



SOUTHWESTERN DIVISION CIVILIAN PERSONNEL ADVISORY CENTER

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Retirement Planning

Are you within five years of being eligible to retire? If so, you should request a retirement estimate from the Army Benefits Center – Civilian (ABC-C). There are three primary reasons this will help with your retirement planning.

The first and most important reason is to verify all of your Federal service will count towards retirement. The Leave Service Computation Date (SCD) that is found in Block 11 of your Leave and Earnings Statement (LES) may include credit for service that will not count for retirement. As part of calculating a retirement estimate, ABC-C will let you know if any of your service will not count for retirement.

The second reason is to find out if you will need to pay a civilian or military deposit to be eligible to retire. Waiting until the last minute to request a retirement estimate, and then discovering that you are not eligible without paying the deposits, could delay your planned retirement.

The third reason is to ensure you will be able to continue your life and health insurance. Both types of insurance generally require that you have coverage for the five years before retirement for continuation of coverage.

Employees within five years of retirement may request an estimate each calendar year. To request an estimate, call the ABC-C at 1-877-276-9287, pressing “0” to transfer to a counselor at the first opportunity.

Further information on retirement planning is available at <https://www.abc.army.mil/retirements/IWanttoRetire.htm>.

Thrift Savings Plan – Enrollment and Changes

Have you looked at the Thrift Savings Plan (TSP) lately? Last year around this time, many people saw their TSP funds plummet due to the dire conditions of the economy and stock market. Some people stopped contributing to TSP, while others rushed to move their TSP balances and contributions to less risky investment funds, such as the government securities (G) fund. Some investors stayed the course and did not make any changes to their TSP

contributions and/or fund allocations. Overall, most employees, particularly those invested in the riskier stock funds, felt somewhat disheartened at the loss of their earnings. The good news is that the market and economy is improving. If you have not looked at your TSP account lately or if you have not initiated contributions into TSP, you may want to do so. TSP continues to be an integral benefit for Federal employees, particularly those covered by the Federal Employee Retirement System (FERS). It not only offers retirement income, but tax deferral benefits, as well.

You can start or change your TSP contributions any time by accessing the Employee Benefits Information System (EBIS) at <https://www.abc.army.mil> or the Army Benefits Center- Civilian telephone system at 1-877-276-9287. Employees can contribute any whole dollar amount or percentage of their basic pay, up to the annual Internal Revenue Code limit of \$16,500 for 2009. You can allocate your contributions amongst any of the investment funds once TSP receives your initial contribution. There are several investment funds to choose from, including the Government Securities Investment (G) Fund, the Fixed Income (F) Fund, the Common Stock Index Investment (C) Fund, the Small Capitalization Stock Index (S) Fund, the International Stock Index Investment (I) Fund, and the Lifecycle (L) Funds. The L Funds diversify participant accounts among the G, F, C, S, and I Funds using professionally determined investment mixes (allocations) that are tailored to different time horizons. All of the Investment funds, with the exception of the G Fund, include risk. You can learn more about the different funds and the risk associated with them by assessing TSP’s website at <http://www.tsp.gov>. You may also want to consult with a financial/investment analyst to plan to your TSP contribution and fund allocation strategies.

To allocate your contributions or to complete an Interfund transfer, you will need to access the TSP’s website at <http://www.tsp.gov> or the Thriftline at 1-877-968-3778, or 1-877-847-4385 for hearing impaired employees. If you have never contributed to TSP, the TSP will mail you a TSP account number, an initial Web password, and a personal identification number (PIN) to access your TSP account and allocate your contributions, once they receive your initial contribution from the agency. If you have lost or forgotten your TSP account number and/or password, the TSP will send you information about your account number or password to your home address of record

when you request the information through the TSP website or Thriftline. A wide variety of TSP program information, to include TSP "catch up" contributions, TSP loans, and spouses' rights, is available at the primary TSP website, <http://www.tsp.gov>.

TSP - Agency Contributions and Tax Benefits

If you are a FERS employee, your agency makes two different types of contributions to your TSP account as part of your FERS benefits. These contributions are not taken out of your pay, nor do they increase your pay for income tax or Social Security purposes.

Upon date of hire, you are immediately eligible for agency contributions. There is no waiting period. Your agency will automatically contribute to your TSP an amount equal to one percent of your basic pay each pay period. These are your Agency Automatic (1%) Contributions. You will receive these contributions whether or not you contribute your own money to your TSP account.

Second, if you are contributing to your TSP account, your agency also makes Agency Matching Contributions. There is no waiting period. However, if you do not contribute your own money, you will not receive Agency Matching Contributions. Matching contributions apply to the first five percent of pay that you contribute each pay period. Your contributions are matched dollar-for-dollar on the first three percent of pay you contribute each pay period and 50 cents on the dollar for the next two percent of pay. Your agency will not match the contributions that you make above five percent of your pay. However, you will still benefit from before-tax savings and tax-deferred earnings on those contributions. In order to receive the maximum Agency Matching Contributions, you must not only contribute five percent of your basic pay each pay period, but you must also contribute all year long.

CSRS Participants do not receive any agency contributions, but do receive the tax benefits of TSP participation.

There are two tax benefits to making tax-deferred contributions to the TSP: (1) Your TSP contributions are taken out of your pay before taxes are withheld, so you pay less tax now, and (2) taxes on contributions and attributable earnings are deferred until you withdraw your money.

Tax-deferred contributions are "before-tax" contributions. When you participate in the TSP, you make before-tax contributions. That means the money you contribute is taken out of your pay before Federal and, in almost all cases, state income taxes are withheld. Therefore, the amount used to calculate your taxes is smaller and you

pay less in taxes now. Deposits to a regular savings account do not provide such an advantage.

Your TSP contributions are excluded from the taxable income reported on IRS Form W-2, Wage and Tax Statement, that you receive from your agency each year. Thus, you do not report them on your annual Federal tax return. This special tax treatment does not affect your salary of record for other Federal benefits — such as the FERS Basic Annuity, the CSRS annuity, or life insurance — nor does it affect Social Security or Medicare taxes or benefits.

Additionally, by participating in the TSP, you defer (that is, postpone) paying Federal taxes on the money you contribute until you withdraw the funds from your TSP account. In addition, over the years, the money in your account will accrue earnings. These earnings are also tax-deferred. This means that you do not pay income taxes on contributions and earnings in your TSP account until you receive the money — usually after you retire (when your tax bracket may be lower). Deferring the payment of taxes results in more money staying in your account, working for you. The longer your money is invested, the greater the benefit of tax-deferred earnings will be.

Thrift Savings Plan – Lifecycle Funds

If you want to put your TSP allocation decisions on automatic pilot, a Lifecycle Fund option may be your best investment strategy. In 2005, the TSP started the Lifecycle Funds investment options. Lifecycle funds are distributed in the G, F, C, S, and I Funds. The investment distribution is based on the date that employees determine when they will need the money. If the date is further out, the lifecycle fund will be more heavily weighted towards stock funds. As the date draws nearer, the allocation will be weighted more toward less risky funds, such as bond (F Fund) and government securities (G Fund).

L 2040, L 2030, L 2020, and L 2010 are for participants with time horizons that fall within the defined date ranges. The asset allocations of these funds are automatically adjusted on a quarterly basis, moving to a more conservative mix, gradually approaching that of the L Income Fund. Between quarterly adjustments, the asset allocation of each fund is maintained through daily rebalancing to that fund's target allocation. When a fund reaches its horizon, it will roll into the L Income Fund, and a new fund will be added with a more distant time horizon. For example, in 2010, the L 2010 Fund will roll into the L Income Fund, and a new L 2050 Fund will be created. The L Income Fund is designed to produce current income for participants who are already receiving money from their accounts through monthly payments and for participants who plan to withdraw or to begin withdrawing from their accounts in the near future. The asset allocation

of the L Income Fund does not change over time; it is maintained through daily rebalancing.

More information on the TSP Lifecycle Funds is available at <http://www.tsp.gov/lifecycle/flash/index.html>.

Comparison of the TSP Funds

The chart below provides a comparison of the available TSP Funds. For **more detailed information** about each fund, see the **TSP Fund Information Sheets**.

| | G Fund | F Fund* | C Fund* | S Fund* | I Fund* | L Funds** |
|-----------------------------------|---|---|---|---|---|---|
| Description of Investments | Government securities (specially issued to the TSP) | Government, corporate, and mortgage-backed bonds | Stocks of large and medium-sized U.S. companies | Stocks of small to medium-sized U.S. companies (not included in the C Fund) | International stocks of 21 developed countries | Invested in the G, F, C, S, and I Funds |
| Objective of Fund | Interest income without risk of loss of principal | To match the performance of the Lehman Brothers U.S. Aggregate Bond (LBA) Index | To match the performance of the S&P 500 Index | To match the performance of the Dow Jones Wilshire 4500 Completion (DJW 4500) Index | To match the performance of the Morgan Stanley Capital International EAFE (Europe, Australasia, Far East) Index | To provide professionally diversified portfolios based on various time horizons, using the G, F, C, S, and I Funds |
| Risk | Inflation risk | Market risk, Credit risk, Prepayment risk, Inflation risk | Market risk, Inflation risk | Market risk, Inflation risk | Market risk, Currency risk, Inflation risk | Exposed to all of the types of risk to which the individual TSP funds are exposed – but <i>total</i> risk is reduced through diversification among the 5 individual funds |
| Volatility | Low | Low to moderate | Moderate | Moderate to high — historically more volatile than C Fund | Moderate to high — historically more volatile than C Fund | Asset allocation shifts as time horizon approaches to reduce volatility |
| Types of Earnings | Interest | Change in market prices Interest | Change in market prices Dividends | Change in market prices Dividends | Change in market prices Change in relative value of currency Dividends | Composite of earnings in the underlying funds |
| Inception Date | April 1, 1987 | Jan. 29, 1988 | Jan. 29, 1988 | May 1, 2001 | May 1, 2001 | August 1, 2005 |

* The F, C, S, and I Funds also have earnings from securities lending income and from temporary investments in G Fund securities. These amounts represent a very small portion of total earnings.

** Each of the L Funds is invested in the individual TSP funds (G, F, C, S, and I). The proportion of your L Fund balance invested in each of the individual TSP funds depends on the L Fund you choose.