Government Thrift Savings Plan – Positives and Negatives

It appears the thrift board has sent a letter to participants cautioning rollovers to IRA accounts. We thought an analysis of a rollover would be advantageous.

Positives for Thrift Savings:

1. Fees are modest because funds are invested in low cost index funds except G fund which carries the same management as other TSP accounts even though little management is needed for the account that cannot lose value.
2. Limited investment choices-for those who want to keep it simple.
3. Staying with what you know, comfort.

Potential Negatives:

1. Only one partial withdrawal in a lifetime, once retired.
2. By law IRA's and TSP holders must start withdrawing at age 70 ½. Since TSP only allows one partial withdrawal in a lifetime, the only way to satisfy this requirement is to start monthly income and potentially lose access to your lump sum.
3. Can take monthly income from TSP by annuitizing or using designated payments. If designated payments, can only change payment once a year and once started cannot stop (must at least be $25) unless you take a full withdrawal and cash out.
4. Secondary beneficiaries must withdraw the funds at death.
5. G fund is averaging 1 to 2% and cannot lose value. Guaranteed annuity accounts are 3 to 5%.
6. Funds are index accounts meaning no management. Therefore, when markets falter, no action is being taken.
7. Limited choices for example: no real estate, no commodities, no midsize company, no utilities, and no international bonds, to name a few.
8. Can invest in the same C, S, I, F accounts outside government plan for low cost as well, but many more choices.
9. Limited withdrawal options limit flexibility and access to your funds in retirement.

Finally, if the only thing that matters is cost, then one would buy all clothes at Wal-Mart and stay at Motel 6. So, IRA's for a similar return gain choice, flexibility, diversification, service.

Sharla Rountree CFP®

Personal Benefit Financial 870 Kipling St #A, Lakewood, CO 80123 303-238-5123