

Basic Training: Key Retirement Terms You Should Know

When it comes to planning for your retirement, it can sometimes be hard to steer through the countless industry terms you come across. To choose the retirement course that's right for you, it helps to understand key terms so that you fully understand the various options, tools, and benefits available to you. Below we've defined some common terms you'll encounter as a TSP participant—some you may not be familiar with.

- **Agency/Service Automatic (1%) Contributions**—Contributions equal to 1% of your basic pay made each pay period to your TSP account by your agency or service if you are a FERS or BRS participant. CSRS employees and non-BRS members of the uniformed services do not receive automatic contributions.
- **Agency/Service Matching Contributions**—Contributions on the first 5% of pay you contribute every pay period if you're a FERS or eligible BRS participant.¹ The first 3% is matched dollar for dollar by your agency or service; the next 2% is matched at 50 cents on the dollar. This means that when you contribute 5% of your basic pay, your agency or service contributes an amount equal to 4% of your basic pay to your TSP account. Together with the Agency/Service Automatic (1%) Contribution you get, your agency/service puts in a total of 5%. Don't miss out on this free money: be sure to contribute at least 5% to get the full match.
- **Annuity**—A specified amount paid at regular, defined intervals for a set time period, often the remainder of your life. You can purchase either of two life annuity types through our annuity provider: 1) a single life annuity that provides a monthly benefit or amount only to you for as long as you live, or 2) a joint life annuity with your spouse or with someone other than your spouse. This is an irreversible choice and your TSP money leaves your account permanently. You should know that purchasing an annuity is not your only option for receiving monthly income. You can keep your money with the TSP and choose to get regular monthly payments either in fixed amounts or based on your life expectancy.
- **Compounding**—A principle of investing that makes it possible for your retirement savings to increase exponentially. It allows you to make money not just on what you contribute to your TSP account each pay period, but also on the money that it earns. Compounding is most effective the more years it has to work, so it's best to start saving as soon as you can and to save consistently. To see an example and to learn more, check out our YouTube video, "How Can Compound Earnings Work for Me?"
- **Contribution Allocation**—A choice you make that tells the TSP how *future* money going into your account should be invested among the TSP funds.
- **Diversification**—A strategy for reducing the risk of investing in a single industry/market sector by spreading the risk over various industries/market sectors. Investments that increase in value can help compensate for others that are not changing or decreasing and vice versa. In other words, diversification can help reduce risk and smooth out returns. Choosing our Lifecycle (L) Funds will give you an optimal mix of our five core funds based on when you'll need to start receiving income from your TSP account. Also see the "Target Date Funds" section.

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¹ FERS participants and BRS participants who opted in receive matching contributions as soon as they contribute their own money. BRS participants who began service on or after January 1, 2018, begin receiving matching contributions after two years of service.

- **Interfund Transfer (IFT)**—An IFT allows you to redistribute all or part your money *already* in your account among the different TSP funds. Each month, your first two IFTs can redistribute money among any or all of the TSP funds. After that, for the remainder of the month, you can only move money into the Government Securities Investment (G) Fund. An IFT does not change the way new contributions, transfers or rollovers into the TSP, or loan payments are invested.
- **Roth TSP Contributions**—Contributions from your pay that have been taxed before they go into your TSP account. Because you pay the taxes on your contributions up front, you don't pay taxes on that money or any earnings when you make withdrawals as long as you meet certain IRS requirements.²
To learn more, visit us on YouTube at tsp4gov to watch our videos for civilian and uniformed services, “Is Roth Right for Me?”
- **Traditional Contributions**—Contributions from pay that have not yet been taxed. These contributions are also referred to as “tax-deferred,” “pretax,” or “non-Roth” contributions. When you withdraw money from your retirement account later, you are taxed on the amount you take out. If you are a uniformed services member making tax-exempt contributions, your contributions will be tax-free at withdrawal but your earnings will be subject to tax.
- **Target Date Funds**—An asset mix that automatically changes to become more conservative as you get closer to your retirement “target date.” You determine your target date, sometimes called “time horizon,” based on when you expect to need your money. Our Lifecycle (L) Funds are target date funds that provide you with an all-in-one investment solution that you don't have to manage or adjust.
- **Vesting**—The time in service that you must have upon separation from federal employment to be entitled to keep any Agency/Service Automatic (1%) Contributions and associated earnings. Most FERS participants are vested in (entitled to keep) these automatic contributions after completing 3 years of service. BRS members and FERS employees in congressional and certain noncareer positions become vested after 2 years of service.

TSP Website: tsp.gov
 ThriftLine: 1-877-968-3778
 Outside the U.S. and Canada: 404-233-4400
 TDD: 1-877-847-4385
 Facebook: fb.com/tsp4gov
 Twitter: [@tsp4gov](https://twitter.com/tsp4gov)
 YouTube: youtube.com/tsp4gov

² Roth earnings are paid tax-free if 1) you have reached age 59½, have a permanent disability, or have died, and 2) five years have passed since January 1 of the year you made your first Roth contribution.

Rates of Return and Expenses

	L 2050	L 2040	L 2030	L 2020	L Income	G Fund	F Fund	C Fund	S Fund	I Fund
Rates of Return as of January 31, 2018										
Year-to-Date	4.15%	3.66%	3.12%	1.84%	1.10%	0.20%	-1.14%	5.72%	3.34%	5.00%
1-Year	21.42	19.01	16.38	10.72	6.71	2.33	2.40	26.40	19.59	27.99
3-Year	10.97	9.95	8.81	6.35	4.27	2.07	1.44	14.70	12.03	9.75
5-Year	11.62	10.59	9.41	7.23	4.46	2.09	2.38	15.96	13.99	8.18
2017 Administrative Expenses										
Gross	.046%	.046%	.046%	.046%	.046%	.046%	.046%	.046%	.046%	.046%
Net¹	.033%	.033%	.033%	.033%	.033%	.033%	.032%	.032%	.032%	.032%
Other Expenses²										
	.008%	.007%	.006%	.004%	.003%	.000%	.017%	.002%	.027%	.010%

The returns for the TSP funds represent net earnings after the deduction of administrative expenses and, in the cases of the F, C, S, I, and L Funds, after deduction of trading costs and investment management fees as of January 31, 2018. (For more recent returns, visit “Fund Performance” at tsp.gov.) Additional information about the TSP funds; their related indexes; and their respective monthly, annual, and 10-year returns can be found in the TSP Fund Information sheets or by visiting “Fund Performance” at tsp.gov.

Additional information about the TSP core funds: The Government Securities Investment (G) Fund contains government securities; the Fixed Income Index Investment (F) Fund contains government, corporate, and asset-backed bonds; the Common Stock Index Investment (C) Fund contains stocks of large and medium-sized U.S. companies; the Small Capitalization Stock Index Investment (S) Fund contains stocks of small to medium-sized U.S. companies; and the International Stock Index Investment (I) Fund contains stocks from more than 20 developed countries.

¹ Net administrative expenses are the expenses charged to TSP participants per dollar invested in the respective funds after offsetting gross administrative expenses with account forfeitures and loan fees.

² Fees associated with securities lending are not included in 2017 administrative expenses. Consistent with standard practice in the industry, they are charged in addition to administrative expenses. The other expenses represent fees paid to the investment manager for administering securities lending programs. Income earned from these programs improved the returns of the funds.

