Thrift Savings Plan Account Checkup

A guide to help our shipmates get their TSP accounts on track for long-term growth

By LCDR Shad Thomas, '98

Military members have had the opportunity to invest in the Thrift Savings Plan (TSP), the primary tax advantage retirement savings vehicle for federal government workers and members of the uniformed services, for just over ten years. During this time, participation in the TSP for Coast Guard members has increased substantially, especially among the younger generation. Credit for this success, in part, goes to the leaders of our organization for discussing the benefits of compound interest and saving for retirement. Though we're doing a good job of marketing the TSP and encouraging our shipmates to enroll, there is a crucial "next step" that our shipmates are not taking to set up their TSP accounts for long-term growth.

In the past, we looked at the TSP as a supplement to the military pension. However, given the economic climate and the uncertainty of military retirement pay and benefits, we must now pay stronger attention to our TSP accounts. Accordingly, it is our responsibility to ensure that our shipmates are educated on the basics of the TSP.

I have trained over 700 Coast Guard members on the TSP over the past year. During this time, I've discovered that a high percentage of our shipmates are unknowingly keeping all of their money in the ultra-conservative Government Securities Investment Fund (G Fund), simply because it is the default fund. Per existing policy, all contributions are automatically invested in the G Fund until the member establishes an account on the TSP website and elects a new allocation mix among the available funds. Our shipmates are not taking the next crucial step of choosing a balanced mix of funds, and this is quite concerning.

Knowing this trend is likely widespread throughout the Coast Guard, my goal is to ensure that all members that are enrolled in the TSP understand where their money is being invested. To accomplish this goal, I need your help. First and foremost, conduct a check-up of your own TSP account to ensure you are satisfied with your investment choices. Second, I will provide you with a simple two-step process to engage in a discussion with your shipmates to ensure that they understand where their money is being invested.

Portfolio Mix

Let's take a closer look at the G Fund and discuss why it is not the optimal fund to invest your entire portfolio in over the long run. The G Fund invests in short term U.S. Treasury securities that are guaranteed by the U.S. Government, and the interest rate for the G Fund is based on the yield for Treasury notes and bonds.[1] You will never lose your money by investing your entire portfolio in the G Fund, which is most likely why it is the default fund. However, over the long term, your money will grow at a very slow pace.

The G Fund returns approximately 2%-5% annually. Most recently, over the past five years, the G Fund has returned an average of 2.32% per year. Over that same period, the C Fund (S&P 500) returned an average of 18% per year and the Lifecycle 2040 Fund (recommended

1 www.tsp.gov

Fund	Description of Investments	Volatility
G Fund	Government Securities	Low
F Fund	Government, corporate, and mortgage backed bonds	Low to Moderate
C Fund	Stocks of large and medium sized U.S. companies (S&P 500)	Moderate
S Fund	Stocks of small and medium sized U.S. companies	Moderate to High
I Fund	International stocks of 22 developed countries	Moderate to High
L Funds	Professionally diversified portfolio using G, F, C, S, and I Funds	Asset allocation shifts as time horizon approaches to reduce volatility

Table 1

Source: www.tsp.gov

portfolio allocation for an investor in their 20s and 30s) returned an average of 14.74% per year.[2] Of course, we cannot expect the stock market to always perform as well as it has over the past five years. However, judging by historic measures, the stock market has outperformed the G Fund over the long-term by a considerable margin.

The widely recommended retirement strategy among investment professionals is a balanced portfolio of stocks and bonds, based on your age and risk tolerance. The G Fund gives the investor no exposure to stocks or bonds, and very limited opportunity for long-term growth. While the G Fund is a safe investment, it is not the ideal place for your money over a 30 – 40 year investment time period.

To make the transition from the G Fund to a desired balanced portfolio, a basic understanding of the different funds is required. Table 1 provides an overview of the five investment funds and lifecycle funds that are offered to TSP participants. The funds offer us a choice between stocks (C, S, and I Funds), bonds (F Fund), and low risk Government Securities (G Fund). In addition, we can choose from the lifecycle funds which provide a professionally allocated mix of the G, F, C, S, and I Funds based on your investment time horizon.[3]

2 Ibid.

3 Ibid.

After gaining a basic understanding of the different funds offered in the TSP, the following two-step process can be used to educate your shipmates on their TSP accounts and help them understand where there money is being invested.

Step 1: Awareness

The first important step is to simply ask your members who are enrolled in the TSP where their contributions are going towards in their account. If they don't know where their contributions are going, most likely their entire balance is in the G Fund. From my experience, over 50% of our members fall into this category.

If they do know where their contributions are going in their TSP account, no further engagement is necessary unless they have questions about moving their assets into a balanced portfolio.

Step 2: Asset Allocation

Members who discover they are 100% invested in the G fund may be interested in learning about the different fund options available to them. In order to make an educated decision on where their money should be invested, they will need to know more about the following diversification strategies and then decide on one: Passive Management, Active Management, or Remain in the G Fund.

Fund	*Level of Growth*	*Emphasis on Preservation of Assets*	*Participants anticipated date to begin withdrawing money*
L Income	Low	High	Before 2015
L 2020	Moderate	Moderate	2015 through 2024
L 2030	Moderate to High	Low	2025 through 2034
L 2040	High	Low	2035 through 2044
L 2050	High	Low	2045 or later

Table 2

Source: www.tsp.gov

Passive Management. If the member wants to put their TSP on autopilot and allow the professionals to rebalance their portfolio based on the recommended balance of stocks and bonds for their investment time horizon, the member should invest in the Lifecycle Funds. The L Funds invest in an appropriate mix of the investment funds (G, F, C, S, and I Funds) based on a specific target retirement date.[4] From my experience, the L Funds are a popular choice for members who were previously unaware that all of their money was in the G Fund and that they do have investment options. All the member has to do is decide on the Lifecycle Fund that is right for their age, and then contribute fully to this fund. The L Funds will rebalance on a quarterly basis and move assets towards a less risky mix of investments as the target date approaches.[5]

There are five choices of L Funds to choose from based on when you anticipate withdrawing money from your TSP account: L Income, L 2020, L 2030, L 2040, and L 2050. Table 2 provides a description of each lifecycle fund and can be used as a guide to help our members choose the correct fund.

It is important to note that the member should choose the appropriate L Fund based off the approximate date of when they will need to start withdrawing from their TSP account, not off their target retirement date from the military. For example, if someone plans to retire from the Coast Guard in 2020 at age 45, they should not choose L 2020. Instead, they should choose L 2040 if they think they will start withdrawing from their TSP at age 65. Since the majority of military members retire from the service at a relatively young age, selecting a target retirement fund based off their projected Coast Guard retirement date is too conservative of a portfolio.

Active Management. Active management involves a basic understanding of the investment funds and periodic rebalancing of their portfolio. Depending on their age and risk tolerance, they will choose a portfolio consisting of G, F, C, S, and I Funds. It is the member's decision on how aggressive they want to be with their TSP account.

For members in their 20s and 30s, the widely used investment strategy is to be heavily weighted in the C, S, and I Funds. As they approach retirement, they will decrease their allocation to the volatile C, S, and I Funds, and increase their allocation to the conservative F and G Funds. This strategy will limit large portfolio losses should the market have a downturn when a member is closer to retirement.

Remain in G Fund. I rarely come across a member that, once they understand that the entire balance of their TSP account is in the G Fund, that they elect to keep all of their money in this fund. However, some members may wish to remain in the G Fund due to their risk tolerance or to cushion against a possible market downturn in the near future. This is completely acceptable, as long as they understand where their money is being invested.

4 Ibid.
5 Ibid.

Risk

It is important to note that choosing a balanced portfolio of stocks and bonds for a retirement account is a long-term approach, and that the stock market will have its ups and downs over the course of time. Accordingly, if you're invested in a balanced portfolio, your account value will decrease in the short run during years when the market declines. For example, during the financial crisis in 2008, the C Fund declined 37% and the L 2040 lost 31.5%, while the G Fund returned 3.75%. In hindsight, it would have been nice to have all of your money in the G Fund during 2008. However, in the long run, maintaining a balanced portfolio based on your age and risk tolerance will provide you with the best opportunity for gains.

Way Ahead

In today's economic climate and era of job mobility more Coast Guardsmen are separating from the service prior to the twenty year mark. In addition, we've tightened professional growth points, which results in some members being separated from the service earlier than anticipated. It is our responsibility to ensure these members are educated on investing their money in a balanced retirement account and help get them on track for a healthy retirement.

From my experience, our workforce craves the knowledge and understanding of how to set up their retirement accounts on the right path for success. Since the G Fund is the default fund and members are not shifting their assets to a balanced portfolio, we need to step up and facilitate this discussion.

Moving forward, I have urged the Federal Retirement Thrift Investment Board (FRTIB), the board that administers the TSP, to change the default fund for uniformed service members from the G Fund to an age appropriate Lifecycle Fund. If the FRTIB makes this change, newly enrolled members would be set up for long-term growth without having to make an investment decision. However, this change would only impact new enrollees, and would not help existing participants who are 100% invested in the G Fund.

Overall, we are doing a fantastic job marketing the TSP and members understand the benefits of saving for retirement in a tax advantage account. The next step is to educate our members on their investment options. As leaders and managers, we need to look out for our shipmates and engage in conversations about their TSP accounts to ensure they have the knowledge to make an educated decision. Please have this discussion with your shipmates, and the result will have a major positive impact on their financial future.

LCDR Thomas is a 1998 graduate of CGA and holds a MBA from Vanderbilt University Owen Graduate School of Management. He has commanded the cutters POINT BRIDGE, HALIBUT, TYBEE, and KISKA. He currently serves as the Comptroller and Base Operations Department Head at Base Honolulu.