Over 59.5? Retiring Soon?

Tips for a Winning TSP Election

Is it fair to say that the outcome of this year's presidential election will *probably* impact your financial future *less than* the changes you can make to your TSP account this year? Many federal employees think so! You might want to consider:

*How much access do you want to your money?

* How many investment/distribution options would you like?

The Thrift Savings Plan is a very good accumulation vehicle for federal employees because of the ease of use, simplicity and low costs. You probably already know that you can take advantage of your ability to reposition these funds upon retirement and at any time after turning 59.5 years old. The best course for you depends on <u>your</u> particular circumstances. This article addresses general guidelines that are true of federal regulations in 2016.

How does the "oh so convenient" TSP become a complicated "not at all convenient" TSP in a hurry? Suppose you are ready to retire. You may choose to receive an automatic monthly distribution. Many federal employees are asking these common questions:

- What if I want to take money out one month and not the next?
- Can I take money out to take my family on vacation?
- Can I stop my distributions?
- Can I take money out of my TSP and not my Roth TSP?
- How do I increase my monthly withdrawal?

Once you start receiving a distribution from TSP you cannot stop receiving distributions. Thrift Savings Plan will not allow you to discontinue your distributions. They will permit you to change your distribution for the next year as long as you fill out form TSP 78 during the correct time period of 10/1-12/15 of a calendar year. This means you are not allowed to change your distribution during the year that you are receiving it. Changes can only be made for the following year's distributions! "Life" doesn't always let us plan that far in advance, does it?

TSP participants are also not allowed to receive lump sum distributions with the exception of a *one-time* distribution. In other words, taking money out of your TSP periodically, as you would a savings or money market account, is not an option. TSP simply does not allow multiple lump sum distributions.

All distributions from TSP are disbursed according to how your TSP is allocated. They are disbursed in relation to **both** your fund allocation and your TSP/Roth TSP allocation. A look at the following example can help to understand how participants receive distributions:

"Joe Smith" has 25% of his money in the Roth TSP. If Joe chooses to take $1,000 a month from TSP he will receive $250 from the Roth and $750 from the traditional TSP.

Since Joe has 70% in the C fund and 30 % in the G fund, his distributions will also include a withdrawal of 70% from the C fund and 30% from the G fund.

Is this the best withdrawal method? Most federal employees would prefer not to access money in their Roth TSP for one big reason - money in Roth TSP passes to designated beneficiaries "income tax free!" So, the longer that money sits in the Roth TSP the more time it has to (hopefully) appreciate. The TSP requires withdrawals from Roth TSP once individuals attain age 70.5, the same as is required of a traditional TSP account.

Most people would prefer not to withdraw funds from their stocks and mutual funds investments in years when they are down... if you have a choice, that is! However, this is not an option with TSP. Withdrawals from TSP will happen in accordance with how your balance is allocated.

What can this mean? Withdrawing funds in a "down year" puts more pressure on the remaining balance to grow in order to make up for the losses. Can't it also mean that your money won't last as long?

One final issue for those of us who are single (or who might be, one day): what happens to the TSP when it passes on to a non-spousal beneficiary? A spouse who inherits funds may leave them in a TSP account. Many people are surprised to learn that a non-spousal beneficiary <u>must</u> receive all money from the TSP within one year. This creates a potentially dangerous tax situation for the beneficiary and could end up costing many thousands of dollars in taxes. Why is this unnecessary? Many people are seeking out other IRA retirement accounts which provide for a much friendlier transfer of funds to non-spousal beneficiaries.

A review of the withdrawal options and restrictions of the TSP illustrates these points:

*It is impossible to change monthly withdrawal amount throughout the year.
*There is no ability to take lump sums out, periodically. Suspending withdrawals is not an option once you start taking them. You can't choose to take money out of Traditional TSP and not Roth TSP; they are linked together!
*You can't pick and choose which fund(s) your distribution will come from
*Withdrawals must begin from your Roth TSP at age 70.5
*Non spousal beneficiaries must remove all money from TSP within one year, creating a taxable event

In summary, a close consideration of these issues can have a huge impact on individuals and families! If you are over age 59.5 and still plan to continue to work, an in-service withdrawal from your TSP may certainly be worth considering. You can maintain your tax-deferred status, reposition your funds and add more varied investment options. Plus, you can enjoy much more flexible options for future distribution, if and when desired.

Are you motivated to carefully consider your TSP options, this election year?