James Wealth Management

TSP Investments

Thank you for continuing our three-part Thrift Savings Plan series. Part one summarized how you and the government put money in the TSP and explains the different TSP accounts available. This article will focus on the investment options available in the TSP. Our final article will address the options you have to take money out of the TSP.

One of the flagship benefits of the TSP is their low-cost investment options. However, a recent development with the TSP is that they are offering a mutual fund window. You need at least $40,000 in your TSP account before you can transfer money through the mutual fund window to a separate investment account. In the separate investment account, you can choose your investments from a list of almost 5,000 mutual funds.

The cost structure in this account is different from the regular TSP account. To have a separate investment account you must pay a $55 annual administrative fee, $95 annual maintenance fee, and a $28.75 transaction fee per trade. The transaction fee is charged each time you purchase or sell a mutual fund. So, if you want to sell Mutual Fund A and replace it with Mutual Fund B you will pay $28.75 twice: once for the sale of Mutual Fund A and once for the purchase of Mutual Fund B. Also, the mutual fund will also have an internal fee, which is likely higher than the regular TSP account funds. The key to maximizing this option is to make sure you are managing it to try to get better returns than you would in the regular TSP investments. This is great for investors who love to actively manage their accounts. It's also a good choice for people who have financial planners to help them select better options than the core TSP funds. The TSP will likely become your largest asset, so it almost always makes sense to have someone help you manage it. Helping clients choose the investments inside their active employer plan is one of the many services we offer our clients at James.

The regular TSP investments are comprised of 5 core funds and several lifecycle funds. The core funds are:

- **C Fund** – "C" stands for Common stock; it mimics the S&P 500 Index. If you purchase this, you should anticipate a return like the S&P 500 Index. The S&P 500 Index consists of the 500 largest companies in the U.S.

- **S Fund** – "S" stands for small cap stocks. The average company this fund purchases has a market capitalization of $2 billion. Market capitalization is a fancy word for the total value of the company This helps provide diversification from the C Fund because small and mid-size companies typically grow quickly when the economy is growing. On the flip side, they are riskier and could lose more in value when the economy isn't strong.

- **I Fund** – "I" stands for international stocks. This fund purchases stock in companies that aren't in the United States. Global economies don't always move in the same direction. If non-U.S. companies are doing better than U.S. companies, the I Fund may perform well. This fund can provide additional diversification. However, investing in international companies is not always advised, and is dependent on economic factors.

- **F Fund** – "F" stands for Fixed income. Each of the funds previously mentioned are stock funds. This fund and the G Fund are bond funds. Stocks are riskier by nature, but have historically provided higher returns. With stocks you are part owner of the company. Just like if you own your own business, if the company does well, so do you. On the other hand, with bonds you are a creditor. You lend money to companies, and they pay you back with interest. If the company isn't doing well, you may still get paid some as a creditor, but you may receive nothing by owning stocks. The F Fund invests in investment grade bonds, meaning when you buy the F Fund you are buying a fund that is lending money to companies with good credit. Companies with good credit are more likely to repay their loans than companies with bad credit.

- **G Fund** – "G" stands for Government bonds. With this fund you are lending money to the federal government on a short-term basis. This is considered the safest investment inside the TSP. The U.S. government pays back its debts. Since this fund is considered very safe, its disadvantage is it pays a lower interest payment. Many people are willing to sacrifice interest for the sake of safety for a portion of their balance, but likely want a higher total return than this fund alone could provide.

A little-known fact about the G Fund is that the government can take extraordinary measures and borrow from its contributions. In the last 25 years the extraordinary measures were mostly caused by Congress not raising the debt ceiling. The measures have been used about a dozen times in the last 25 years, most recently in January of 2023. Instead of your contributions going into the G Fund, the government uses the cash to pay its bills. Once Congress approves the increase to the debt ceiling the G Fund is made whole.

- **L Funds** – "L" stands for Lifecycle funds. These are set up in 5-year increments. You pick the closest year to your retirement. For example, if you plan to retire around 2032, you could pick either L 2030 or L 2035. L 2030 might be a good fit if you are a little more conservative and 2035 might be good if you are more aggressive. This is because the investments inside the L Funds become lower in stock and higher in bonds each year as they approach the target date. Clients who prefer these funds tend to appreciate a hands-free way of investing that changes over time. The fund will periodically update the split between the C, S, I, F, and G Funds as the stated year approaches. If you like being involved in your investments, this may not be a good fit for you.

It is important to pick investments that are suitable and beneficial for you and your goals. At James, we help clients make sure their investments in their employer plans are appropriate. We first ask our clients to take a risk tolerance quiz to give us insight on how they feel about risk. The results of the quiz, paired with conversations about client specifics, will help us suggest the investments inside your TSP account and other investment accounts. Don't hesitate to reach out for help!

Be sure to check out the last article in the series of three.

- The James Team