Should you Leave Money in TSP after retirement

by The Federal Employee Blog Team

1. How much access do you want to your money in retirement?

2. How many investment options would you like to have access to?

While we could make this very complicated the answer is really very simple. Investment options in the TSP are limited to the following five main choices and if you like those five choices and are content with them then maybe you should keep your TSP.

G fund = government guarantee

F fund = bonds

C fund = large cap stocks

S fund = small cap stocks

I fund = international stocks

The other available options are Lifecycle funds. Lifecycle funds are a combination of the above five funds that become more conservative as they get closer to a target date like 2020. So, if you are content with these five options then you may want to keep your TSP.

The Thrift Savings Plan was designed to be simple, and for a lot of people that works very well. It is a lot less overwhelming to pick amongst five investment options versus twenty. The other issue TSP tackles is low cost- the funds within TSP are very cheap. Each fund has operating expenses of .029% which is low even when compared to other index funds.

The big question you have to ask yourself is am I content with the five investment options in TSP? There are literally thousands of investment options outside of TSP. Here are some examples that are missing from TSP.

• Emerging markets

• Europe

• Japan

• China

• technology

• healthcare

• biotech

• industrials

• consumer discretionary

This list could go on and on and on. The bottom line here is that if you are content with having five investment options then the TSP may be a good fit for you. If you would like to have more investment options then an IRA rollover may be a good fit.

One other area that may be a benefit to TSP investors is risk protection. Are there any strategies in TSP that have good opportunity for gains yet give investors some downside protection? Most retirees that I talk to want (and need) to make more money than the returns that the G fund has provided in the past, however they are usually a little uncomfortable with the risk that the C, S, and I funds have. In other words, they are looking for their money to grow while still having some downside protection. This makes a lot of sense when you think about the 2007-09 time period when the C fund went down 55.2%. Most retirees cannot afford for their retirement assets to go down by 55.2% or even close to it.

One other reason you may want to move money out of TSP is to have a professional help manage your money. Distribution is a scary thought when you have been trained your entire life to save, save, save. A professional may be able to help you manage to avoid big losses in retirement, as well as help to manage your distributions following down years or increases in inflation.

Bottom Line – If you are fine with the five investment options the TSP provides as well as managing investments on your own then you may want to hang on to your TSP. If not then you should look at doing a rollover.

If you choose to do a rollover out of TSP you will likely need form TSP 70, 75 or 77 depending on the type of rollover you are doing. One word of caution when rolling money out of TSP especially if you are doing it with an advisor that is not familiar with federal benefits – be very careful transferring all of your money out before age 59 ½. Pre 59 ½ is the one time that you have more access to your TSP than an IRA and it may be a benefit to you to keep some money in your TSP until you are 59 ½.

Federal employee question of the day

From an FAA Federal Employee: I plan on retiring at age 62 giving me 31 years of service with the FDA. Can I withdraw a certain amount from my TSP at age 60 and then later, take monthly payments from whatever is left in my TSP?

Have you ever had any questions like this?