Thrift Savings Plan Options
Making Your Retirement Dollars Work for You

It's never too early to start saving for retirement. The best way to get started is the Thrift Savings Plan, a retirement savings plan for federal employees and members of the Uniformed Services that gives you two ways to sock away some cash.

The TSP gives you a simple retirement strategy that makes saving money easier. Like the 401(k) plans offered by many private employers, TSP saves a percentage of your pay (you decide how much) through payroll deductions. The plan gives you two savings options: the traditional TSP (contributions are tax-deferred) and the Roth TSP (contributions are tax-free when you withdraw funds). And it's all yours to keep, whether you leave the military or stay in until retirement. It's a good deal any way you look at it.

How the traditional TSP differs from the Roth TSP

Understanding the difference between these two plan options can help you decide which is the best investment strategy for you.

- **Traditional TSP** — Your contributions are pre-tax, meaning you don't pay taxes on them or any earnings until you withdraw them, usually after age 59 ½.
- **Roth TSP** — Your contributions are made after you pay taxes on the money, so you won't owe any further taxes when you withdraw funds, and the earnings are tax-free if you meet the IRS requirements.

Here's a further breakdown:

- **Contributions** — Contributions to a traditional TSP are tax-deferred until withdrawal, so less money is taken out of your paycheck. Taxes are paid up front on Roth contributions, so more money comes out of your paycheck.
- **Withdrawals** — You pay taxes on money withdrawn from your traditional TSP, including the earnings it accrued. Roth plan withdrawals are tax-free because you already paid the taxes on the money, and any accrued earnings are also tax-free (if you meet the requirements).
- **Tax breaks** — Traditional pre-tax contributions give you a tax break today by lowering your current taxable income. Roth plan contributions don't give you the same tax break because you pay the taxes up front and withdraw the funds tax-free later.

Deciding what to do

Here are some things to consider when choosing a plan:

- **Your current tax rate** — It all comes down to whether you think you'll be better off paying your taxes now or later (because you have to pay them one way or the other). Think about your current income level and tax rate and what you expect they might be when you retire. For example, if you're in a low-income tax bracket now, but think your tax rate could be higher in retirement, the Roth TSP may be a good option.
- **Your career path** — If you're in the early years of your career and you expect your future income to increase considerably, paying the taxes now on your TSP contributions might make sense.

Remember, this isn't a one-way-or-the-other decision. You can contribute to both your Roth and traditional TSP balances.

Enrollment
Enrolling through MyPay (Army, Navy and Air Force), Marine Online (Marine Corps) or Direct Access (Coast Guard and NOAA) is the easiest way to go. You can also enroll through your installation's finance office using TSP Form U 1: TSP Election.

Contribution amounts
You can fund your TSP with a percentage of your basic pay, incentive pay or bonuses. The Internal Revenue Service puts limits on your TSP contributions, which change each year. Visit the TSP website to see the current IRS limits. Once your account is established, you can access it on the TSP website or by using the TSP ThriftLine (877-968-3778), where you can pick your investment options or make changes to your account.

Loans and withdrawals
The TSP is a retirement savings plan, so loans or withdrawals before separation or retirement are restricted.

- **Loans** — Loans are available to members who are still in pay status. You can borrow from your contributions and earnings for a $50 processing fee, and pay back the loan, with interest, through payroll deductions.
- **In-service withdrawals** — Hardship withdrawals are available to members under specific, limited conditions. Also, members age 59 ½ or older (still in pay status) can make a one-time, age-based in-service withdrawal.

Post-separation withdrawals
After you separate from the Uniformed Service, you have several withdrawal options.

- **Partial withdrawal** — Make a one-time request to withdraw a portion of the money in your account. The balance will continue to accrue earnings for later withdrawals.
- **Lump-sum payment** — Receive a single payment of your entire TSP account all at once.
- **Monthly payments** — Specify a dollar amount to be sent to you each month, or the TSP will calculate your monthly payments based on your life expectancy. Payment amounts can be changed once a year.
- **Life annuity purchase** — Use all or a portion of your account to buy an annuity, which is paid to you (or your survivor) every month for life.

You can choose any one of these options, or choose a combination of these options as well. For example, you can specify an amount you'd like as a lump-sum payment and use the balance in your account for monthly payments. Visit the Thrift Savings Plan website at www.TSP.gov to learn more.

Source: http://www.militaryonesource.mil/-/thrift-savings-plan-options-making-your-retirement-dollars-work-for-you (11/2017)