RETIREMENT PLANNING

WELCOME AND INTRODUCTION 1

This program will provide an introduction to retirement planning, includ-
ing estimating your retirement needs, choosing the best military retirement 2
plan for you, participating in the Thrift Savings Plan, and building person-
al savings and investments so you can be in command of your own future.

Although final retirement may seem like a very long way off, the earlier you start planning for it the easier it will be. In fact, the best time to begin planning for retirement is when you first start earning income, because that is when you begin to have access to some of the excellent retirement programs that are available, including employer-provided pensions, IRA's, and the Thrift Savings Plan. Also, the earlier you start saving for retirement the less you have to put away, because time is on your side.

When talking about people and their success or failure with money, it 4
quickly becomes apparent that success is much less dependent on the amount of money they have so much as what they do with what they have. In other words, financial success is about behavior more than it is about money. Individuals or families that fail financially don't plan to fail, but they do fail to plan. With just five basic steps, you can plan for a successful, worry-free financial future.

What are you planning for? 5

There was a time, not too long ago, when retiring from work meant a short period of ill health followed by death. People didn't live too long after retiring from active employment. The story is quite different today. Today's retirees can expect:

- An extended period of retirement, possibly 20 to 30 years, much of it in good health.
- To start retirement earlier and live longer than their parents or grandparents.
- To need extensive financial resources, often beyond what a pension and Social Security can provide. A standard guideline to estimate how much money is needed after retirement is to use 60 to 75% of pre-retirement income as a starting point. With longer lives, better health, and early retirement, that figure could be as high as 100%.

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Planning for Your Retirement: Five Basic Steps to Take Command of Your Future

The Five Basic Steps of Retirement Planning

This model shows five basic steps to take to ensure you meet your retirement goals. They are:

- Consider the factors.
- Calculate the income needed.
- Commit the appropriate amount to the appropriate tools.
- Reevaluate.
- Revise.

We will cover each one of these in detail in the information that follows.

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CONSIDER THE FACTORS

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Pre-Retirement Income

When trying to determine how much income you want during retirement, the best place to start is with your annual pay just before you retire, called your "pre-retirement income". A standard guideline used is 60 to 70% of your pre-retirement income as an amount you'll need during retirement. Although this is a somewhat arbitrary number, the younger you are the more difficult it is to get a good estimate of retirement needs, so the guideline gives a great place to start.

If you prefer, or if you are closer to retirement (within ten to 15 years), you can get a more specific amount by considering your current expenses, estimating changes in expenses and income, accounting for inflation, and estimating fluctuations in expenses during retirement (like paying off a mortgage, etc.).

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Retirement Date

The next step is to estimate a retirement date. When will you retire from earning income? Traditionally retirement has occurred somewhere between the ages of 62 and 67. These ages are based on when Social Security benefits become available. However, maybe you won't want to retire at all, but plan on continuing to earn some level of income as long as you can. Perhaps you will want to retire earlier, which would mean saving more in your younger years. In order to begin planning, you need to pick a retirement date. If the date changes over time, that's okay, because the last two steps in retirement planning are to reevaluate your plan and revise it as things change.

Life Expectancy 10

After considering the date of retirement, take some time to consider how long you might live, therefore how long your money needs to last. Our continuing commitment to good health and long life has prompted some financial planners to plan all the way out to 100 years of age for some clients. If that seems extreme, there are actually websites that have calculators that attempt to determine how long you will live. But, for our purposes the data from the Center for Disease Control (February 2007) is more than adequate:

	At Birth	At 65	At 75
Men	75.2	82.1	85.7
Women	80.4	85	87.8

This chart shows that at birth the life expectancy of men is 75.2 years of age and for women, 80.4. The older you live, the longer you are expected to live. For people who have reached the age of 65, the life expectancy increases for men to 82.1 years and for women to 85. For people who have reached the age of 75, the life expectancy is 85.7 years for men and 87.8 for women. We can use these statistics to make some logical assumptions about how long we might live.

Compound Interest and Time 11

A final factor to take into account is the magic of compound interest and time. Compound interest, simply defined, is when the money that your money makes, makes more money. For example, if a 25-year-old invests $100 each month for 40 years (a total of $48,000 out of pocket), and that money grows at a rate of 10% per year, and she never takes any money out of the account, at 65 she will have $632,507. That is a tremendous amount of money for an easy $100 per month.

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Compound Interest and Time: Rate of Return = 10%

Take a look at the handout, “Compound Interest and Time: Rate of Return = 10 Percent”. This form shows four different plans to grow money. Looking at just Plan A, you can see another example of the magic of compound interest and time … this time a 21-year-old has invested $3,000 per year ($250 per month) for six years, a total out of pocket expense of $18,000. If the money is left alone to grow at a rate of 10%, the investor would have over $1 million at age 65.

You can see the power of starting early and leaving your money alone to grow at a good rate of return. Compound interest and time is the fourth factor to consider as you prepare to estimate your retirement needs – how soon can you start, how much can you save, and what rate of return can you get.

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CALCULATE INCOME NEEDED

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Once you have determined when you want to retire and have considered all the relevant factors, you are ready to calculate the income you will need and how much you have to save each month (or year) to reach your goal.

Sources of Retirement Income

There are four sources of retirement income: Social Security, employer-provided pensions, your personal savings and investments, and earned income if you choose or need to continue working. Rarely does retirement income come from all four sources equally. Let’s look at an example.

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Chief Tasker is an E-7 retiring from the Navy after 20 years of service. He has made some estimates and determined that he would like to have $60,000 a year when he retires for good at age 65. When he retires, he has decided to plan for a 25-year retirement (when he will reach age 90). The Chief estimates his income as follows (using today’s dollars):

- $21,046 from his military pension plan
- $18,000 from social security
- A gap of $20,954 that needs to come from either his own savings and investments or his continuing to work.

Based on this scenario, Chief Tasker's sources of retirement income would be distributed 36% from employer-provided pensions, 30% from Social Security, and the remaining 34% from personal savings and investments, earned income, or a combination of the two.

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The next question Chief Tasker needs to answer is, "how much does he need to save each month between retiring from the Navy and retiring for good (25 years) to be able to fill the gap of $20,954 a year?" Calculations show that if he had a lump sum of $245,000 and invested it at 7%, he would be able to withdraw $20,954 a year from it and have it last 25 years. If he started at age 40, he would need to save $323 each month, invested at 7%, in order to have it grow to the needed $245,000. Of course, if the chief had started a bit earlier in his life, he would need to save a lot less.

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Now that you understand the various factors that go into calculating retirement income, it is time to work on estimating your own retirement needs. This can be done easily using the "Ballpark Estimate" provided by the American Savings Education Council. This estimate can be done on-line at www.choosetosave.org, or it can be done with a pencil and calculator manually. The form walks you through all the factors that this workshop has covered so far. And after you have done all the calculations, you will have a ballpark figure of how much (if anything) you need to save and invest in order to be prepared for your retirement.

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Ballpark Estimate

COMMITTING TO THE GOALS

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Once you know how much you need to save and invest, you must commit to the goal, both mentally and financially. Remember, financial success is rarely about the amount of money you have, and it is always about your behavior. So commit now to the behavior that will put you in command of your retirement.

Committing Mentally

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You have seen examples of the power of compound interest and time, so you should also see the power of starting early. The earlier you begin to save and invest for a specific goal, the less you need to put away since compound interest and time will do the rest.

Be sure to pay yourself first. This means paying from the TOP of your paycheck, not the bottom … make savings a priority. The easiest way to do this is to set up an allotment, or join the Thrift Savings Plan (TSP).

This will establish a habit of regular, disciplined investments … now you're behaving like a millionaire!

Finally, think long and hard about the consequences of inaction. Talk to senior members of your command and ask them about their investing experiences. Ask trusted family members and friends about how they prepare for retirement. Chances are more than a few of them will tell you they wished they had started early. Delaying means having to dedicate a lot more money to your plan later in life. If you choose not to do anything at all, be assured that statistically things do not take care of themselves. Fully 25% of retired Americans have to continue working to maintain a nominal standard of living. Social Security, although still a part of retirement planning, is a smaller and smaller part, and it is available later and later in life.

21 **Committing Financially**

Committing financially means choosing the appropriate retirement tool and beginning to save and invest right away. As mentioned earlier, there are four sources of retirement income:

- Earned income during retirement
- Social Security
- Employer-provided pensions
- Personal savings and investments

Earned Income: It isn't necessary to spend a lot of time on this, as it is hoped that you will have enough other financial resources so that you can choose not to work if you like. Keep in mind, however, the statistic mentioned… 25% of 'retired' Americans aren't really retired at all, they HAVE to work.

Social Security: Social Security remains an important part of retirement planning for most Americans. The age for receiving full benefits is now 67 years old for anyone born in 1960 or later. At least some Social Security benefits will be taxable for most military retirees. No matter what full retirement age is, you may start receiving benefits as early as 62.

Every individual should obtain a copy of his or her personal Social Security Benefits Statement as part of retirement planning. The Social Security Administration mails a copy to everyone around the time of their birthday. You may also request one by phone or by logging on to www.ssa.gov/retire. You can also get a rough estimate of your future benefits from this website, as well as general information about Social Security.

Employer-Provided Pensions

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There are two general categories of retirement pensions that are provided as a result of employment.

1. *Defined Benefit Plan:* A defined benefit plan is the traditional company pension plan. It is called "defined benefit" because the ultimate retirement benefit is definite and determinable as a dollar amount or as a percentage of wages. To determine these amounts, defined benefit plans usually base the benefit calculation on a combination of years of employment, wages, and/or age. These plans are funded entirely by the employer and the responsibility for the payment of the benefit and all risk on monies invested to fund that benefit rests with the employer. The military retirement plan is a defined benefit plan.

2. *Defined Contribution Plan:* A defined contribution plan is a qualified retirement plan in which the contribution is defined, but the ultimate benefit to be paid is not. Contributions come from the employee and a portion may or may not be matched by the employer. In such plans, each participant has an individual account. The benefit at retirement depends on the amounts contributed and on the investment performance of that account through the years. In such plans, the investment risk may rest solely with the employee because of the opportunity to choose from a number of investment options. These plans take many forms and include 401(k) and 403(b) plans, and the Military Thrift Savings Plan.

The Military Retirement Plan (Defined Benefit)

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Military Retirement Pay Plans

The cornerstone of any career service member's retirement has always been a military pension from the government – a defined benefit retirement plan. Most civilians believe everyone in the military can "retire on half pay after 20 years," without recognizing that retirement pay does not reflect bonuses, housing allowances, and many other parts of military compensation. The military retirement pay plans are based on basic pay only.

There are three different retirement systems currently in effect depending on your DIEMS (date of initial entry into military service):

1. “Final Pay”

2. “High-3”

3. “CSB(Career Status Bonus)/Redux” or “High-3”

The key to determining which system applies is the date the member initially obligated him or herself to come on active duty; that is, the day they first signed on the dotted line. If they had a delayed entry, it is the day they originally signed up. If they had broken service, it is the day they originally signed the paperwork to come in; this may be earlier than their pay entry base date if the latter has been adjusted. For Academy graduates with no prior service, it is the date they reported to the Academy. For ROTC scholarships, it is set by the beginning date, not by the graduation/commissioning day. For unusual situations refer to PSD.

The Final Pay Plan: The original retirement system applies to anyone who initially entered the military prior to 8 September 1980. Individuals receive 50% of their monthly basic pay (“multiplier”) if they retire at 20 years of service. The multiplier increases at a rate of 2.5% per year for each year over 20 that an individual remains on active duty to a maximum of 75% after 30 years of service. This plan provides an automatic annual cost of living adjustment (COLA) each year equal to the consumer price index (CPI, which is the inflation rate).

The High-3 Plan: This plan is based on the average basic pay over the highest paid 36 months of service, normally the final three years on active duty. It applies to anyone who initially came on active duty between 8 September 1980 and 31 July 31 1986. The multiplier is the same as under the Final Pay plan, 50% of basic pay at 20 years plus 2.5% per year to a maximum of 75% at 30 years. The COLA remains equal to the CPI. The High-3 plan results in a moderate reduction in total retirement benefits.

The CSB/Redux Plan: Anyone entering on or after 1 August 1986 must choose between taking the High-3 retirement plan or the CSB/Redux plan. The CSB/Redux plan has significant differences from High-3. Retirement pay is still based on the average of the highest 36 months of basic pay, but the multiplier is reduced to 40% at 20 years of service. The multiplier is increased by 3.5% for each additional year of service up to a maximum of 75% at 30 years. The longer a service member stays in, the smaller the overall reduction under this plan. At year 15, members electing CSB/Redux receive the one-time $30,000 taxable Career Status Bonus. In addition, all annual cost of living adjustments are based on the CPI minus 1% instead of the full COLA offered under the other plans.

CSB/Redux Details: Members are given a six-month window to decide between the High-3 plan and CSB/Redux. The window begins at the 14 ½ year point and the decision must be made, and becomes irrevocable, at year 15. If CSB/Redux is chosen, the CSB is paid to the member and the CSB/Redux rules are locked in – 40% vice 50% of basic pay, 3.5% increase in the multiplier, and a COLA of CPI-1%. There is a one-time catch up at age 62, where the pay under CSB/Redux is increased to the amount it would have been had the member chosen High-3. 24

This chart shows the difference in the multipliers under the High-3 and CSB/Redux plans. Redux represents a substantial reduction in initial retirement benefits. The higher the grade and the lower the years of service at retirement, the greater the reduction in retirement income. 25

Years of Service	"High-3" Multiplier %	"REDUX" Multiplier %
20	50	40
21	52.5	43.5
22	55	47
23	57.5	50.5
24	60	54
25	62.5	57.5
26	65	61
27	67.5	64.5
28	70	68
29	72.5	71.5
30	75	75

Taking the Bonus: Service members can do one of two things with the Career Status Bonus – save it or spend it. There is a reduction in benefits with either of these options. 26

- *Save it* – The bonus money would have to be invested aggressively to even come close to providing the difference in retirement pay. Most reputable financial planners will use between 10% and 11% as the maximum long-term growth rate that can be expected from a diversified all-stock portfolio. In fact, for the last 81 years, the stock market has returned, on average, 10% per year. A comprehensive study of the

CSB/Redux option by the Center for Naval Analysis showed that in order to get the same or better value from the CSB/Redux decision as you would from High-3, the bonus would need to be fully invested at a virtually unattainable rate of return of between 13% and 18%, depending on pay grade and tax bracket. Back to Chief Tasker, an E-7 retiring after twenty years. In the 15% tax bracket, he would need an investment rate of return of 15.5% to get the same amount of money as he would have gotten under High-3. (They didn't even factor in investing the money in a tax-deferred plan like the TSP, since the TSP has risk (unlike the military pension plan, which is backed by the full faith and credit of the United States Government) and is not inflation protected – unlike the military pension plan).

- *Spend it* – If Chief Tasker were to spend the Career Status Bonus, $25,500 after taxes, it would cost him $319,060 in lost benefits. That doesn't look like a good deal.

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Look at what the choice means on a month-to-month and annual basis. This chart shows the approximate initial monthly retirement checks a service member will receive under High-3 and CSB/Redux. As you can see, there is a significant difference of over $300/month for retirement at 20 years.

	High-3	CSB/Redux
E6@20	$1503	$1203
E7@20	$1753	$1403
E7@22	$1960	$1675
E8@24	$2510	2259
E9@30	$4035	$4035
O4@20	$3090	$2432
O5@24	$4276	$3849
O6@30	$6613	$6613

Considered from the perspective of annual payments, the difference is 28
substantial when CSB/Redux is chosen. For an E-7 retiring with 20 years,
the year one annual payment under the High-3 plan is $21,046, and under
CSB/Redux it is $16,836, a difference of $4,209. The difference at the ten 29
year point is $7,656, and at the 20 year point, due to the decreased mul-
tiplier and the COLA of CPI-1%, the difference in the annual amount is
$13,544. Members should think very seriously about the substantial, long-
term difference in retirement benefits before making their choice.

Other Disadvantages: Besides the clear decrease in the retirement benefit 30
amount, choosing the CSB/Redux plan also results in a reduction in sur-
vivor benefits for a surviving spouse (since those benefits are based on the
retired pay amount).

The Career Status Bonus is an early-cash out of your retirement plan. Think of it as a loan from your future benefits that you will spend the rest of your life repaying. If you were shopping around for a $30,000 loan, would you accept these terms?

Loan Amount: $30,000

Taxes: Must be paid, reducing spendable amount to $25,500, if not less

Interest Rate: Effectively 13.2%

Term: Forty years or death, whichever comes later

Total Repaid Amount: If you die after forty years of retiring from active duty, you will have repaid 8 to 15 times the original loan amount. (Even a 30-year mortgage at a whopping 9% Interest Rate would pay back less than three times the original loan amount. Eight to 15 times the amount is astronomical.)

You can always invest the loan, but you need to find a guaranteed rate of return of 15.5%. But then, why borrow at all?

To Help You Decide: You are now an informed consumer. There are 31
several retirement calculators available that are specifically designed to
help service members make an educated decision on their retirement plan.
These websites are listed at the bottom of your “Five Basic Steps” handout.
If you need additional assistance, see your Command Financial Special-
ist, Command Career Counselor, or your Fleet and Family Service Center
Financial Educator. You may want to read the study done by the Center for
Naval Analysis, also included in your list of resources.

32 **The Survivor Benefit Plan**

Any military retirement pay planning must include a bit of information on the Survivor Benefit Plan or SBP. SBP provides peace of mind to your survivors by allowing a designated beneficiary (typically a spouse or children) to continue receiving a portion of retired pay after your death. Since the plan you choose for retirement will impact the amount of SBP available, it is important to learn about this benefit. Plan on attending an FFSC SBP or Insurance brief, or meet with your Career Counselor or CFS for more information.

33 **The Thrift Savings Plan (Defined Contribution)**

Thrift Savings Plan Brochure

The Thrift Savings Plan brochure lists all of the details of this important benefit.

34 **What is the TSP?**

The TSP is a retirement savings and investment plan sponsored by The Federal Government. It is a "qualified" defined contribution plan; therefore it has the same type of savings and tax benefits as a 401(k)-type of plan. The TSP is open to all members of the Uniformed Services, Active Duty and Ready Reserve. With the TSP, you choose to join or not (it is optional), you choose the contribution amount (which comes directly out of your pay), you choose the investments from ten different options, and you own all of your contributions and any earnings.

35 **Contribution Amounts**

Members can contribute up to 100% of their basic pay each month to the TSP in 2007 ("elective deferral"). The total of elective deferrals cannot exceed $15,500 (2007). These annual limits may be increased in later years by cost-of-living adjustments. The TSP cannot accept contributions that exceed the elective deferral limit.

Members can also contribute up to 100% of any incentive and special pays (including bonuses) ("elective deferral") up to an annual limit of $15,500 in 2007.

If a member receives tax-exempt "combat zone pay," he can contribute up to the lesser of $45,000 (2007) each year or 100% of pay. Members must be currently enrolled in the TSP in order to contribute any incentive, special or bonus pays. Elections to contribute base, special or incentive pays can only be made during "open" seasons. Bonus pay can be contributed at any time.

Catch-up contributions are supplemental tax-deferred contributions available to TSP participants age 50 or older who are already contributing the maximum amount of regular TSP contributions for which they are eligible up to the maximum IRS elective deferral limit of $15,500 in 2007. Catch-up contributions have their own annual limit of $5,000 in 2007; thereafter, increases will be indexed to inflation.

Remember, in the TSP all money belongs to the member, both the contributions the member makes as well as any growth of the contributions.

There are no matching funds at this time.

TSP Investment Options

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There are ten funds available through the TSP. (There are five different "L" Funds. Returns quoted are for 1997-2006 for G, F, C, S and I, and 2006 for L Funds.)

- "G" Fund – The Government Securities Investment Fund, which invests in special, non-traded US Treasury securities guaranteed against any loss. The G Fund has a low level of volatility and a ten-year average return of 5.31%.
- "F" Fund – The Fixed Income Index Investment Fund that invests in government and corporate bonds and is designed to track the Lehman Brothers US Aggregate (LBA) bond index. The F Fund has a low to moderate level of volatility and a ten-year average return of 6.25%.
- "C" Fund – The Common Stock Index Investment Fund, which invests in stocks in the S&P 500 Index. The C Fund has a moderate level of volatility and a ten-year average return of 8.37%.
- "S" Fund – The Small Capitalization Stock Index Fund, which invests in small and medium size companies in the U.S. and is designed to track the Dow Jones Wilshire 4500 Completion Index. The S Fund has a moderate to high level of volatility and a ten-year average return of 9.56%.
- "I" Fund – The International Stock Index Investment Fund, which invests entirely in non-U.S. companies and is designed to track the EAFE index. The I Fund has a moderate to high level of volatility and a ten-year average return of 7.53%.

37 ■ "L" Funds – Consists of five pre-packaged portfolios with professionally determined asset allocation among the G, F, C, S and I Funds. Since inception in August 2005, returns have averaged 16.53% for L 2040, 15% for L 2030, 13.72% for L 2020, 11.09% for L 2010, and 7.59% for L Income.

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Investment Approaches in the TSP

There are two investment approaches to using the TSP. The first is to choose your own investment mix from the G, F, C, S and I funds. The second is to choose one of the "L" funds with a time horizon that matches your retirement date.

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Manage your own Mix

If you choose to manage your own mix, you need to determine the correct asset balance for you based on your age, time horizon, and risk tolerance. You will need to rebalance your mix on an annual basis, reducing your risk as you get closer to retirement age. For example, move bond money from the F fund to the G fund, move stock money from the I fund to the S Fund to the C Fund.

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Let the L Funds Manage Your Mix

You can keep it simple by letting the L Funds manage the mix for you. Simply choose the fund that fits your "Time Horizon" by determining when you will need to use the money.

When will I need the money?

- 2035 and later: L 2040
- 2025 through 2034: L 2030
- 2015 through 2024: L 2020
- 2008 through 2014: L 2010
- Currently or before 2008 L Income

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How the L Funds Work

The L Funds are professionally managed to meet your retirement needs. Assets are rebalanced daily, maintaining your portfolio mix. Assets are reallocated quarterly (re-distributed among the available funds), creating a more conservative (less risk) mix with age. When a fund reaches maturity (reaches the year it is named for) it rolls to the next more conservative fund and a new fund is added.

Life Cycle Funds 42

These pie charts show how the mix of funds is rebalanced over time. As you can see, as the Fund date approaches, the assets are moved from more volatile to less volatile funds, until ultimately, in the "L" Income fund, three-quarters of the money is in the guaranteed "G" fund.

Withdrawals 43

When members separate from the service they have several withdrawal options with their TSP money. They can choose to:

- Receive a single lump-sum payment
- Request a series of monthly payments
- Request a TSP annuity, in which case you must have at least $3,500 in your account
- Leave the money in the TSP to continue growing (but cannot contribute any longer)
- Transfer the money in the TSP to a rollover or conduit IRA or to their new employer's plan (if the plan accepts the money)

There are some options for borrowing against the plan while still on active 44
duty, but bear in mind there are substantial penalties for any withdrawal prior to age 59 1/2, and there is a mandatory 20% tax withholding on certain withdrawals. A loan must be repaid between one and five years. At separation or retirement, the balance will be due or it will be counted as taxable income. Interest is charged on the loan as well as a $50 fee.

The TSP is meant to be a retirement saving and investment program. If you need a loan, look to other resources rather than tapping into your retirement funds.

TSP Loan Program 45

While you are a member of the uniformed services, the TSP loan program gives you access to the money that you have contributed to your TSP account and the earnings on that money. You must be in pay status to obtain a loan, because your regular monthly loan payments are made through payroll deductions.

Reservists who drill only monthly (or less) should think seriously before taking a loan because they may be unable to make the required monthly payments. Missed payments could result in negative tax consequences.

There are two types of loans – a general purpose loan and a loan for the purchase of a primary residence. You can apply for a general purpose loan with a repayment period of 1 to 5 years, or you can apply for a residential loan with a repayment period of 1 to 15 years.

No documentation is required for a general purpose loan, but you must submit documentation (such as a contract for the purchase of your residence) to support the amount you are requesting for a residential loan.

You may have one general purpose loan and one residential loan from your TSP account at any one time.

Minimum and Maximum Amounts

The minimum loan amount is $1,000. Therefore, you must have at least $1,000 of your own contributions and attributable earnings on those contributions in your TSP account to apply for a loan. The maximum loan amount is $50,000, depending on the amount you have contributed to your account, any outstanding TSP loans, and limits set by the Internal Revenue Code.

If you have both a civilian and a uniformed services account, the maximum loan amount available for you to borrow will be based on calculations that consider the account balances and outstanding loan balances for both accounts.

Interest Rates

The interest rate you pay for the life of the loan is the latest available interest rate for the G Fund at the time your application is processed. The interest you pay on the loan will go into your TSP account, along with repayments of the loan principal.

Fees

You must pay a one-time fee of $50 which covers the cost of processing and servicing the loan. The fee is deducted from the proceeds of the loan.

How Loans Affect Accounts

Although funds are restored to your account when your loan payments are posted, borrowing from your account will affect the final account balance available for your retirement.

Because the TSP investment funds have different rates of return, the interest you pay on your loan (at the G Fund rate) is likely to be different from the rates of return on the other TSP funds. If you have invested in any fund(s) other than the G Fund, the earnings in your account when your loan is fully repaid are likely to be different from what your earnings would have been if you had not taken the loan. Thus, even though you pay back your loan with interest, you may have less money in your account when you retire than you would if you had not borrowed from it.

Estimating Loan Payments

If you are thinking about taking a loan from your TSP account, you may want to visit the Loan Calculator on the TSP website. The Loan Calculator can help you determine the estimated amount of your loan payments or the length of time it would take you to repay the loan. The calculator automatically uses the current loan interest rate.

Applying for a Loan

Information about applying for a loan, repaying the loan, and other details can be found in the TSP Loans booklet. Download a copy of it from the TSP website. You must wait 60 days from the time your loan is paid in full until you are eligible for another loan of the same type.

Spouse's Rights

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Even though the TSP is an individual account, spouses of participants have certain rights. Account owners can start, increase, decrease, or stop contributions, change contribution allocations, or make interfund transfers entirely on their own. However, getting any money out – via loan or any withdrawal option – requires a spouse's written concurrence if you are married. These are the same rules as federal law for 401(k) and other civilian defined contribution plans.

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Benefits of the Thrift Savings Plan

The benefits of participating in the TSP include:

- Contributions are before tax. This means that the contribution amount is deducted from gross pay BEFORE federal income taxes are calculated, thereby reducing your taxable pay and your annual tax bill.
- Contributions grow tax-deferred – you are not taxed on the earnings in the TSP until you make withdrawals.
- Contributions can be set up to occur automatically, which presents the opportunity for regular, disciplined investing.
- The TSP has very low administrative costs and expenses. High costs and expenses can reduce the rate of return.
- The TSP is easy to start, allocate and re-allocate money. Most of the transactions can take place over the phone, at the TSP website, or via www.mypay.gov.
- You can take the TSP with you. With the defined benefit retirement plan a member must stay in the Navy 20 years to get it. With the TSP, the money always belongs to you, and if you leave the service prior to serving 20 years, the money is still yours.
- You can designate beneficiaries who you would like to receive the funds in the TSP in the event of your death.

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How much to Contribute

How much you should invest in the TSP, and which fund to invest in, depends on several factors.

- How much you are investing now: If you already have an aggressive investment plan in place, the TSP may or may not fit into it. If you are new to investing, the TSP may offer an excellent way to get started on an automatic investment plan.
- How much of your investment dollars you can commit to retirement investment: It may not be wise to commit all of your available investment dollars to the TSP since you need to consider this money "tied up" until age 59 1/2.
- If you have a Roth IRA: If contributing to the TSP means you have to decrease the amount going to your Roth IRA, it may not be a good alternative.

- How long you will keep the money invested: The TSP is designed to help achieve long-term retirement planning goals. If you are going to use the money you put into the TSP for anything other than retirement, it may not be the best alternative.
- Your age: The younger you are the more likely TSP should be a part of your retirement plan.
- Your investing experience: The TSP is an especially attractive option for people new to investing or who don't want to take a lot of time to do their own research.
- There is a general rule in retirement planning that states "when in doubt, max it out." This is true for any tax-deferred investment opportunities.

The TSP has telephone service (the"Thriftline") and a website that make
it simple to transact business. The TSP Thriftline is 1-877-968-3778 and 49
website: www.tsp.gov.

The website provides timely information and updates to the program. Here you will find rates of return, performance history, daily share prices, and facts sheets on each fund. You can view your participant statement on-line to check on how your account is doing and to make changes to your account. However, to enroll in TSP, start, change, or cancel contribution amounts you must go through your myPay account. There are also calculators to help you determine the future value of your investment, estimate loan payments, and determine what monthly payments your account could provide in the future. There is an additional link to the American Savings Education Council (ASEC) retirement planning calculator.

Personal Savings and Investments 50

Individual Retirement Accounts, or IRAs, provide an excellent opportunity for anyone with a paycheck and their spouse, including service members, to save and invest for retirement. Even if you contribute to the TSP you can still fund an IRA. An IRA is a tax-sheltered vehicle that is used to save for retirement. The funds contributed to an IRA grow tax-deferred. Sometimes the amount contributed can be deducted from income taxes (if you are below certain income levels – as in a traditional deductible IRA). If you are above certain income levels the contribution cannot be deducted (traditional non-deductible IRA), but the growth is still tax-deferred. In both traditional IRAs you are not taxed until withdrawal. In a Roth IRA you can never deduct the contribution (therefore it is considered "after-tax" money), but you are also never taxed on the growth. In most cases, a Roth IRA is the best option.

For any type of IRA used, the account owner must make the decision as to which saving or investment tool will be used to fund the account. For example, a mutual fund could be designated as an IRA and the IRA rules will now attach to the money put into the mutual fund. A CD can also be designated an IRA. In fact, the money placed in most common investments can be designated as an IRA and thus become subject to the unique rules and regulations of the Individual Retirement Account. For new investors, it is important to gain a basic level of knowledge in saving and investment products, or seek the advice of a financial professional in order to make a good IRA investment decision.

51 *Traditional IRA:* Since members of the military are covered by an employer-provided pension plan, a Traditional IRA can be either deductible or nondeductible depending on your income level. Accounts are individual, there are no "joint" IRAs. You can, however, contribute to one for yourself and one for your spouse. Contributions for both traditional and Roth IRAs are limited to $4,000 per year for 2007. (That would be $8,000 total if making maximum contributions to your own and your spouse's IRA.) Earnings grow tax-deferred and the gains are taxed upon withdrawal. If the earnings are withdrawn prior to age 59 1/2 there is a tax penalty assessed and taxes are due. Regular deductions must begin by age 70 1/2. You choose which investments you will put your money into; in other words, the investments are "self-directed." IRA contribution amounts will increase to $5,000/year for 2008 and beyond (adjusted for inflation in $500 increments).

52 *Rollover IRA:* A rollover IRA is a special type of IRA that holds money transferred from other retirement plans. You will recall from our discussion on the TSP that one of your options for withdrawal is to "roll" the money over into a "rollover" IRA. Money from 401ks and 403bs, in fact from any qualified retirement plan that allows it, can be rolled over into this type of IRA. Typically the money will stay in the account, separate from other retirement funds. You cannot make regular contributions to a rollover IRA, but you can add funds from other qualified retirement plans. It is important to separate tax-deferred funds into a rollover IRA so that the money will maintain its tax-deferred status (co-mingling money is not allowed). A rollover IRA is also a self-directed IRA; you choose the investments.

53 *Roth IRA:* Money in a Roth IRA grows tax-exempt (the money grows non-taxed) since taxes are never due on the growth of Roth funds. You cannot take a tax deduction on any contribution to a Roth IRA; therefore at retirement all the money can be withdrawn tax free, forever.

Although designed for retirement, some money can be taken out of a Roth IRA after as few as five years, with no taxes or penalties due. Traditional IRAs can be converted to Roth IRAs, but all taxes are due and payable in the year of conversion. Money in a Roth IRA can be easily passed on to your heirs as there are no distribution requirements. Roth IRA's are great deals for just about everyone.

Sources of Help

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There are many resources available to help you get started with your retirement planning.

Government, Military and Non-Profit Agencies: These are particularly helpful resources. Their on-line calculators usually include military benefits, which make it easier for you to get an accurate estimate. Their counselors are often familiar with these benefits as well. Your Command Financial Specialist should be your first stop. Financial Education Specialists and the TAMP staff at the Fleet and Family Support Centers are excellent resources. The RAO (Retired Affairs Office) may have information on other resources. The Navy Mutual Aid Association and the USAA Educational Foundation provide assistance with aspects of retirement planning. Commercial financial professionals in the civilian world, including those at Department of Defense affiliated credit unions, offer both fee-based comprehensive financial planning services and do-it-yourself planning tools available at little or no cost.

Internet Resources: There are many retirement planning calculators on the Internet that enable you to do at least some of your planning on your own. Remember, the results will only be as good as the data you input. Many of these calculators do not accurately reflect the impact of an inflation-adjusted employer pension, such as a military retirement check.

Assumptions: When using any type of calculator or working with a financial professional, be sure to use realistic assumptions for inflation and rates of return. A rate of inflation between 3% and 4% per year will accurately reflect most time periods of 20 years of more. For long-term rates of return on your investments, a reputable financial planner would use, at a maximum, 9% to 10% per year before retirement, and 7% to 8% during retirement. Many calculators automatically set for the rate of inflation and rate of return. Make sure they are realistic. Use the rates just mentioned as a guide.

Selecting a Professional: Use caution when seeking a financial professional. There are a many good stockbrokers, insurance agents, and independent financial planners, but not all are fully knowledgeable about retirement planning. Most should provide a free initial consultation; beyond that, some work on a fee basis, while others are paid through commissions on products they sell. Find out how the professional you work with will be paid; remember, you do not get something for nothing. Ask what education, training, or special credentials your planner might have. A licensed CFP (Certified Financial Planner) for example, has been through a detailed advanced program, passed a rigorous examination, and agreed to abide by a comprehensive set of planning standards and a code of ethics. Always check at least two and compare their recommendations. Give yourself time to make the best decision. Remember, it's your money; don't be pressured into anything.

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REEVALUATE AND REVISE

Your final two steps in retirement planning are to consistently reevaluate your plan and revise it as needed. Are the factors still realistic? Has there been a change in income needed? Is it time to use a different tool? Reevaluate and revise when major life events occur, and at least annually as you get within ten years of your retirement.

With the steps outlined in this program you are well on your way to building wealth and ensuring a comfortable (and affordable) retirement:

- Consider the factors.
- Calculate your income needs – update your Ballpark Estimate annually or with major life changes. Work with a financial professional if you need to.
- Commit to the goals – Do some serious thinking and planning before you decide to take the CSB/Redux retirement plan. Join the TSP today and commit a portion of future raises and bonuses to your retirement savings (you won't even miss it!).
- Reevaluate your factors periodically.
- Revise your plan to meet the needs of your new goals.
- Use all of the resources available to you, especially while you are on active duty.
- Don't fail to plan, plan to succeed.