and How Much?* activity, learners will list at least four benefits of participating in TSP, two enrollment options and three factors to consider when determining contribution amounts.
- In the *TSP and You: Funds, Options and Choices* activity, learners will correctly answer 10 fill-in-the-blank questions on TSP funds and investment options.
- Learners will articulate at least four important aspects of both TSP withdrawal options and TSP loan programs during the *TSP and You: Withdrawals and Loans* activity.

## REFERENCES

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Print Module

Print Module Handouts

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## MODULE PREPARATION

### Handouts:

- *The Thrift Savings Plan: Wealth-Building Made Easy*
- *TSP and You Workbook*

### Materials (varies depending on activities):

- Blank paper, pens and pencils
- Index or notecards

- Chart paper and markers
- *The Thrift Savings Plan: Wealth-Building Made Easy* PowerPoint slides

## SUMMARY OF LEARNER ACTIVITIES

**TSP and You: Why, How and How Much?:** A review exercise in which learners create a list of points intended to persuade someone to participate in TSP and to explain enrollment and contributions.

**TSP and You: Funds, Options and Choices:** A fill-in-the-blank quiz to test for comprehension on TSP fund information and investment options.

**TSP and You: Withdrawals and Loans:** A review activity in which learners present briefs of the content information on TSP withdrawals and loans.

## CONTENT OUTLINE

1. Welcome and Introduction (5 minutes)
  - a. Agenda
2. What is the Thrift Savings Plan? (20 minutes)
  - a. TSP Benefits
  - b. Enrollment and Account Access
  - c. Beneficiary Information and Spouses' Rights
  - d. Contributions
  - e. Learner Activity: *TSP and You: Why, How and How Much?*
3. TSP Investment Funds and Options (25 minutes)
  - a. Investments and Risk
  - b. Index-Based Funds
  - c. Life-Cycle Funds

- d. TSP Investment Options
- e. Learner Activity: *TSP and You: Funds, Options and Choices*
- 4. Other TSP Features and Programs (20 minutes)
  - a. TSP Withdrawals
  - b. TSP Loan Program
  - c. Learner Activity: *TSP and You: Withdrawals and Loans*
- 5. Summary and Conclusion (5 minutes)
  - a. Resources
  - b. Summary



## CONTENT WELCOME AND INTRODUCTION

The purpose of this class is to provide you with detailed information on the Thrift Savings Plan (TSP) and to help you to understand how the TSP can assist in providing financial security during your retirement.

### AGENDA

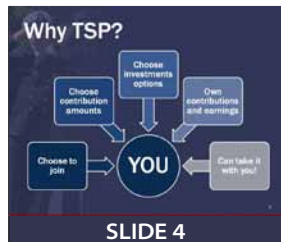
We will be covering the following topics:

- What is the TSP?
- Enrollment and Participation
- Contributions
- Investment Funds and Options
- Plan Features and Programs
- Resources



## WHAT IS THE THRIFT SAVINGS PLAN?

The TSP is a retirement savings and investment plan sponsored by the federal government. It is a “qualified” defined-contribution plan; therefore, it has the same type of savings and tax benefits as a 401(k). The TSP is open to all members of the uniformed services, active duty and ready reserve. With the TSP, you choose to join; you choose the contribution amount, which comes directly out of your pay; you choose the investments from 10 different options; and you own all of your contributions and any earnings.



### TSP BENEFITS

The benefits of participating in the TSP include:

- **Pre-tax contributions:** This means the contribution amount is deducted from gross pay *before* federal income taxes are calculated, thereby reducing your taxable pay and your annual tax bill.



**Trainer’s note:** Distribute the handout — *The Thrift Savings Plan: Wealth-Building Made Easy* — which lists many important details of the Thrift Savings Plan.



**Trainer’s note:** Distribute the *TSP and You Workbook* handout and explain to learners that they are to use this handout to fill in information that will help them participate in and manage their TSP funds. This information also will be used in each class activity.



- **Contributions grow tax-deferred:** You are not taxed on the earnings in the TSP until you make withdrawals.
- **Contributions are set up to occur automatically:** Which presents the opportunity for regular, disciplined investing.
- **The TSP has very low administrative costs and expenses:** High costs and expenses can reduce the rate of return.
- **The TSP is easy:** It is easy to start and it is easy to allocate and re-allocate money. Most of the transactions can take place over the phone, at the TSP website or via myPay.
- **You can take the TSP with you:** With the military's regular retirement plan, a member must stay in the Navy 20 years to get it. With the TSP, the money always belongs to you, and if you leave the service before serving 20 years, the money remains yours.
- **You can designate beneficiaries:** You choose who you would like to receive the funds in the TSP in the event of your death.



## ENROLLMENT AND ACCOUNT ACCESS

You can enroll in the TSP via your myPay account at any time. The TSP has both a telephone customer service line (the “Thriftline”) and a website that makes it simple to check on your account and conduct transactions. After you enroll, the TSP will send you a password and a Personal Identification Number (PIN). Your TSP account number and password are your secure identification for accessing your account at the TSP website and on the Thriftline. The TSP website provides timely account and plan information. Here you will find rates of return, performance history, daily share prices and fact sheets on each fund. You can view your participant statement online to check on the status of your account and to make changes to your account. However, to enroll in TSP or to start, change or cancel contribution amounts, you must go through your myPay account.

The TSP website provides calculators to help you determine the future value of your investment, estimate loan payments, and determine what monthly payments your account could provide in the future. In addition, the website provides a link to the American Savings Education Council (ASEC) retirement-planning calculator.

## BENEFICIARY INFORMATION AND SPOUSES' RIGHTS

Once you enroll in the TSP, you will be asked to designate a beneficiary for your TSP account in event of your death. You will need to complete the TSP-3 form, Designation of Beneficiary, which you can download from the TSP website. Submit the form, via mail, to the address on the form. You should ensure this form is current at all times, since it takes precedence over a will or any other directive governed by the laws of any state.

Even though the TSP is an individual account, TSP accounts are considered marital assets subject to division in case of divorce. In addition, participants' spouses have certain rights. TSP account holders can start, increase, decrease or stop contributions; change contribution allocations; or make inter-fund transfers entirely on their own. However, getting any money out, via loan or any withdrawal option, will require your spouse's written concurrence.

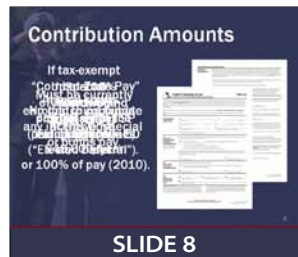


## CONTRIBUTIONS

How much you should invest in the TSP, and which fund you choose, depends on several factors such as:

- **How much you are investing now:** If you already have an aggressive investment plan in place, the TSP may or may not fit into it. If you are new to investing, the TSP may offer an excellent way to get started on an automatic investment plan.
- **How much of your investment dollars you can commit to retirement investment:** It may not be wise to commit all of your available investment dollars to the TSP, since you need to consider this money "tied up" until age 59½.
- **Contributions to your Roth IRA:** If you are contributing to the TSP, and it means you have to decrease the amount going to your Roth IRA, it may not be a good alternative.
- **How long you will keep the money invested:** The TSP is designed to help achieve long-term retirement-planning goals. If you are going to use the money you put into the TSP for anything other than retirement, it may not be the best alternative.

- **Your age:** The younger you are, the more you should consider the TSP as a part of your retirement plan.
- **Your knowledge about investing:** The TSP is an especially attractive option for people new to investing or who do not want to take a lot of time to do their own research.
- **If you're just not sure:** There is a general rule in retirement planning that states "when in doubt, max it out." This is true for any tax-deferred investment opportunities.



Once enrolled in the TSP, you can contribute up to 100 percent of your basic pay each month in 2010 ("elective deferral"), as long as it does not exceed the total elective deferral limit of \$16,500 (2010). This annual limit may be increased in later years by cost-of-living adjustments. The TSP cannot accept contributions that exceed the elective deferral limit. You can also contribute up to 100 percent of any incentive and special pays (including bonuses) up to the annual limit. When receiving tax-exempt combat-zone pay, you can contribute up to the lesser of \$49,000 (2010) each year or 100 percent of pay.

In addition to contributions from your pay, you can also transfer funds from a traditional IRA or eligible employer plan into your TSP account. Transfers into the TSP can be done at any time even after you separate from military service. Transfers require that you complete TSP-60, Request for a Transfer into the TSP, and forward the form to the administrator of your IRA. Your administrator will certify that it is an eligible retirement plan and then submit the form to the TSP Service Office.

Catch-up contributions are supplemental tax-deferred contributions available to TSP account holders age 50 or older who are already contributing the maximum amount of regular TSP contributions for which they are eligible, up to the maximum IRS elective deferral limit of \$16,500 (2010). Catch-up contributions have their own annual limit of \$5,500 in 2010, with additional annual limit increases indexed to inflation.

Although matching funds for the TSP have been authorized by the Department of Defense, it is up to each service if and when to offer this benefit. At this time, no matching funds have been offered by the Department of the Navy.

**Trainer's note:** Matching funds are currently offered by the Department of the Army as a recruiting incentive. You should periodically check the TSP website for any new legislation or changes to existing policies — such as matching funds. Update the instructor's guide and PowerPoint slides as necessary.



**Learner Activity:** TSP and You: Why, How and How Much?

Purpose: To review content material and ensure that learners understand how to participate in TSP and can explain the benefits of this program.

Time: 10 minutes

Materials and Preparation: The *TSP and You Workbook* handout, chart paper or white board, and markers. Prior this activity, write the activity topics (listed below) on separate sheets of chart paper or different sections of a white board. Divide the class into three groups. Assign one of the three following topics to each group:

- Why should I participate in TSP?
- How do I enroll in TSP and how much can I contribute?
- How do I choose how much to contribute to TSP?

Procedure: Tell learners that they are to imagine that following this class they are asked by a friend why they should invest their money in the TSP. Explain that they are to provide as much information as possible and in a way such that they could really sell their friend on the TSP. Instruct Group 1 to list (on their chart paper) all the benefits of the TSP. Explain that they can use their notes, handouts or any other resource materials to complete their list. Tell Group 2 that they should explain how to enroll in the TSP and list the contribution limits for the current year in a manner that could be easily followed by their “friend.” Group 3 should list the factors that should be considered before this “friend” should determine their contribution limits. Give the learners about five minutes to complete their list and then ask each group to choose a spokesperson to present the information to the class. Urge learners to present the material as if they were telling it to their friend. Fill in information as necessary for clarity.



## TSP INVESTMENT FUNDS AND OPTIONS

### INVESTMENTS AND RISK

Market risk, the ups and downs of the stock market, is what most people think of when they consider the risks of investing. There is risk involved in every type of investment tool, and the tendency of investments to



experience these ups and downs is referred to as volatility. These risks differ, depending on what investment product is used, although risk can be minimized through diversification. The TSP offers five investment opportunities with varying levels of risk or volatility.

**INDEX-BASED FUNDS**

TSP investment funds are all “index based” investments. TSP investments do not have a fund manager who selects investments based on a changing market. Instead, TSP funds are a selection of a large, widely diversified number of stocks (or bonds) that represent the index chosen to track. Many financial experts maintain that this is one of the best ways to invest for the long term.

Fund	Description/Volatility	Return since inception
G	Government securities, low	6.13%
F	Government, corporate and mortgage-backed bonds, low to moderate	7.80%
C	Stocks of large and medium-sized U.S. companies, moderate	9.11%
S	Stocks of small to medium-sized U.S. companies not included in the C Fund, moderate to high	4.86%
I	International stocks of 21 developed	4.03%

SLIDE 10

**G Fund:** The Government Securities Investment Fund, which invests in special, non-traded U.S. Treasury securities guaranteed against any loss. The G Fund has a low level of volatility and a 10-year average return of 4.62 percent.

**F Fund:** The Fixed Income Index Investment Fund invests in government and corporate bonds and is designed to track the Lehman Brothers U.S. Aggregate Index. The F Fund has a low to moderate level of volatility and a 10-year average return of 6.39 percent.

**C Fund:** The Common Stock Index Investment Fund, which invests in stocks in the S&P 500 Index. The C Fund has a moderate level of volatility and a 10-year average return of -0.94 percent. However, the average return since inception (1988) is 9.31 percent.

**S Fund:** The Small Capitalization Stock Index Fund, which invests in small- and medium-size companies in the U.S. and is designed to track the Dow Jones Wilshire 4500 Completion Index. The S Fund has a moderate to high level of volatility and a five-year average return of 2.25 percent. The S fund average return since inception in 2001 is 4.86 percent.

**I Fund:** The International Stock Index Investment Fund, which invests entirely in non-U.S. companies and is designed to track the EAFE Index. The I Fund has a moderate to high level of volatility and a five-year average return of 3.67 percent and an average return since inception of 4.03 percent.

**Trainer’s note:** The fund averages information provided is current as of May 2010 and based on averages as of Dec. 31, 2009. You should update this information annually for both presentation and on the PowerPoint slides. When the 10-year averages are negative, it is sometimes helpful to provide averages since inception to illustrate the value of the TSP investments.

**Lifecycle (L) Funds**

Fund	Description/Volatility	Return 2009
L 2040	Time horizon for use of funds is 2019 or later	25.19
L 2030	Time horizon for use of funds is 2025 - 2034	22.48
L 2020	Time horizon for use of funds is 2015 - 2024	19.14
L 2010	Time horizon for use of funds is 2008 - 2014	10.03
L Income	Funds used currently	8.97

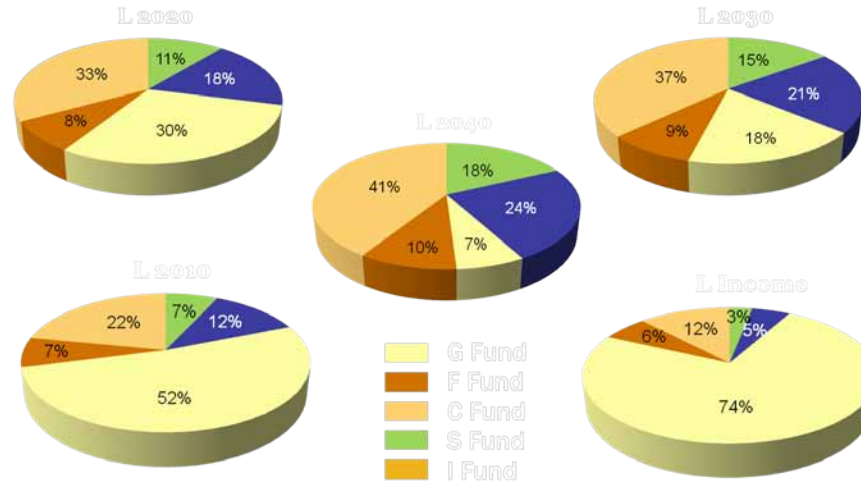
SLIDE 11

**LIFE-CYCLE FUNDS**

Life-Cycle, or L Funds, consist of five pre-packaged portfolios with professionally determined asset allocation among the G, F, C, S and I Funds. The L Funds are professionally managed to meet your retirement needs. Assets are rebalanced daily, maintaining your portfolio mix. Assets are reallocated quarterly (re-distributed among the available funds), creating a more conservative (less risk) mix with age. When a fund reaches maturity (reaches the year it is named for), it rolls to the next more conservative fund and a new fund is added.



**Allocation Targets as of January 1, 2010**



Source: [www.tsp.gov](http://www.tsp.gov).

These pie charts show how the mix of funds is rebalanced over time. As you can see, as the fund date approaches, the assets are moved from more-volatile to less-volatile funds, until ultimately, in the L Income fund, three-quarters of the money is in the guaranteed G fund. Below are the average annual returns on the L funds since their inception in 2005.

Summary of TSP Lifecycle (L) Funds Annual Returns

Year	L Income %	L 2010 %	L 2020 %	L 2030 %	L 2040 %
2005	2.15	2.99	3.40	3.59	3.92
2006	7.59	11.09	13.72	15.00	16.53
2007	5.56	6.40	6.87	7.14	7.36
2008	-5.09	-10.53	-22.77	-27.50	-31.53
2009	8.57	10.03	19.14	22.48	25.19

\*Returns for Calendar Year 2003 are calculated from the funds inception of August 1, 2005.

Source: [www.tsp.gov](http://www.tsp.gov).

TSP INVESTMENT OPTIONS

There are two investment approaches to using the TSP. The first is to choose your own investment mix from the G, F, C, S and I funds. The second is to choose one of the L funds with a time horizon that matches your retirement date.

**Managing your own mix:** If you choose to manage your own mix, you need to determine the correct asset balance based on your age, time horizon (how long until you will begin to use your retirement income) and risk tolerance. You can allocate your contributions to any of the five TSP investment funds in any whole percentage amount. The longer your time horizon, the more aggressive you can usually be with your investments. Diversifying your investments by contributing to more than one fund will allow you to reduce the level of risk. However, you will need to rebalance your mix on an annual basis and reduce your risk as you get closer to retirement age. For example, you may want to move bond money from the F fund to the G fund or move stock money from the I and S Funds to the C Fund.

**Let the L funds manage your mix:** You can keep it simple by letting the L funds manage the mix for you. Simply choose the fund that fits your time horizon by determining when you will need to use the money. Since L funds are a professionally designed mix and are reallocated quarterly,



you do not have to worry about allocations of funds either now or in the future. Below are the fund objectives and different L fund time horizons.

Investment Objectives		
Fund	Growth	Preservation of Assets
L 2040	High	Very Low
L 2030	High	Low
L 2020	Moderate/High	Low
L 2010	Moderate	Moderate
L Income	Low	High

Time Horizons	
If your time horizon is:	Choose
2035 and later	L 2040
2025 through 2034	L 2030
2015 through 2024	L 2020
Now through 2014	L 2010
Now withdrawing	L Income

**Learner Activity:** TSP and You: Funds, Options and Choices

Purpose: Learners test their comprehension of TSP fund information and investment options.

Time: 10 minutes

Materials: The *TSP and You Workbook*

Procedure: Instruct learners to turn to Page 5 in their TSP and You Workbook. Tell learners that they are to write in the answers to the questions in their workbook. When learners have completed the questions, review the answers with the class.

Answers:

- G fund
- Time horizon
- C fund
- Life-cycle funds (or L funds)
- Ten (G, F, C, S, I, L Income, L 2010, L 2020, L 2030, L 2040)
- I fund
- Index-based funds (although TSP can also be an acceptable answer)
- S fund



- Volatility
- Aggressive (Risky would also be acceptable)

## OTHER TSP FEATURES AND PROGRAMS

### TSP WITHDRAWALS

When you separate from military service, there are several withdrawal options within the TSP. If you separate or retire before age 59½, you can:

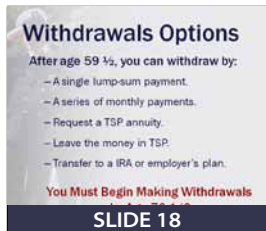
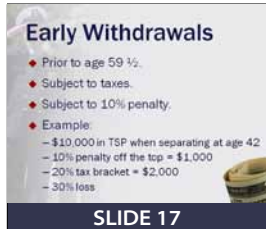
- Leave your money in the TSP.
- Transfer to a Rollover IRA or a new employer’s plan.
- Continue to contribute through eligible transfers into your TSP.

Although you can withdraw funds from your TSP account at any time, early withdrawal of funds (before age 59½) will result in a 10 percent penalty. You will also be forfeiting future income from these investments. If, however, you have less than \$200 in your account when you leave military service, it will be automatically cashed out as a withdrawal.

When making withdrawals after age 59½, there are a variety of withdrawal options from which to choose. You can opt to:

- Receive a single lump-sum payment.
- Request a series of monthly payments.
- Request a TSP annuity, in which case you must have at least \$3,500 in your account in order for TSP to purchase the annuity.
- Leave the money in the TSP to continue growing.
- Transfer the money in the TSP to a rollover or conduit IRA or to their new employer’s plan (if the plan accepts the money).

You can also opt for a mixed withdrawal, which is a combination of any of the options listed. Although you are not required to begin making withdrawals at age 59½, you are required to begin a minimum annual withdrawal by age 70½.





## TSP LOAN PROGRAM

While you are a member of the uniformed services, the TSP loan program gives you access to the money that you have contributed to your TSP account and the earnings on that money. You must be in pay status to obtain a loan, because your regular monthly loan payments are made through payroll deductions. Reservists who drill only monthly (or less) should think seriously before taking a loan, because they may be unable to make the required monthly payments. Missed payments could result in negative tax consequences.

There are two types of loans — a general-purpose loan and a loan for the purchase of a primary residence. You can apply for a general-purpose loan with a repayment period of one to five years, or you can apply for a residential loan with a repayment period of one to 15 years. No documentation is required for a general-purpose loan, but you must submit documentation (such as a contract for the purchase of your residence) to support the amount you are requesting for a residential loan. You may have one general-purpose loan and one residential loan from your TSP account at any one time.

The minimum loan amount is \$1,000. Therefore, you must have at least \$2,000 of your own contributions and qualified earnings on those contributions in your TSP account to apply for a loan. The maximum loan amount is \$50,000, depending on the amount you have contributed to your account, any outstanding TSP loans, and limits set by the Internal Revenue Code. If you have both a civilian and a uniformed services account, the maximum loan amount available for you to borrow will be based on calculations that consider the account balances and outstanding loan balances for both accounts.

The interest rate you pay for the life of the loan is the latest available interest rate for the G Fund at the time your application is processed. The interest you pay on the loan will go into your TSP account, along with repayments of the loan principal. You must pay a one-time fee of \$50 that covers the cost of processing and servicing the loan. The fee is deducted from the proceeds of the loan. Ultimately, what you should remember is that TSP is meant to be a retirement saving and investment program. If

you need a loan, you should first look to other resources rather than tapping into your retirement funds.

Although funds are restored to your account when your loan payments are posted, borrowing from your account will affect the final account balance available for your retirement. Because the TSP investment funds have different rates of return, the interest you pay on your loan (at the G Fund rate) is likely to be different from the rates of return on the other TSP funds. If you have invested in any fund(s) other than the G Fund, the earnings in your account when your loan is repaid in full are likely to be different from what your earnings would have been if you had not taken the loan. Thus, even though you pay back your loan with interest, you may have less money in your account when you retire than you would if you had not borrowed from it.

If you are thinking about taking a loan from your TSP account, you may want to visit the loan calculator on the TSP website. The loan calculator can help you determine the estimated amount of your loan payments or the length of time it would take you to repay the loan. The calculator automatically uses the current interest rate. Information about applying for a loan and repaying the loan, and other details can be found in the TSP Loans booklet. Download a copy of it from the TSP website. You must wait 60 days from the time your loan is paid in full until you are eligible for another loan of the same type.

**Learner Activity:** TSP and You: Withdrawals and Loans

Purpose: Learners articulate important aspects of both TSP withdrawal options and TSP loan programs.

Time: 10 minutes

Materials and Preparation: Prepare index cards by writing a review topic on TSP withdrawals or loans onto each card. Suggested review topics include: Types of loans, withdrawal options, loan limits and fees, and early withdrawal of TSP funds.

Procedure: Divide the class in either pairs or groups (depending on the size of the class) and give each team a review topic. Instruct learners to





use the information from their handouts and notes to develop a quick review of their topic for the rest of the class. Explain that they can use any method they choose to present the information to the class. Give learners a couple of minutes to develop their information and explain that they will have one minute to give their "brief." Allow each pair or group to present their information and then follow up to fill in information gaps or to answer questions.

## SUMMARY AND CONCLUSION

### RESOURCES

The following are resources for learning more about TSP:

- TSP website: <<http://www.tsp.gov>>
- TSP Thriftline: 1-TSP-YouFirst (1-877-968-3778)
- Your Command Financial Specialist (CFS)
- A financial educator at your local Fleet and Family Support Center

### SUMMARY

To conclude, here are a few thing to stress about the TSP:

- The TSP is a defined contribution plan similar to a 401(k).
- Participation in the TSP is voluntary.
- The TSP offers tax-deferred earnings.
- The TSP offers a choice of investment options.
- The TSP offers a loan program and flexible withdrawal options.
- The TSP offers you a great opportunity to build wealth!

