Understand Your Thrift Savings Plan (TSP)

TSP is one of the lowest-cost ways to save for retirement. TSP, which is like a 401(k) for members of the military and federal employees, makes it easy to invest automatically from your pay. It also gives you a choice of five index funds and target-date funds, and only charges about .029 percent for fees—that's 29 cents per year for every $1,000 invested. The money invested lowers your taxable income now and grows tax-deferred until you withdraw it in retirement.
Here's how to get started with your TSP and make the most of this savings opportunity.

1. **Decide how much to invest.** You can invest up to $18,000 in the TSP in 2017, plus an extra $6,000 in catch-up contributions if you're 50 or older. Since contributions are pre-tax, investing the full $18,000 only reduces your take-home pay by $13,500 if you're in the 25 percent tax bracket.

   Investing a little bit with each paycheck makes saving more manageable: Contributing $350 twice a month only lowers each paycheck by $262.50, but adds up to $8,400 in contributions by the end of the year.

2. **Consider the TSP Roth option.** This option allows you to contribute to the TSP from taxable income, which reduces your take home pay, but does not reduce the gross income reported to the IRS. Withdrawals, however, are tax-free provided the TSP account is open at least five years and you are either at least 59½ or permanently disabled.

   Whether this option makes sense for you will depend on your current tax situation and whether your tax rate is likely to be higher or lower in retirement. Keep in mind that the aggregate pre- and after-tax contributions cannot exceed the annual limit set by the IRS.

3. **Boost your contributions while deployed.** If you're receiving tax-free income in a combat zone, you can contribute up to $54,000 to a TSP account during 2017. It could also be the perfect time to boost your contributions while deployed, when your paycheck is larger because of the tax breaks and combat pay. Tax-free income you contribute while deployed is never taxed when you withdraw the money from the TSP.

4. **Pick your investments.** The TSP has six investing options. You can invest in five index funds, which focus on large companies, small companies, international firms, bonds or government securities. Or you can simplify your investments by choosing a lifecycle fund (called an "L Fund"). The L Fund creates a diversified portfolio of the other funds and automatically shifts the investments from more aggressive to more conservative based on your time horizon. The L2050 fund, for example, is designed for people who plan to retire in more than 30 years and starts by investing primarily in stock funds, then gradually becomes more conservative and shifts more money to the bond and government securities funds through time.

5. For more information contact your Peterson AFB Airman & Family Readiness Center, Personal Financial Counselor Victor or Mark at 719-556-6141.