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 72.
3. Can take monthly income from TSP by annuitizing or using designated payments. If annuitized payments, cannot change payment once.
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, and it only re-balances once a year, so it can get very skewed to what actual index is holding.
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.
10. Pro-rated withdrawals- cannot choose which fund to take from.

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.

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