Thrift Savings Plan
# HIGHLIGHTS
October 2011

**When it's time to begin withdrawing** your money in retirement, be sure to consider strategies to help you cope with inflationary pressures, such as the following two examples. You could purchase a TSP life annuity with increasing payments, and your monthly annuity payments could increase up to 3% each year based on the rate of inflation. If you purchased a TSP single life annuity at age 62 with a $300,000 TSP account balance, your initial monthly amount would be $1,083. Assuming a 3% annual increase based on inflation, in 10 years your monthly amount would be $1,413.

You could also purchase an annuity with only a portion of your account balance to cover your monthly expenses, and take the remainder in monthly payments, which you can change annually based on your needs.

And don't forget your investment strategy in retirement. The TSP offers the L Income Fund, which gives you some exposure to stocks and bonds, but with a high emphasis on preserving your assets.

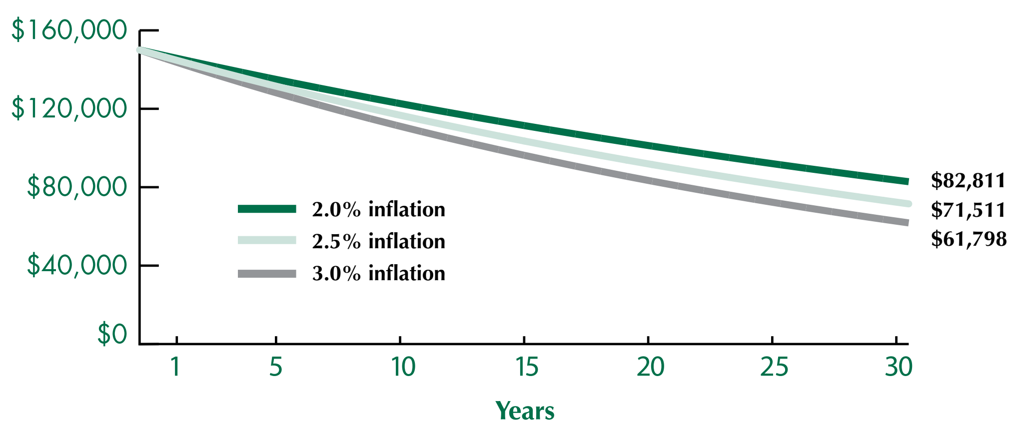
# Planning for the Effects of Inflation

Chances are you've thought about how much you'd need to live comfortably in retirement; maybe you've even done some calculations to see if you are on track to save enough to meet that goal. But if you haven't planned for the effects of inflation, you might find yourself coming up short later in your retirement years.

**Why is inflation important?** Inflation is a persistent rise in the general level of prices that reduces the value—and therefore, the purchasing power—of your money. According to the Bureau of Labor Statistics' CPI *Inflation Calculator*, what you could purchase with roughly $3,650 in 1980 will cost you $10,000 today. Ordinarily, we purchase fewer goods and services when prices rise and substitute goods and services with lower or stable prices. But when all or most prices are rising, it is hard to find substitutes, and sometimes the only option is to do without. It is easy to see why the effects of inflation are so damaging for retirees living on limited incomes. Doing without is not what you had in mind when you planned to "live comfortably in retirement."

**Inflation erodes the purchasing power of your savings.** Even a relatively low rate of inflation can have a significantly diminishing effect on the purchasing power of your retirement savings. The following example illustrates how your account may be affected by seemingly modest inflation. Suppose that the value of your account thirty years from now is $150,000. An inflation rate of 2% per year would reduce that $150,000 to the purchasing power of only $82,811 today. Higher rates of inflation have an even more drastic impact.

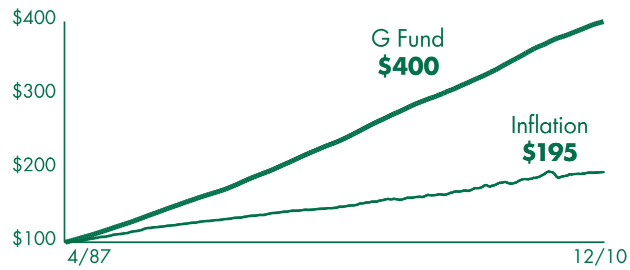
### Decline in Purchasing Power Over 30 Years




**Consider your real rate of return after inflation.** Your return objective should be to earn enough to beat inflation and provide a level of growth that allows you to meet your retirement needs. In the July 2011 *Highlights*, we looked at the advantages of the G Fund.

*(Continued on back)*

This chart shows that a $100 G Fund investment has outpaced inflation over the last 23 years.




However, in order to attain real growth (especially after taxes), you may need exposure in your TSP account to other investment options (the C, S, I, and F Funds; or the L Funds, which provide a mix of all 5 TSP funds and that are targeted to your retirement date).

**Plan, plan, plan.** You may predict future rates of inflation even if you can't be certain. The average annual inflation rate from 1926 to 2010 was 3%—a rate that would reduce $150,000 in today's dollars to the purchasing power of $61,798 in 30 years (as seen in the chart on the previous page). On the other hand, 1974 through 1983 was a period of high rates of inflation (8.41%, per inflation figures provided by the Bureau of Labor Statistics). It is therefore important to consider, when calculating how much you should save, that the inflation rate could be higher (or lower) than long-term averages when you need to begin spending your money in retirement.

The old adage was never truer: Plan for the worst and hope for the best. When you are doing your retirement planning, be sure to use a technique that allows you to input an inflation assumption. The TSP website, under Planning & Tools, How Much Should I Save?, provides a link to the Ballpark E$timate Calculator developed by the Employee Benefit Research Institute (EBRI). This tool allows you to calculate the effect of any rate of inflation on all your retirement savings, including your TSP account. Once you link to the EBRI site from the TSP website, you can also choose to use the Office of Personnel Management's Federal Ballpark E$timate calculator for FERS and CSRS employees. This calculator uses a default inflation rate of 3%, but allows you to input other inflation rates. You can run a variety of scenarios through the calculator and get an idea of what to expect at different inflation assumptions.

## Rates of Return*

| | L 2050 | L 2040 | L 2030 | L 2020 | L Income | G Fund | F Fund | C Fund | S Fund | I Fund |
|---|---|---|---|---|---|---|---|---|---|---|
| **Monthly 2011** | | | | | | | | | | |
| Jan | – | 1.75% | 1.57% | 1.35% | 0.63% | 0.24% | 0.13% | 2.37% | 1.23% | 2.41% |
| Feb | 3.28 | 2.95 | 2.60 | 2.15 | 0.90 | 0.22 | 0.26 | 3.42 | 4.52 | 3.33 |
| Mar | – 0.15 | – 0.08 | – 0.05 | – 0.03 | 0.17 | 0.26 | 0.06 | 0.04 | 2.06 | – 2.23 |
| Apr | 3.57 | 3.20 | 2.83 | 2.37 | 1.01 | 0.25 | 1.28 | 2.96 | 2.94 | 6.03 |
| May | – 1.39 | – 1.15 | – 0.97 | – 0.74 | – 0.05 | 0.25 | 1.31 | – 1.13 | – 1.27 | – 2.90 |
| June | – 1.48 | – 1.30 | – 1.10 | – 0.84 | – 0.18 | 0.21 | – 0.30 | – 1.67 | – 2.35 | – 1.16 |
| July | – 1.75 | – 1.49 | – 1.25 | – 0.94 | – 0.14 | 0.22 | 1.59 | – 2.04 | – 3.14 | – 1.60 |
| Aug | – 6.16 | – 5.37 | – 4.63 | – 3.69 | – 1.10 | 0.19 | 1.45 | – 5.44 | – 8.12 | – 9.03 |
| **Annual 2001 – 2010** | | | | | | | | | | |
| 2001 | – | – | – | – | – | 5.39% | 8.61% | – 11.94% | – | – |
| 2002 | – | – | – | – | – | 5.00 | 10.27 | – 22.05 | – 18.14 | – 15.98 |
| 2003 | – | – | – | – | – | 4.11 | 4.11 | 28.54 | 42.92 | 37.94 |
| 2004 | – | – | – | – | – | 4.30 | 4.30 | 10.82 | 18.03 | 20.00 |
| 2005 | – | – | – | – | – | 4.49 | 2.40 | 4.96 | 10.45 | 13.63 |
| 2006 | – | 16.53 | 15.00 | 13.72 | 7.59 | 4.93 | 4.40 | 15.79 | 15.30 | 26.32 |
| 2007 | – | 7.36 | 7.14 | 6.87 | 5.56 | 4.87 | 7.09 | 5.54 | 5.49 | 11.43 |
| 2008 | – | – 31.53 | – 27.50 | – 22.77 | – 5.09 | 3.75 | 5.45 | – 36.99 | – 38.32 | – 42.43 |
| 2009 | – | 25.19 | 22.48 | 19.14 | 8.57 | 2.97 | 5.99 | 26.68 | 34.85 | 30.04 |
| 2010 | – | 13.89 | 12.48 | 10.59 | 5.74 | 2.81 | 6.71 | 15.06 | 29.06 | 7.94 |

The returns for the TSP funds represent net earnings after deduction of accrued administrative expenses and, in the cases of the F, C, S, I, and L Funds, after deduction of trading costs and accrued investment management fees. Additional information about the TSP funds, the related indexes, and their respective 1-, 3-, 5-, and 10-year returns can be found in the TSP Fund Information sheets on the TSP website.

The Lifecycle funds, which are invested in the individual TSP funds (G, F, C, S, and I)**, were implemented on August 1, 2005; therefore, the first annual returns are for 2006. The S and I Funds were implemented in May 2001; therefore, there are no annual returns for these funds for years before 2002.

* The L 2010 Fund was retired on December 31, 2010.

** The Government Securities Investment (G) Fund; the Fixed Income Index Investment (F) Fund; the Common Stock Index Investment (C) Fund; the Small Capitalization Stock Index (S) Fund; the International Stock Index Investment (I) Fund

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