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**Deaf in Government Financial Literacy Webinar Series**

**Part 3: TSP**

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>> Brianne Burger: All right, hello, everyone!

It looks like we're ready to get started, so, hello, I'd like to introduce myself. I'm Brianne Burger. I'm here on behalf of Deaf in Government, DIG. And we are thrilled to introduce you all who are watching this evening to part 3 of our four-part webinar series on financial literacy, where we've been covering a variety of different topics. We're now in, as I said, part 3, and we're very much looking forward to learning about how to manage -- how to navigate, I guess, is the best way to put it, our Thrift Savings Plan, also known as a TSP. This is most commonly used in the federal employment system, as well as some state systems who offer a similar program.

And we also know that Gallaudet University also has a TSP.

So I think this is going to be applicable to a lot of folks, not just federal employees!

So we want to extend a warm welcome to Kramer Wealth Managers who are here with us tonight.

KWM, for short!

So, without further ado, I'd like to introduce Ms. Stephanie Summers, and also with us is Mr. Jeremiah Thompson. And we'll go ahead and start sharing our PowerPoint, and they will be walking us through the webinar. At any point during the evening, feel free to share out your questions in the comments. We will be monitoring that and making sure at the Q&A at the end that we take the opportunity to address any questions you might have. So again, feel free to post your questions in the comments section any time during the webinar, and we will make sure we address them at the conclusion when we have our Q&A. All right, then, without further ado!

Welcome, and we'll begin with our presentation and the PowerPoint.

>> Stephanie Summers: Hello, good evening, everyone. As Brianne mentioned, today we're going to be covering the Thrift Savings Plan. Most people just refer to it as TSP.

There are three main sources of retirement income. We already talked about FERS. We already talked about Social Security. And now we're on that third income source, that is, from the Thrift Savings Plan. So we're going to go into that in much more depth tonight.

We want to talk about what it is that you need to know about your Thrift Savings Plan. First, what exactly is it?

TSP is a special tax-deferred savings plan, and it's very similar to the 401(k) plans that you see in the private sector. So companies use 401(k), the government uses the TSP, but they're pretty much the same. It is what is known as a defined contribution plan, also known as a DC plan. And it is, the oversight comes from the Federal Retirement Thrift Investment Board. There are six different people on the board that oversee the plan. One is the executive director, and then there are five individual members.

So the six members of the board work together to oversee the entire plan.

So, what are the benefits of using your TSP plan?

Well, first, you are able to contribute toward and save towards your retirement.

Second, you have the advantage of pre-tax savings. Now, that is specifically relating to the traditional part -- the traditional TSP. That is pre-tax money that goes into that bucket.

The other advantage is that you're paying yourself first. So when you're saving money, that's a form of paying yourself. Every two weeks, you're setting aside money, seeing it grow. And we call that dollar-cost averaging, or DCA.

Another advantage is, it's easy. It's very easy to just have that money coming out of every paycheck, going into the TSP. And you also, another advantage is that you get the agency match. The agency contributions. And that only applies to those that are in the FERS pension plan that have that opportunity to get the match from the agency.

So, what is the purpose of TSP?

Well, the point is to set aside money so that you can generate income for yourself in retirement, and how much that will look like, how much income that will be, is dependent on a variety of factors. First, it depends on how much you're investing, how much you're withholding from your paycheck to put into the TSP plan biweekly.

The second factor that affects the value are your investment choices -- which of the five main funds you're choosing to invest your funds.

And a big impact is when you start investing. If you start right when you start working, immediately starting putting money aside, or if you wait 5, 10 years later before you start contributing, that has a big impact, when you start contributing.

And then also how much you're earning through your career. If you stay in the government for 30 years, of course you'll see your TSP build throughout that time.

And then the consistency with which you invest.

As long -- you know, you've got to keep contributing, keep those payroll deductions coming out.

And then the method that you choose for your withdrawal, the choice of how you choose to withdraw your money, that will impact your future income too, and I'll get into that later on.

And finally, which option you choose in terms of Roth or traditional. You do have a choice of using either Roth or traditional, and I'll show you more information, on the difference between the two and how you would make that choice.

On the TSP website, if you go into www.tsp.gov, there are a variety of calculators that you can use there for different reasons. For example, you can see, if you want to see how much the money that you're putting in, how much it's going to grow into. So you can pick, I'm putting in X amount of money -- let's say $150 per paycheck. And what's that going to look like in 5 or 10 years?

What will that potentially grow to?

So you can put it into the calculator and it will give you an estimate of what that will look like in 5 to 10 years based on the amount that you're contributing biweekly.

And the same of the growth in your existing account. So whatever money you already have in there, it can estimate with the market returns that you're getting plus the money that you're putting in, you can get an idea, an estimate of what that future value might look like.

There's also a loan calculator. If you need to loan, take a loan out against your TSP, you can calculate what that will cost you.

Elective deferral calculator. That is where you might decide how much, in the different funds that you choose, the different fund elections, what the potential growth might be like. Because each of the different funds have different dollar amounts.

And then there's also a retirement income calculator. So how much income you might be able to generate from that based on the future value in the account. And that kind of ties in with the last one. There's a retirement planning ballpark estimator. And that will figure out, based on the amount you have in TSP, and how much you plan to withdraw from it, what that income will look like. So all of those calculators are available online, and you can explore that, navigate that, in the tsp.gov website.

So now I want to talk about the difference between traditional TSP and Roth TSP. With the traditional option, the money that goes into the plan that comes out of your paycheck is pre-tax. So that money goes in before they calculate the tax. The growth in the account, the earnings, grows tax-deferred. When you make a withdrawal from the account, the amount that you withdraw becomes part of your income, as ordinary income. So it will be taxed at your ordinary income tax rate on top of any other income you may have.

And then finally, for traditional, when you reach a certain age, you have to take required minimum distributions. Required minimum distributions, or RMDs. So that all applies to the traditional plan.

On the Roth plan, the money that comes out of your paycheck is after taxes. The earnings that grow in the account, the money that grows, that grows tax-free. However, you do have to meet certain requirements. You have to be over 59 and a half and have had the account for five years or more in order for the earnings to be tax-free. Again, that's only in the Roth portion. So if you have two balances, you have a traditional balance and a Roth balance in your TSP, they are taxed differently. Only the Roth is tax-free. The traditional is taxable. So when you make a withdrawal for your RMDs, it's not required for Roths, so when you turn age 72 and you have that money in the Roth bucket, you don't have to take RMDs from that, but you do from the traditional bucket.

Now, it's important to keep in mind, if I choose to put all of my contributions into Roth, the employer money is always going to go into the traditional bucket. Always. So no matter what, you will always have two different plans, two buckets within your TSP. So the traditional money is coming from the employer, from the agency, and the Roth money is from your own contributions going in.

Now, this just gives you a general example with a real dollar amount, to give you a better picture of how it works.

So, let's say your salary is $100,000 a year. And you decide that you want to contribute 10% of your pay to TSP. So first we'll look at the traditional bucket, what that would look like. You put in $10,000 a year, and you would save -- remember, you put that in before you calculate taxes -- so you would save about $2,900 a year in tax. Over 30 years, that tax savings comes to $87,000. Over 30 years.

So again, this is money that you haven't paid tax on.

Let's say after 30 years, with a 6% hypothetical rate of return, the account grows to $841,000. $841,000 in the traditional bucket would all be taxable. So when you withdraw it in retirement, you'll be paying almost $244,000 in taxes on that money.

On the Roth side, same thing -- $100,000 salary, $10,000 contributions every year -- you don't have any annual tax savings, because you're paying tax on it before you contribute it. The growth, we assume is the same, 30 years, 6%, still $841,000 at retirement. But when you withdraw it, it's all tax-free, so you pay no taxes on all of that.

So that gives you an example of the comparison. Your tax savings with the Roth ends up being about $157,000 in taxes that you save over those 30 years. So you can see the difference there.

Now, remember, you will always have some money in the traditional bucket from the employer's money, the match that they're putting in. But your money, you can choose whether you want traditional or Roth. Or you can choose some in each, or just traditional, just Roth.

All right, so now let's talk about the different investment funds that are available. TSP offers 5 individual funds in their plan: G, C, F, S, and I.

Now, there are lifecycle funds that you can choose as well. But the lifecycle is just a combination of those other 5 funds into one grouped portfolio. They're lumped together. And the percentage allocations varies in each of the L funds. And I'll explain that in a minute.

The third option is brand-new. They just added it. It's called the Mutual Fund Window, MFW. They now offer approximately 5,000 different mutual funds from about 300 different mutual fund companies. So these include companies like Fidelity, T. Rowe Price, and Vanguard. And I'm just naming 3 most popular names. But really, there are hundreds to choose from. So you can go in and look at more options through the TSP website.

So let's start with the 5 funds. We're going to explain what each strategy of each of the individual funds, the risks, the volatility level, all of that.

So we'll start with the G. G invests in government securities. It's pretty much stable value. Really, the only risk in the G fund is inflation risk, which just means that because of inflation, you may lose purchasing power because it doesn't grow enough to keep up with inflation. So the interest that you get in the G fund may not be enough to overcome the rising prices.

But there is no volatility on that one.

The next one is the F fund. And that invests in different types of bonds -- government bonds, corporate bonds, mortgage-backed securities. And it follows an index called the Barclay's U.S. aggregate bond index.

So the risks associated with bonds include market risk, credit risk, prepayment risk -- that means, you know, some people decide to pay off their mortgage early, for example. That can actually impact the value of mortgage-backed securities. They get less interest payments from it because people have paid off their mortgage early. So that's one type of risk that can impact that fund.

And then also there's inflation risks.

It is low to moderate volatility.

The third is the C fund. C invests in large and mid-size U.S. company stocks, and the index that it matches is the S&P 500 market. The risks associated with this fund are market and inflation risks, and the volatility in that type of fund is more moderate.

The S fund invests in small to medium-size U.S. companies, and the index that it follows, that it measures, is the Dow Jones U.S. Completion Total Stock Market Index. That's the index that it gets compared to. And it has the same types of risk as the C fund -- market risk and inflation risk. But the volatility in that fund is a little bit more aggressive. It's moderate to high volatility.

I is international stock, so developed countries all over the world, and stocks in companies that are domiciled in international countries. And that follows the MSCI EAFE index. So the additional risk that it has over and above the C and S funds are currency risks, because they deal with countries that have currency other than the U.S. dollar, which can become inflated or deflated relative to the U.S. dollar, which can affect American companies. So it has market risk and inflation risk, but currency risk as well. And we've seen that today impacting all of these funds. The volatility in the I fund is moderate to high.

Now, the lifecycle funds, I'll explain that next. The L funds are all a mix of all of the 5 individual TSP funds that they build into a portfolio, and it's got a risk portfolio based on your time horizons. For example, the L fund is for people who are already taking income now, and it will be heavily invested in G fund, because the goal is to preserve your capital, preserve your principal that you've accumulated over all these years. While someone who isn't planning to retire until 2050, for example, the L-2050 fund will be more aggressive. It will have a lower percentage in G funds and higher percentage in C, S, and I, depending on the year of retirement that the L fund is targeting. So right now it goes from L-Income all the way to L-2050. After L-2025, then we'll have L-2055. So there's a new series every 5 years.

The risk associated with the L funds is all of the funds that I previously discussed -- market risk, inflation risk, currency risk. Because all of those previous funds I discussed are included in the L fund, so it contains all those types of risk. And the volatility depends on which L fund you're invested in, which lifecycle. If you're in L-income, you have relatively low volatility, whereas if it's L-2050, it will be much higher. You can look at tsp.gov to learn more about each of the lifecycles and how much is invested in each of the individual funds, and historical runs as well as other information is available on the website.

Now, with the mutual fund window, like I mentioned before, you will see 5,000 different funds that you can choose from there. This gives you a lot more flexibility, a lot more options to choose from. The TSP funds are very limited. You just have 5 options. Now here you have over 5,000 to choose from.

The risks there are the same types of risks that you see in the TSP funds. And the volatility has a range as well. So you can find low-risk funds. You can find high-risk funds. There's quite a range.

So now, if you decide you want to invest some within the mutual fund window, these are the rules that apply to that. First, the limit is 25% of your total account balance. That is the maximum that can be invested in the mutual fund window.

Now, in TSP, you have to have at least $40,000 in your TSP -- $40,000 or more -- before you can even transfer anything to the mutual fund window. And you'd have to transfer at least $10,000.

So if you have a balance of under $40,000, you will not be able to utilize a mutual fund window until that balance exceeds $40,000.

Fund transfers, including reallocations, are limited to just two times per month. So if you want to play around, move things around in your account, it's limited. However, from the G fund, to go into or out of -- I'm sorry, for money to go into the G fund, there's no limit in there. If you have funds in C, F, S, or I, that will be limited twice per month.

So, if you've used up twice a month, you'll have to wait until the next month before you can do another transfer. And again, the maximum is 25% of your account balance.

Now, if you want to take a withdrawal from your TSP account, you cannot withdraw directly from the mutual fund window account. You would have to sell it in that account, transfer the money back to TSP, to one of the TSP funds, and then you can process a withdrawal.

Now, there are also additional fees associated with the mutual fund window. First, there's an administrative fee of $55 annually. That's for them to oversee and manage that account. Then there's an annual maintenance fee of $95 per year. And then any time you want to make a trade, to buy or sell any of the funds, it's $28.75 per trade. And then there's also, each of the funds in the mutual fund window has their own internal expense ratios.

So this is very new. It just started very recently just this year.

Now, I explained before that your future retirement income depends on how much you contribute and the government match. So if you are not contributing anything to TSP, the government will still put in 1% for you. And then if you decide to contribute up to 6%, or up to 5%, they'll match. So if you do 1%, they'll give you 2. If you contribute 2%, they'll give you 3. 3%, they'll give you 4. If you do 4%, they'll contribute 4.5%. And the maximum is 5%. So we encourage everyone to do at least 5%. That way you'll be contributing 10% of your salary between you and the agency. Of course, you can do more than that. You can do as much as you want. But no matter how much you contribute above 5%, they will still only give 5%. So if you're doing 10, the government's giving 5, that's 15% of your salary going into the TSP. For 2022, the maximum that the employee can contribute is $20,500, so if you divide that by 26 paychecks, you can put in $788 every two weeks.

Now, for 2023, it will go up to $22,500.

Now, that's for people who are under age 50.

So $22,500 is for the year 2023. But for now, the year 2022, the max is $20,500.

Now, if you're age 50 and up, you can contribute an additional $6,500, and next year, $7,500, so $1,000 more. So in 2023, those who are age 50 and up can contribute a total of $30,000. Right now, for 2022, the max is $27,000 for those who are over age 50.

So, on a biweekly basis, for 2023, if you're under age 50, the max is $865 biweekly, and for those who are 50 and over, it's $1,153 every other week, or per paycheck. And again, that's the maximum contribution.

Sorry, it looks like I got ahead of myself! So, like I mentioned, employees ages 50 and up have an additional catchup contribution. And for 2022, that was $6,500. But now, you have to contribute the $20,500. If you haven't maxed out the basic contribution, you can't do the catchup. And again, that's for 2022. For 2023, it's up to $22,500, and the catchup is $7,500 for the year 2023.

Now, TSP has a loan program. So we'll talk about how that works. There are two different types of loans that you can take. One is a general purpose loan. So you can borrow that money for any reason. And the second is specifically a residential loan. So it has to be related to purchasing your residential home. The amount that you can borrow is between $1,000 and $50,000, but it cannot exceed 50% of your TSP balance. So if you have 2, $300,000 in there, you can't do half.

And then you have to pay that loan back using whatever the G fund interest rate is. And the repayments have to come through your payroll deductions to be able to pay off the loan. But you're really just paying it back to yourself.

Now, if you leave federal service, or if you retire from the government, you do have to pay back the loan in a lump sum. If you don't, whatever balance you have remaining that's still owed becomes a taxable distribution to you. And they will deduct that from your current balance. And then you'll have to pay tax on that amount that you have left.

Now, the in-service withdrawal program has two different types. If you have a financial hardship, and there were specific reasons, specific circumstances that qualify, either significant medical expenses, legal expenses for separation or divorce, or if your budget is so that you have negative cash flow every month, then you can take money for those.

The second type of in service withdrawal is age-based. So when you turn 59 and a half or older, even though you're still working, you can withdraw, either a partial withdrawal or your entire TSP. You can cash it out or roll it over to an IRA or another type of qualified account. You can also cash it out. Whatever you decide works for you. If you work with a financial advisor, you can talk with the advisor and figure out your options and which one is best for you.

When you retire, when you leave the federal government, what happens with your TSP?

Well, what continues, what doesn't change, is that you can still make intrafund transfers, meaning within the TSP account or the mutual fund window, you can still make changes to the investments. You can reallocate, for example, from C to S or S to G,s whatever the case may be. You can continue to manage that account. The TSP will continue to grow or experience losses!

The account, as long as you don't withdraw from it, will continue to be tax-deferred. So as long as you're not withdrawing from it, you still won't pay taxes on it, even after you leave. And when you become age 72, you will have to start taking your required minimum distributions.

What stops once you retire or leave are that you're no longer able to add more money to TSP. And you also can no longer take any loans.

So both of those options stop once you leave federal service.

Now, the options that you have at retirement... you can leave the money in TSP until age 72, or, it depends on when you become 72. You can actually defer until April 1st of the following year, following the year that you turn 72. So you have to look at when you leave service, if it's before or after you turn 72. So a financial advisor can help you figure out what that day is, and if you have to start this year or if you can wait until the following year.

Another option is you can take a lump sum. So you can take it all out in one lump sum. They will withhold 20% federal tax withholding. And if you are under age 55, you'll have an additional 10% penalty. That's the IRS's penalty.

Third option is that you can roll over your TSP account. You can roll it over to an IRA or to another qualified plan.

And the fourth option is to annuitize, and I'll explain more about how that works in a minute.

If you choose to withdraw, there are 5 different option, and I'll go into each one. One is your age-based withdrawal. So after 59 and a half -- now, actually, TSP changed some rules with what you can do with each one. So after 59 and a half, you can have up to 4 age-based withdrawals per year. And when you leave the government and retire, you can still roll over the remaining amount.

The second option is you can take a partial withdrawal, and there's an unlimited number of partial withdrawals, but you can't do it more than once per month. So you can withdraw 12 times a year if you did it once every month.

Periodic payments, you can set up so that it would be automatic, and you can change that at any time. You can start and stop them at any time. You choose the amount and the frequency. It can be monthly. It can be quarterly, annually. You can decide whatever fits your income needs.

So if you need income coming in on a monthly basis, that's fine. If you need it for something quarterly or you just want to take out a lump sum once per year. It really just depends on your budget.

Now, on the Roth balance, you can withdraw -- if you have a Roth balance, you can choose whether you take from the Roth or the traditional or both. Once you reach age 72, the IRS requires that you start taking a minimum distribution. You don't have to take out your entire balance. But the IRS has a formula that they use to determine how much you have to take. And that's based on the ending balance as of December 31st the prior year, based on your age this year, and then you follow their formula to determine how much you have to take each year. And again, you can choose if you want to spread it out monthly, quarterly, or just take it as one lump sum annually.

Now, the rollover option. Let's talk about the advantages and disadvantages of that.

If you choose to move your money to an IRA, you'll have more control of the investment options. Keeping it in TSP, you just have those 5 options, or you can have some in the mutual fund window.

With an IRA, you have many more different options.

In an IRA, you also have access to a professional fund manager, professional money managers, or financial advisors. So with the TSP, it's individually managed. If you roll it over, you can work with a financial advise or or money manager to figure out how to allocate it and invest it so it fits your risk profile.

One drawback to doing that is that there can be earlier withdrawal penalties that might apply for those who are younger than 59 and a half. Because TSP allows you to take out penalty-free withdrawals after age 55. If you roll it into an IRA, and you're not yet 59 and a half and make a withdrawal, you will have a penalty in the IRA. So that's a difference to keep in mind.

And then investment fees with the IRA account can be higher than they are with TSP.

Another withdrawal option is called a lifetime annuity. It's based on a fixed amount. So whatever your TSP balance is, if you want a lifetime annuity, you would hand over the TSP balance to them, it would be completely released out of your account, and in exchange, you would get a monthly check for the rest of your life, and the amount of the check depends on which option you choose. There could be a 10-year period certain with a cash refund. That's where you get just a limited amount for a limited period of time.

You could also get a joint annuity with your spouse, so that you get an amount and then when you pass away, your spouse is able to continue that money for the rest of his or her life. So it depends on which feature you choose when you set up the annuity, and that will depend how much income you get. You can also choose a level amount, meaning you'll get the same amount for the rest of your life, or choose an increasing amount that would go up over time. It just depends on what fits your needs.

The advantages and disadvantages of getting a lifetime annuity are these. The advantages are you get a steady income for life, you don't have to worry about market risk, market volatility, the stock market going down, you don't have to worry anything about that, you don't have to worry about managing investments. You may have some more options than if you decide to purchase a private annuity outside of TSP. And it also offers a joint life annuity. So those are the advantages.

The disadvantages are that you cannot cancel it, you cannot change your mind. Once you give them your money in exchange for a check, that's it. And it can take many years before you get enough of those monthly checks to equal the initial investment that you gave them, what your original TSP balance was. So you may not live long enough, or you may live a really long time!

But once you hand over that money, it's gone. You have no access to your original investments, your TSP balance, nothing. You've completely relinquished those funds. And if you choose a level amount, it may not keep up with inflation. For example, what we're going through right now. The cost of living is going up so quickly. And if your income is staying flat, it's not keeping up. You may not be able to purchase the things that you need. So that's another disadvantage of having that lifetime annuity.

Whoops!

Sorry!

Last thing we want to talk about is the spouse's rights. The loans and the withdrawals are all for FERS, or if you're a FERS participant, the spouse does have to sign and consent to any action you take, whether it's a loan or an in-service withdrawal, they have to consent to that.

And after you leave federal service, if you are married and a FERS participant, they are entitled to a joint annuity. So you can choose 50% survivor with level payments, or no cash refund. You have a choice. But they're entitled to it. So like I said, remember, the advantages and disadvantages of choosing that lifetime annuity.

Okay!

Thank you for watching. I guess we'll open it now to questions.

>> Brianne Burger: All right, hello again!

So, what an amazing amount of information. And you know what, I really am having a few personal regrets!

You know, maybe this was the wrong day for the webinar!

When we scheduled this four-part series, I was thinking it made sense in terms of the order we were doing things, and I didn't realize that this third week, or this third webinar is going along with elections week, of course!

And I was up all night trying to see what the outcome of certain elections and certain races were!

And now to be kind of just trying to absorb all this information after a really late night, I'll be completely honest with you, I am not a subject matter expert when it comes to finances. I know how to save. I know a little bit about investing, and I know not to spend too terribly much, but that's really where my expertise caps out, and I really have to rely on my husband in terms of investments and stocks and things of that nature, so, full disclosure, so I was really trying to understand and digest this information, but I'm recognizing I'm tired from a late night of election-watching.

So, that being said, I don't know if anybody went to the National Association of the Deaf conference in Hartford, Connecticut. I have to tell you, Stephanie gave a wonderful, wonderful workshop there that I really really was amazed with. I mean, I had been contributing to my TSP, and then once I saw that workshop, it was a game changer for me. I went home immediately and made a lot of different allocations and changes to my investment funds. So that was great for me. And I'm so happy she got to share that information tonight. I feel like I'm going to need to rewatch this after I'm not so tired from election night!

So, on to questions. The first question, yes, this will be archived on Facebook.

To find the PowerPoint, you can locate that on the deafingovernment.org website. If you go to the webinars page of our website, all of the PowerPoints are archived there. We've done over 45 webinars since the beginning of COVID!

I want to say the first one was April of 2020, March or April, if I remember correctly, and since then we've had a total of 45 on a variety of topics, different issues. So if you missed any one of those, please feel free to peruse our webinars page on the website

We really want to thank Kramer Wealth Managers for providing this four-part series on financial literacy, really helping us to understand and do a deep dive in financial literacy.

So, that's answering all the questions on where to find this information if you want to go back and review it.

Now -- and of course, you guys, if you have any questions, please continue to put those in the chat for us so we can make sure we answer them.

I'm looking right now. Let's see. First question: Would you recommend taking money out as a down payment on a primary residence?

>> Jeremiah Thompson: It really depends on the individual situation. We really can't make a recommendation, a blanket recommendation. It can be done, but whether or not it's a good idea, it really depends on the individual's situation. I'm sorry I can't be more detailed than that.

>> Sabrina Fields: So, the options for withdrawals from retirement accounts are $10,000. You can withdraw up to $10,000 --

>> Brianne Burger: Is that the loan?

>> Stephanie Summers: For a first time home purchase, from retirement accounts. So if you're buying a house for the second or third time, that withdrawal doesn't apply.

>> Brianne Burger: Okay, so in terms of tax risk, okay. So the $10,000 wouldn't be penalized.

>> Stephanie Summers: Right. As a first-time home buyer.

>> Brianne Burger: Okay, out of curiosity, you're familiar with the system, I'm sure, do they ask for verification or is it an honor system on what you're using the money for, if they ask for verification, if you're buying a home for example.

>> Jeremiah Thompson: The IRS could find out in an audit. So you have to report on your taxes whether or not it was used for that purpose.

>> Brianne Burger: Makes sense.

>> Jeremiah Thompson: And I wanted to add, too, a little bit more about the loan program. You know, some people like that idea of taking a loan against their TSP because in paying interest, you're actually paying the interest back to your TSP account. So that's why some people may be considering that an option. So it could be an option, because you are just putting your money back into your TSP.

>> Brianne Burger: Okay, rather than just arbitrary, gotcha. All right, that makes sense. All right, looking to our next question. What does a repayment plan -- what does that look like if you choose to take out a loan?

>> Stephanie Summers: So it depends on the amount that you've borrowed. And then, you know, again, the interest rate is based on the G fund interest. So they calculate the interest plus the principal, and they calculate how much gets taken from your paycheck. For a general purpose loan, it has to be paid back within 5 years. And for a residential purchase loan, I think it's up to 10 years, I believe, or longer.

Yeah, it's longer...

I hope that answers your question.

>> Brianne Burger: Yeah, I'm just trying to make sure that I'm understanding. Okay, so, theoretically, I take a loan. What if I don't want it from my paycheck?

>> Stephanie Summers: No, there's no other choice. It has to come from payroll deductions.

>> Brianne Burger: Okay, I'm just wondering, how do people who, for example, are retired?

How do they take a loan? They can't, I assume, because there's no paycheck to deduct from

>> Stephanie Summers: Correct, you cannot take a loan from your TSP after you retire. Only while you're still employed.

>> Brianne Burger: Exactly. That's good to know that.

>> Jeremiah Thompson: And just to add to that, if you separate from the retirement system while you have an outstanding loan, you're then going to have to figure out how to resolve that particular issue, that maximum. You can't do it after the fact.

>> Brianne Burger: Thank you, that's good to know.

All right, I see a lot of questions coming into the chat. Let's see what else we have here.

Okay, when you showed the mutual fund slide, and you were talking about the fees and the costs to do those transfers specific with the mutual funds, somebody said, oh, those costs are really expensive, and it looks like it's more than -- it says the TSP expense ratio. Is that right?

>> Stephanie Summers: Correct.

>> Brianne Burger: So is it the same?

No, it is not.

>> Jeremiah Thompson: The mutual funds window, the MFW, uses -- remember, there's a manager involved. There's a company involved, a financial manager. So they're following their own funds and their own internal investment expenses. Whereas the TSP is more limited in terms of the options and tax. So there's no cost, there's no real active managing happening in real time the way there is with the mutual funds, the way that they do things. So hence why it's more expensive, because there's nor eyes on it. But it also gives you more options, there's more flexibility. Whereas the TSP is extremely limited to just those 5.

So remember, this is more in tax, whereas the mutual funds varies, depending on what choices you decide to do and how you want to invest based on your needs.

>> Brianne Burger: Okay, next one, are there any fees for switching funds within the TSP? Changing from one to the other? I've never seen a fee personally, but I'll defer to you guys.

>> Jeremiah Thompson: Well, the mutual fund window, yes, there are fees that apply to that. The TSP, however, there are none. So that's a little bit different there.

>> Brianne Burger: Oh, that's important!

Okay. Yeah, I've moved things around several times in a TSP, and I've never seen a fee.

>> Jeremiah Thompson: Right.

>> Brianne Burger: But interesting, with the mutual fund window. It's important to know that distinction certainly.

Next question is, what percentage of TSP retirees typically choose that annuity plan you mentioned?

Is that a popular option, or not so much?

>> Stephanie Summers: I would think very little, very little. Because remember, your money is completely locked up. Once you turn your money over to them and turn it into an annuity, it's gone. I mean, another word that we say is it's kind of flushed down!

So you don't have any control over it anymore, any access to it anymore. So if you don't like that idea of just totally losing control of the funds and relinquishing the money, then you wouldn't have any money to pass on to children and grandchildren or future generations. So benefits are limited to only yourself and your spouse. That's it.

So, yes, we don't know very many people who use the annuity feature. I would say very few.

>> Brianne Burger: I mean, the option's there if somebody so chooses to use it.

>> Stephanie Summers: Sure.

>> Brianne Burger: Okay, that makes sense.

Okay, another question about those lifetime annuities!

So, what do you mean when you say it takes a long time to, quote-unquote, recover that original investment?

Does that mean the annuity is divided by 40 years, resulting in a smaller amount of money that you're receiving?

>> Jeremiah Thompson: Okay, I'll take that one.

The lifetime annuity, you really have to take a 30,000-foot big-picture view. If you decide to take that, and you're turning over your investment and it becomes an annuity, that then is basically spread out over a period of time. So you really need to make sure for yourself or your surviving partner, if you do a joint spouse annuity, that you live long enough to break even, so to speak, and recoup that amount.

So in other words, big-picture view, if you go ahead and decide on the annuity option, and unfortunately pass away suddenly and unexpectedly, that money is gone, so to speak. It will not transfer over to the beneficiary. You need to make sure that you essentially continue to live to be able to, you know, make it useful or beneficial and to recoup those funds. So stay alive!

 >> Brianne Burger: Stay alive is the takeaway message there!

(Laughter.)

I jest, but that's true, that's true.

Okay, next, it says, you mentioned the fees for those mutual funds within the TSP program. Are they the same fees outside of the TSP program?

Are they cheaper than the TSP program?

>> Stephanie Summers: Oh, I see what you're asking. You want to take that?

Go ahead.

>> Jeremiah Thompson: Sure, can I.

So, not speaking to the TSP, but if you're talking about that mutual funds window, which you called direct, it really would depend on the company that's operating it, but it's pretty similar, generally speaking, typically speaking. Now, of course, you have to look and do your comparison. But generally speaking, there's not much difference. So really there's no benefit of doing it through the TSP, per se.

Let me clarify. If you add the MFW to the TSP, people typically do that because they want the ability to diversify their investments. They want to be able to have a little bit more control over that, and this was something they had asked the government for for a long time, hence why a law was passed establishing the mutual funds window, to give those folks the satisfaction of being able to access the mutual funds that typically they weren't able to access under a TSP traditionally. So that's really why it was set up.

>> Brianne Burger: Okay, I have another question before we go back to the questions coming from the audience. When you're talking about annuity, you say that that's typically, for example, locked in. If I have no access to that funds, where does that money go when it's turned over?

Who takes it?

Where did it go?

>> Stephanie Summers: The company keeps it.

>> Brianne Burger: Which company?

>> Stephanie Summers: I'm not sure if TSP uses an insurance company --

>> Jeremiah Thompson: TSP.

>> Stephanie Summers: TSP keeps the money, basically, yeah.

>> Brianne Burger: So it's kind of like in the government when we have grants and we then award those grants, and if that money isn't used up, it's returned to the department of the treasury, similar concept, I guess?

>> Jeremiah Thompson: Well, you're buying the product. The annuity is a product, in order to get that guaranteed income, that guaranteed stable income back. That's the whole point of an annuity -- you're buying that guaranteed income, essentially.

>> Brianne Burger: Okay!

Well, thanks for that.

All right. Next comment says, okay, I'm still a little bit confused about the age requirement piece. Based on the previous webinar about RIB, federal employment FRA, -- sorry, retirement -- I think the last one was retirement, then it was Social Security, yes, FRA. So the FRA, the federal retirement age of 57, right, so that means I can draw on my TSP pension at 100%. So, what do you mean about that magic 59 and a half number as well as 72?

We talked about this before, so maybe you can clarify this for the person

>> Jeremiah Thompson: So there are a lot of different ages and they are mutually exclusive. So the 57 -- that's the FERS. That's the FERS supplemental income. And you start that at 57, and it's based on your birth year. And there's a chart that breaks that down in terms of when you were born, but for most folks it's that 57 age. And that goes until 62.

For Social Security, you can start earlier than normal -- well, normal Social Security is 62, and it goes all the way up to 70.

Now, FRA, full retirement age, that's for Social Security only. That is not for FERS. Again, mutually exclusive.

Then if we're talking about TSP, there's really three -- there's the age of 55, 59 and a half, and 72. Those are the three ages you need to look at. These are not related at all to FERS or Social Security. These are strictly the rules related to TSP and the ages required. Now, the age of 55 in the TSP world means you can start withdrawing once you've separated from federal service, with no tax penalty.

Now, it's important that it stays in the TSP. You can't roll it over, you can't take it out. So that's the 55 age.

Now, when we're talking about the 59 and a half, that is referring to your ability to roll it over, take it out, keep it in the TSP, and again, withdraw with no tax penalty. You're just paying taxes based on the income. But the important piece to mention is that there is no penalty.

Now, the 72, that age when it comes to TSP, is called the R -- required -- minimum -- distribution. So the RMD. That's typically how you'll see it referred to, is RMD. That rule says that at the age of 72 and moving forward, if you leave it in an IRA or a TSP or whatever the case may be, it -- and again, this is the taxable traditional, not the Roth -- that funding, if you leave it there and do not withdraw it, at the age of 72, the IRS will require a distribution. So you have to withdraw a specific amount. And that amount is based on a formula that the IRS has created. And then, of course, a portion of that is given to the IRS as taxable income, and the rest you keep. Again, that's why this is the traditional, not the Roth version, because it is that taxable income, because starting at 72, the IRS wants their piece of the pie, of course. So you have to look big-picture, again, and see how these things impact each other, domino effect, and make those decisions.

>> Brianne Burger: I think we need those charts hanging somewhere!

This is a lot to remember!

(Laughter.)

I'm tired from being up all night watching elections so this is a lot to digest!

>> Stephanie Summers: A lot of different ages to remember, yes!

Yeah, a lot of different ages, and requirements to know. But remember, you have those different sources of income, like I mentioned at the very beginning. So you have Social Security, you have your FERS, and then you have your TSP. And so all three of them have different rules, different age requirements. So you have to take a look back and say, okay, what age am I retiring?

And what will my income look like at that age, from the different sources? What's my eligibility? When am I able to start income from those different sources? You know, some people want to start now, some people want to defer defer their benefits. So you have to look at the entire picture all together to see what best fits your needs

>> Brianne Burger: And if you need help, please call them. They are available!

We've actually posted Kramer's contact information in the chat, in the comments, so feel free to reach out to them for more individualized help. They are ready and standing by, you know, the ghosts in the machine, whoever ever wants to, feel free to call them!

>> Stephanie Summers: Thank you.

>> Brianne Burger: Okay, few more questions. I know we're over our time. So, how good is the new mutual funds?

How good is that system? Is it reliable, trustworthy, successful?

>> Stephanie Summers: We have no idea, it's so new. We have no experience with it yet. Yeah.

>> Brianne Burger: Fair enough. Can you borrow maybe $50,000 for a house or is it only up to 10?

>> Stephanie Summers: Okay, you can borrow up to $50,000, and you can withdraw up to 10, penalty free.

Again, the borrowing amount depends on the value in your TSP. Because you can't borrow more than 50% of the balance in your TSP. So if you have $100,000 in your account, or more, then yes, you can borrow up to $50,000.

>> Brianne Burger: Gotcha, okay. I think we have one last question and then we do have to close, really, because we're over our time limit and I want to thank our interpreters for hanging in there with us, and the captioner as well.

Last question. When you say that the money is turned over to them completely, who is the "them"?

I believe this is the same question that I just asked earlier about the annuities --

>> Stephanie Summers: The annuity, yeah.

>> Brianne Burger: So that's where it goes. So that question has already been answered. So it goes to the TSP, that insurance company, so to speak.

Okay, that's where it goes. Am I correct in that?

>> Jeremiah Thompson: Yup, the TSP.

>> Stephanie Summers: Yup!

>> Brianne Burger: All right, so that's all the time we have for all the questions. I want to thank everybody for watching and I want to thank our sponsors, you will see a slide come up, I can't remember every one off the top of my head. And I also want to thank Kramer Wealth Managers, everybody for watching, just the information that we're sharing, it's so beneficial, not just for those federal employees, but I think across the board. So thank you so much for making this happen. Thank you to our sponsors. We have one more webinar coming up in December, and that will be talking about choosing your health care options. And we will be covering Medicare as well, because that is a complex system to navigate. We know that. And I think it's perfect timing, because it's aligning with open enrollment for federal employees. So they're making those choices and those allocation decisions right now in terms of their health insurance. So please feel free to watch on Wednesday, December 7, our next webinar, same time, same channel, 7:00 Eastern time, 6:00 Central time. And again, all the videos are on our Facebook page, as well as the PowerPoints are available on our website. So keep an eye out for our e-mails. Thank you to everyone. Thank you to our access team, thank you to Caption Anywhere for making this webinar stream to everyone, and thanks for being here and watching!

(End of transcript).