

Securing Flexibility for Lifetime TSP Income

Many federal employees understand the importance of maximizing their TSP funds while they are still working full-time. It is easy to determine the right contribution amount and there are limited investment options. Upon retiring, these funds may become a key income generator, along with one's federal pension and Social Security. The distribution choices are a lot more involved and the consequences of different options can be huge... the difference between living comfortably and running out of money!

Since nobody has a crystal ball regarding future performance of their TSP account, what options are available that can produce a guaranteed lifetime income?

Here are two options that are NOT designed to last your lifetime. One is to calculate each year, your withdrawals in accordance with your life expectancy. However, what if you live longer and your funds are one day depleted? A second option is to withdraw a fixed amount, which can be periodically changed. Again, no guarantees about how long your money will last.

Another option is a lifetime annuity, whereby an insurance company can take your initial deposit and guarantee a lifetime income to you or to your spouse. Once your contract has started, it cannot be changed, either by you or by the issuing insurance company. This product is called a SPIA, Single Premium Immediate Annuity. The payments can start thirty days after your money is transferred to the insurance company, and are guaranteed to last, according to which lifetime option is selected.

When beginning an annuity contract, the potential decline of the TSP account value is eliminated, as the initial premium is a fixed, determined amount. The initial single premium is fully committed to the terms of the contract, and typically you no longer have access to these funds, other than how you selected their distribution (payout) to you (or your spouse).

Suppose you could secure a lifetime income and preserve the following features... periodic, penalty free withdrawals AND enhanced payouts if your health changes? A different kind of insurance contract called a Fixed Index Annuity, can also offer a guaranteed income that cannot be outlived. Access to your initial premium is preserved, through withdrawals. It is understood that this will likely lower the guaranteed income proportionately. Many insurance companies increase the payout or allow unrestricted access to the account balance if your health changes and you need home health care benefits or enter a nursing facility.

Taking distributions from your TSP funds is a monumental choice. By evaluating the many options outside the federal benefits framework, you can build in the flexibility that will let your funds work the way you want them to work, regardless of lifestyle changes in the future.

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