

Module 1.4

Leveraging Resources for Your Financial Future



PERSONAL FINANCIAL PLANNING FOR TRANSITION

Financial Planning for your Future



Learning Objectives

- Identify where to find TSP information and regulations in order to understand significant restrictions and penalties that can affect your finances
- Explain the difference between a Defined Benefit Non-Contribution (Pension) Plan as compared to a Defined Contribution Plan
- Describe a common vesting schedule
- Understand the concept of compound interest
- Analyze investment vehicles such as stocks, bond, mutual funds and other investments

Thrift Savings Plan (TSP) Options

- Leave funds in TSP account (if balance is more than \$200)
- Roll your TSP into another eligible account (i.e., IRA, annuity, civilian 401k)
- Withdraw your TSP funds completely
- Expense ratios considerably lower than other investment funds

Contact TSP:
(1-TSP-YOU-FRST)
www.tsp.gov

Some funds may include tax-exempt contributions!

Early TSP Withdrawal

- Withdrawal is subject to both income tax and, if the employee is under age 59½, the early withdrawal penalty tax of up to 30%.
- Not waiting will cost a minimum of \$3,000!



Funding Your Retirement

Questions for a potential employer:

“When do company contributions start?”

“When will my account be credited with 100% of company’s contributions as my own?”

“Does your company do a graduated or cliff vesting schedule?”

Funding Your Retirement

Defined –Benefit Plan



Traditional company pension plan; ultimate retirement benefit is definite and determinable as a dollar amount

Examples: Military Retirement Pension

- Funded mostly by the employer
- Responsibility for payment of the benefit & risk on funds invested rests with the employer.

Funding Your Retirement

Defined-Contribution Plan

the contribution is defined yet the ultimate benefit to be paid is not

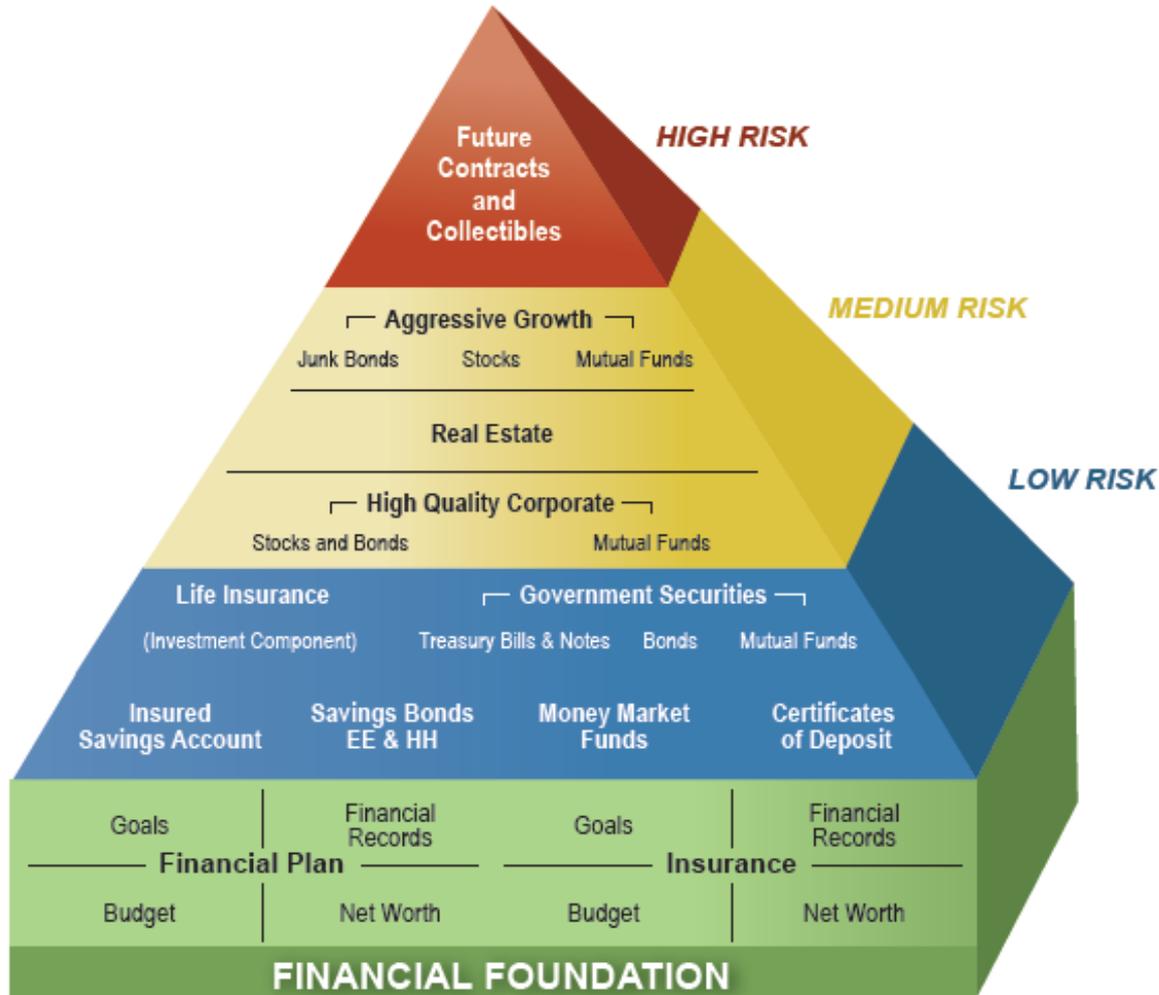
Examples are 401(k) and 403(b) plans, TSP, SIMPLE IRA, Roth IRA, SEP, Employee Stock Ownership (ESOP), and profit sharing

- Contributions are from the employee.
- A portion may/may not be matched by employer
- Each participant has an individual account
- The benefit at retirement depends on amounts contributed + investment performance of account
- Investment risk may rest solely with the employee due to opportunity to choose from a number of investment options

Social Security

- **Social Security entitlement is based on age and amount withheld from paycheck during your working life**
- **Open a “My Social Security” Account**
<http://www.ssa.gov/myaccount/>
- **Social Security Administration Retirement Estimator**
<http://www.socialsecurity.gov/estimator/>

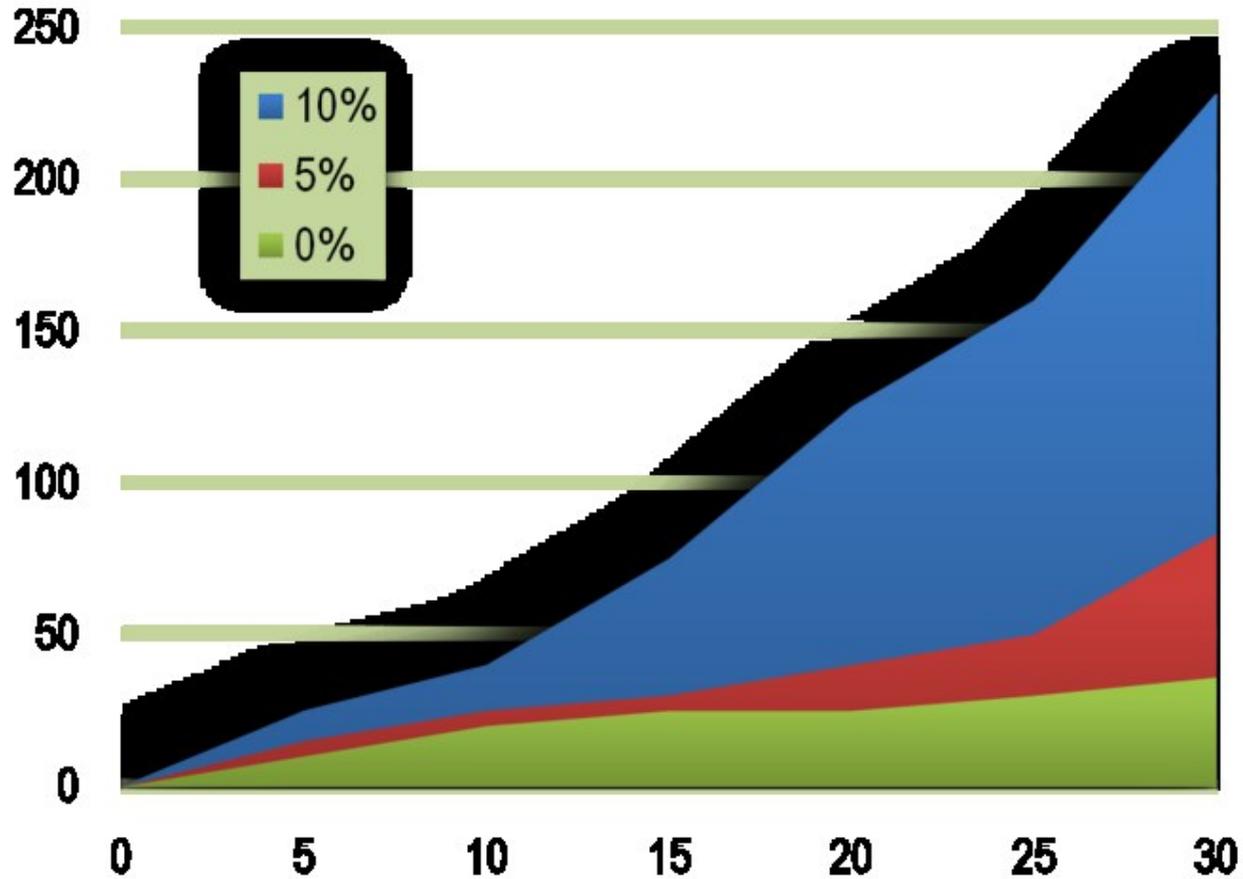
Investment Pyramid



Cutting Taxes While Investing

- **Tax-deferred accounts allow the investor to delay paying taxes on earnings. Traditional 401(k), IRA, TSP are some pre-tax contribution examples.**
- **Immediate benefit is that the contribution is deducted from a paycheck before income taxes are calculated, so taxable pay is reduced today.**
- **After-tax contributions are taxed now so those contributions do not lower your taxable income, you pay more taxes now.**

Compound Interest



The Effects of Compound Interest and Time: Plan A

Age	Payment	Total	Age	Payment	Total
21	\$3,000	\$3,300	44	\$0	\$141,564
22	\$3,000	\$6,930	45	\$0	\$155,720
23	\$3,000	\$10,923	46	\$0	\$171,292
24	\$3,000	\$15,315	47	\$0	\$188,422
25	\$3,000	\$20,147	48	\$0	\$207,264
26	\$3,000	\$25,462	49	\$0	\$227,990
27	\$0	\$28,008	50	\$0	\$250,789
28	\$0	\$30,808	51	\$0	\$275,868
29	\$0	\$33,889	52	\$0	\$303,455
30	\$0	\$37,278	53	\$0	\$333,800
31	\$0	\$41,005	54	\$0	\$367,180
32	\$0	\$45,110	55	\$0	\$403,898
33	\$0	\$49,617	56	\$0	\$444,288
34	\$0	\$54,579	57	\$0	\$488,717
35	\$0	\$60,037	58	\$0	\$537,589
36	\$0	\$66,041	59	\$0	\$591,348
37	\$0	\$72,645	60	\$0	\$650,482
38	\$0	\$79,909	61	\$0	\$715,531
39	\$0	\$87,900	62	\$0	\$787,084
40	\$0	\$96,690	63	\$0	\$865,792
41	\$0	\$106,359	64	\$0	\$952,371
42	\$0	\$116,995	65	\$0	\$1,047,608
43	\$0	\$128,694		\$18,000	

(Assuming a growth rate of 10%)

\$1,047,608

The Effects of Compound Interest and Time: Plan B

Age	Payment	Total
21	\$0	\$0
22	\$0	\$0
23	\$0	\$0
24	\$0	\$0
25	\$0	\$0
26	\$0	\$0
27	\$0	\$0
28	\$0	\$0
29	\$0	\$0
30	\$0	\$0
31	\$3,000	\$3,300
32	\$3,000	\$6,930
33	\$3,000	\$10,523
34	\$3,000	\$15,315
35	\$3,000	\$20,147
36	\$3,000	\$25,462
37	\$0	\$28,008
38	\$0	\$30,808
39	\$0	\$33,889
40	\$0	\$37,278
41	\$0	\$41,006
42	\$0	\$45,107
43	\$0	\$49,617

Age	Payment	Total
44	\$0	\$54,579
45	\$0	\$60,037
46	\$0	\$66,041
47	\$0	\$72,645
48	\$0	\$79,909
49	\$0	\$87,900
50	\$0	\$96,690
51	\$0	\$106,359
52	\$0	\$116,995
53	\$0	\$128,694
54	\$0	\$141,564
55	\$0	\$155,720
56	\$0	\$171,292
57	\$0	\$188,422
58	\$0	\$207,264
59	\$0	\$227,990
60	\$0	\$250,789
61	\$0	\$275,868
62	\$0	\$303,455
63	\$0	\$333,800
64	\$0	\$367,180
65	\$0	\$403,898
\$18,000		

(Assuming a growth rate of 10%)

\$403,898

Summary

- **Evaluate your TSP options**
- **Research retirement considerations and plans**
- **What is your Social Security entitlement?**
- **Investments and taxes**
- **Compound Interest**