Thrift savings plan assignment

Thrift Savings Plan HRA-360 Total Compensation Dr. James Waters Jacqueline Kelly 2 March 2010 Every successful organization depends on the abilities of a good workforce. The United States Government is no different. One of the major concerns of most employees is receiving fair compensation for the work performed, even after retirement. In 1920 the U S Federal government provided retirement, disability and survivor benefits for most civilian employees.

The plan continues to provide benefits to those still covered under the plan. Employees covered under CSRC were not covered by Social Security. However, realizing a need for change, the United States Congress designed a new program, the Thrift Savings Plan, which was enacted 6 June 1986 and became effective 1 January 1987 in the Federal Employees Retirement Act of 1986. The Thrift Savings Plan is meant to operate like a 401(k) retirement savings plan.

The plan permits employees to defer paying taxes on the money saved until they retire, at which time they may be in a lower tax bracket because they are no longer earning a full time income. The Thrift Savings Plan is one of the three parts of the Federal Employees Retirement System, and is the largest defined contribution plan in the world with assets worth over $210 billion dollars. The Thrift Savings Plan has the over 3. 7 million participants who contribute to the plan on a voluntary basis.

Some these civilian participants included: Individuals on approved leave without pay to serve as full-time officers or employees of certain unions or other employee organizations Individuals assigned from a Federal agency to a state or local government under an Intergovernmental Personnel Act assignment who choose to retain FERS or CSRS coverage Individuals appointed or otherwise assigned to one of the Cooperative Extension Services, as defined by the National Agricultural Research, Extension, and Teaching Policy Act of 1977 Federal justice and judges, certain Federal bankruptcy judges and magistrate judges, Claims Court judges, and Court of Veteran Appeals judges Nonappropriated Fund employees of the Defense Department or the U. S. Coast Guard who have chosen to be covered by FERS or CSRS. According to an rticle in the Business Source Complete, participants in the TSP are disproportionately male, higher earners, older, full-time workers, and either white or nonblack minorities compared with the population at large. I expect this number to continue to grow as people’s concerns increase about Social Security’s existence further down the road. Employees in the Federal Retirement System are limited to contributing 10 percent of their earned income to the program and the federal government will match up to 10 percent. Employees who fall under the Civil Service Retirement System (CSRS) who are not covered by Social Security may invest up to 5 percent of their earnings to the TSP. The federal government contributes 1 percent to TSP accounts for all employees covered under the Federal Employees Retirement System.

Many government employees obviously consider this program an important compensation and they continue to increase their contributions as their earnings increase. Data collected by the Department of Labor, the Employee Benefit Research Institute, and the Federal Retirement Thrift Investment Board for 1992, 1993, and 1997 noted that the TSP had a participation rate of 79 percent, which is more than the 68 percent eligible workers utilizing 401(k) plans, and 8 percent participating in IRAs. A contributing factor to the differences in the number of employees participating in the different programs may be the fact that government employees have a wealth of knowledge available to them on the TSP. They are able to monitor their accounts daily on the internet.

In addition, changes may be made on how much is contributed and they may borrow from the account when necessary with minimal penalties. Although, they are advised that the account are established for long-term investing in their future are retirement. Federal employees under FERS have noted a pivotal reason they participate in the program is because of the matching contributions and those employees under CSRS tout the tax benefit as their main reason for participating in the program. Many people consider landing a government a great feat because of the benefits of getting all federal holidays off with pay, vacation and sick leave, and most time tuition reimbursement. But the TSP may now be very a sought after component of a compensation package.

An added benefit to the TSP is workers are fully vested in the 1 percent agency automatic contributions after three years(two years for congressional employees and executive-branch political appointees). In addition, workers who leave the federal government for jobs in other sectors of the economy can leave their money in the TSP and it will continue to accrue interest, dividends, and capital gains according to the performance of the funds in which they have chosen to invest. If they opt not to leave their money in the TSP, they may roll it over into another investment vehicle such as an IRA or a 401(k) plan. Furthermore, there are no huge fees for management of the account. A draw back to the TSP is new hires have a waiting period of 6 to 1 year before they can reap the benefit of employer matching contributions.

However, they may rollover distributions into the TSP form other tax-qualified retirement savings plans from private-sector firms. Provided certain criteria are met. The TSP is now available to military personnel. On October 30, 2000, the Floyd D. Spence National Defense Authorization Act for Fiscal Year 2001 (Public Law 106-398) was signed. One provision of the law extended participation in the TSP, which was originally only for Federal civilian employees, to members of the uniformed services. The uniformed services include: •Department of the Army •Department of the Navy •Department of the Air Force •United States Marine Corps •United States Coast Guard •Public Health Service •National Oceanic and Atmospheric Administration

All contributions made by civilians and military personnel are made by way of automatic payroll deductions. They also had a limit of which they could contribute, mandated by the IRS of $15, 500. Fortunately, employees over the age of 50 have a provision that allows for a little catch up, in that they may contribute an additional $5, 000 annually. Employees may also make early withdrawals without penalty from the IRS if they need the money to pay for medical expenses of the plan participant, a spouse, or dependent, but only to the extent that they exceed 7. 5 percent of adjusted gross income. Ironically, funds may be withdrawn through an IRS levy to collect back taxes owed by the plan participant.

Another allowable withdrawal may be for an alternate payee under a qualified domestic relations order (QDRO). Also, early distribution is permissible if it is part of a series of substantially equal periodic payments (SEPPs) over the life of the participant or the joint lives of the participant and the beneficiary. Both CSRS and the FERS retirement pension plans are determined by multiplying three factors: the salary base, the accrual rate, and the number of years of service. Salary base is the final average pay, usually their highest, before retirement. Nevertheless, while the TSP is an outstanding compensation for federal employees it does have some disadvantages.

The Thrift Savings Plan is a defined contribution plan similar to a savings account maintained by the employer on behalf of each participating employee. The combined amounts contributed by the employee and employer are invested in stocks and bonds but the employer has no financial obligation other than making contributions to the employees retirement account. All the investment risks fall on the employee. If they do not invest enough for a comfortable retirement, or if the investments lose value or increase too slowly, the employee bears the burden of not having adequate income for retirement. If an employee withdraws from the fund before age 59 they will pay an additional 10 percent tax penalty.

This additional tax does not apply to the beneficiary after the death of the participant of if the participant becomes disabled. I feel the government TSP is an excellent compensation afforded to civilian employees because they receive a specific dollar amount matched by Uncle Sam. They are able to make payroll deductions directly into the account and are able to manage their account directly through the internet. Employees covered by FERS have an amount equal to 1 percent of pay contributed to the Thrift Savings Plan by their employing agencies, even if the employee makes no voluntary contributions to the TSP. This amount is not deducted from employee pay. It is paid by the employing agency from sums appropriated to it by Congress for salaries and related expenses.

Assuming a nominal annual investment return of 6. 0 percent, an employee who retires after 30 years of federal employment will be able to replace only about 3 percent of final salary from his or her TSP account if he or she never makes a voluntary contribution to the plan. Although it is minimal, employees can still benefit from the plan without contributing a penny. Without using a financial advisor, they have the ability to make intranet transfers on their accounts. Thrift Plan participants can receive account-balance information and conduct transactions using an automated phone system or on the Thrift Plan's Website at www. tsp. gov. The plans seem relatively simple to understand.

Employees no longer have to wait for an open enrollment period to make changes to their account. Government and military personnel have two choices on the bond side to invest in. If they want to invest in a low risk bond, the choice is the " G Fund" which invests in government securities, or the " F Fund," which is tracks the Lehman Brothers Aggregate Bond Index. There's a target maturity plan which they call " Life Cycle," or " L Funds". Basically, they way the plan works is participants select the fund whose target date corresponds most with the year they hope to retire. It is a diversified portfolio, investing in the C, F, G, S, and I funds that become more conservative as the participant nears their retirement age.

The “ C” fund invests in stocks of all of the corporations that represented in the Standard and Poor’s 500 index. The “ F” fund, or “ Fixed Income Index Investment Fund” invests in securities represented in the Shearson Lehman Brothers Aggregate (SLBA) bond index. They are comprised of government bonds, corporate bonds, and mortgage-backed securities. The “ G” fund consist of U. S. government securities and pays interest equal to the average rate of return on long-term U. S. government bonds. This is a very low risk fund and considered the safest of the TSP funds because the principal is guaranteed not to drop in value. The “ S” fund (Small Capitalization Stock Index Fund) invest in the common stocks that are represented in the Wilshire 4500 index.

The “ I” fund (International Stock Index Fund) invests in the stocks of foreign corporations represented in the Morgan Stanley Capital Investment EAFE(Europe, Australia-Asia, Far East) index. The “ Life Cycle” Fund uses a combination of these five funds to optimize returns for employees depending on the time frame they have chosen for their expected retirement. The Thrift Savings Plan (TSP) plays a fundamental role in helping federal workers achieve adequate financial resources for retirement. Employees covered by FERS who do not make voluntary contributions to the TSP, and thus receive only the 1 percent agency automatic contribution, will be able to replace only 2 percent to 4 percent of final annual salary from the TSP at retirement.

Most workers in the lower and middle ranges of the federal salary scale will be able to achieve the 60 percent salary replacement. The TSP makes for an admirable compensation feature for many of the active duty military retirees who seek employment with the federal government after retirement. This would be icing on the cake since the military uses the benefits plan based on salary earned in the years immediately preceding retirement which they start receiving the month after they are completely retired from active duty. I could see how the " double dippers," as they are called, may be able to maximize on the TSP using their retirement income.

It would allow for employees need for security to be satisfied in knowing that after retirement they may have an adequate income after they leave government service if their funds are invested wisely. They would still be able to meet their physiological, safety and security needs, which is especially important in retirement years. That in turn should help to keep their spirit and self esteem up because they are still able to provide for themselves and others that depend on them which should bring a sense of belonging and love. Ultimately, being able to participate in the Thrift Savings Plan, in the public or private sector, sends a message tol employees that their employer or the U S government thought enough of the people who work for them to implement a compensation plan to reward them for their years of service to the organization.

I think if more employees had a compensation package that included a benefit similar to the Thrift Savings Plans less people would be concerned about the solvency of Social Security. Federal employees at all income levels can significantly boost their retirement income by contributing to the TSP, and such contributions are essential in order for those in the upper third of the federal pay scale to achieve a level of income that will allow them to maintain their pre-retirement standard of living. References Purcell, P. (2007). Federal employees' retirement system: The role of the thrift savings plan. Journal of deferred compensation, 13(1), 74-99.

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