

THRIFT SAVINGS PLANS

Good Enough for Government Work



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FIRST AND FOREMOST

To start, I'll disclose that we offer lots of advice to current and former government employees and servicemen (my brother being one of them). I thank all the people who serve the greater good. My issue of course is not with individuals but rather with institutions, and the federal government isn't known to be a fast-moving and well-oiled machine. This is particularly true of the Thrift Savings Plan (TSP), a slow-moving and inefficient means to save for retirement in a fast-moving and ever-changing market.

“The shoe that fits one person pinches another; there is no recipe for living that suits all cases”. I read the above quote by psychologist Carl Jung and it tells me that there is no one-size-fits-all approach to life.

While one of the perks of working for the government in one form or another is excellent benefits (pension, health care, etc.) the TSP is too rigid and inefficient to be effective for all users.

I. Lack of Investment Options

When you roll over a TSP, you unlock investment options beyond funds like L, G, F, C, and S. These funds are not designed for your specific needs and have many shortfalls. With these funds, you have no discretion as to how your money is invested and you get the good with the bad.

For example, let's say you had the foresight to think Nvidia was a great investment for 2023 and wanted to invest your retirement dollars accordingly. You are unable to do so in your TSP. Further, if you wanted to avoid an industry, like financial institutions, you would be unable to do so. Instead, by rolling over your TSP you have access to a fully bespoke portfolio built to meet your goals.

Just like the Ford Model T, TSPs lack customization “It comes in any color the customer wants, as long as it's black”.



II. Lack of Proactive Investments and Advice

We all lead busy lives and after a long day of work followed by our children's tee ball game, we often don't have time to read the news or review our investment. This can be a huge issue when trying to best position your hard-earned retirement to meet your goals. It is very important that you have someone making sure your allocation is correct relative to your goals and making sure that we are taking advantage of the market's mispricing or avoiding disasters.

III. Lack of Liquidity

The market is fast moving, during the Coronavirus crash of 2020, we saw markets decline by over 30% in a month and move over 10% in a day! One of the greatest disadvantages of TSPs is the lack of liquidity to trade. Trades placed through the TSP "ordinarily post on the next business day" which can be a lifetime as the markets are moving double digits. Additionally, there are limits to how often you can trade in these accounts.

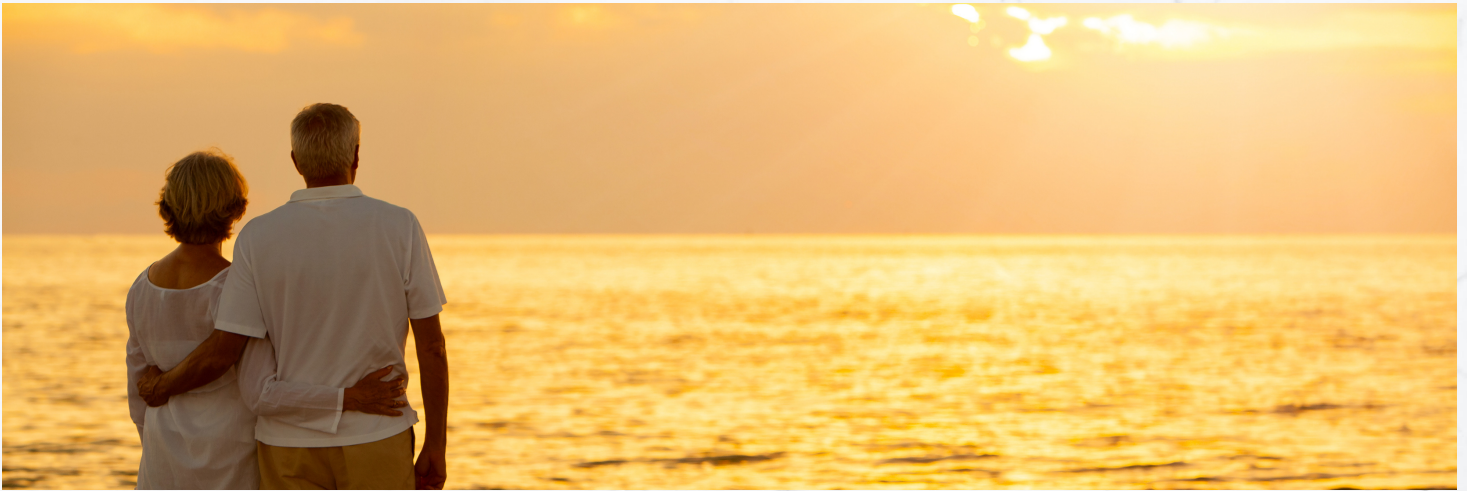


IV. Lack of Planning

Finally, far too often people invest without having a financial plan in place. That is the equivalent of navigating a ship without a compass, map, or north star.

One of the most reoccurring mistakes I find in retirement investing is a lack of tax diversification. TSPs, like 401ks, have historically been pre-tax vehicles which is great for minimizing your current tax bill and allowing funds to grow tax-free.

Problems can arise at the time of retirement if you've only ever saved on a pre-tax basis. Now every dollar you use to live on is taxable as ordinary income. Worse yet, one congressional tax change could mean that your post-tax nest egg is cut. If Congress were to raise your tax rate from 20% to 40%, your TSP post-tax value would then be cut by 20%.



V. What Should I Do?

If you are still working for the federal government, unfortunately, you are only eligible to rollover your TSP once you are over 59.5 years old. If you are no longer working for the federal government, you can make a tax-free rollover to a traditional IRA. It is a simple process but make sure you consult a financial professional as there can be nuances that require professional attention.

If you are unable to roll over your TSP, remember your work isn't done. You may still want to get financial advice on how to invest those assets or how you might best supplement your TSP with after-tax assets. Additionally, a financial professional can offer guidance on all sorts of issues like investments, taxes, education planning, estate planning, retirement planning, etc.

QUESTIONS?

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