7 Ways To Maximize Your Thrift Savings Plan Balance

November 1, 2016 by The Federal Employee Blog Team

The Thrift Savings Plan (TSP) is meant to be a huge source of retirement income for federal employees. The FERS retirement system is based on three different sources of income –

• FERS annuity
• Social Security
• Thrift Savings Plan

As you can see the TSP is suppose to make up a third of retirement income for FERS employees. The TSP also happens to be the only income out of the three that employees have 100% control of, meaning feds have the ability invest the dollars in TSP however they choose.

Because the TSP is so important for providing retirement income the most common question I receive is "what should I do with my TSP?" It is impossible to determine a "magic allocation" that everyone should invest in, however, I have put together the following list to help maximize your TSP in your working years.

1. Understand your matching –FERS employees receive matching on their first 5% of contributions. The bottom line is if you put 5% in your TSP then the government is going to put 5% in. This is a MUST for FERS employees.

2. It's not a game – Seriously, don't play with it! It has been proven time and time again that investors make the worst decisions at the wrong times. The best way for most people to go about investing their TSP is to set an allocation and rarely change it. By "rarely," I mean that maybe you should review and rebalance your TSP once a year. Or maybe you should look at changing your allocation if you have a life event such as a death in the family or divorce. The one thing you don't want to do is change investments based on a hunch, what your colleague at the water cooler told you to do, or because you just lost 40%.

3. Increase your contributions each year – Most people don't start contributing the maximum their first day on the job, therefore it is important to increase your contributions as you start to make more. Every time you receive a COLA or a step increase you should consider increasing your TSP contributions. A good goal would be to increase your contributions by 1% a year until you are maxing it out.

4. Save early – Hardly a week goes by that I don't talk to someone in their 50's that tells me they are going to increase their contributions when a certain event happens (kids out of college, house paid off, cars paid off, etc.). While increasing retirement savings always helps, the best time to invest is right now, the earlier the better! The time value

of savings will have a huge impact on your TSP over your lifetime. If you invest $5,000 today and make 10% a year for 30 years it will be worth over $87,000. If the same money is invested for 5 years and makes 10% it will be worth just over $8,000. BIG DIFFERENCE!

5. Understand your funds – You have five funds in your TSP along with the Lifecycle funds. Take a little time to become familiar with the funds and the risks associated with each. The Lifecycle funds are simply a combination of the other five funds that become more conservative every quarter. Do you want to be more conservative every quarter? If so then they may be a good fit.

6. Don't borrow from your TSP – Much could be said about this subject but to keep it simple, if you borrow money from your TSP then that money is no longer working for you which defeats the purpose of retirement savings. So…. try your best not to do it.

7. Speak with a professional – One of the most important things an advisor can do is manage investor behavior. By investor behavior I mean preventing investors from making terrible decisions. In nearly every seminar I did in 2009 I had at least one person tell me that they just moved all of their money into the G fund because they just couldn't handle anymore losses. If an advisor can coach people not to make irreversible mistakes like this he just might be worth it.

Federal employee question of the day

From a VA Federal Employee in Los Angeles, California: I read an article here that you think the F Fund will lose money, how is that even possible?

Have you ever had any questions like this?