

A civilian working in a federal office and a sailor serving aboard a ship may have completely different careers, yet both can build retirement money through the same system. That system is the Thrift Savings Plan, commonly called the TSP. It is the federal government's retirement savings plan for eligible civilian employees and members of the uniformed services. The TSP is often compared with a private-sector 401(k) because both plans allow workers to contribute money from their paychecks, receive tax advantages, choose investments, and possibly receive employer contributions. That comparison is useful, but the TSP has its own rules, investment funds, military provisions, and federal benefits. Understanding those differences is what turns the TSP from a payroll deduction into a retirement tool.

The TSP is a defined contribution plan, which means the eventual value depends on how much is deposited and how the investments perform. It does not promise a particular monthly retirement check. That separates it from a traditional pension, which normally bases its benefit on a formula involving salary and years of service. A federal worker may have both a pension and a TSP account, but they are separate pieces of the retirement picture. The pension provides a formula-based benefit, while the TSP holds actual money assigned to the participant. The amount shown in the TSP account belongs to the participant once the applicable vesting requirements have been satisfied.

For most employees covered by the Federal Employees Retirement System, or FERS, retirement rests on three components: a FERS pension, Social Security, and the TSP. The pension supplies one stream of income, Social Security supplies another, and the TSP provides a personal pool of invested money. The employee decides how much to contribute, whether those contributions will be Traditional or Roth, and how the account will be invested. The agency handles payroll deductions and makes any required government contributions. An employee covered by the older Civil Service Retirement System may also use the TSP, but generally does not receive the automatic and matching contributions available under FERS. That difference makes it important to know which federal retirement system covers the employee. [The Office of Personnel Management explains how the TSP fits into FERS.](#)

The federal matching formula is one of the TSP's strongest features. An eligible FERS employee generally receives an Agency Automatic Contribution equal to 1% of basic pay, even if the employee contributes nothing. When the employee contributes, the agency matches the first 3% of basic pay dollar for dollar. It then matches the next 2% at fifty cents for each dollar contributed. An employee who contributes 5% therefore receives another 5% from the agency: 1% automatically and 4% through matching. Contributing more than 5% may still be valuable, but it does not produce additional regular matching contributions.

Imagine a FERS employee earning \$60,000 in basic pay. If the employee contributes 5%, that equals \$3,000 during the year. The agency can contribute another \$3,000 under the automatic and matching formula, bringing the total to \$6,000 before investment gains or

losses. If the employee contributes only 3%, the employee deposits \$1,800 while the agency contributes approximately \$2,400—1% automatically and a 3% match. The employee has not lost the entire government benefit, but has left part of the available match unclaimed. This is why 5% is an important TSP number: for an eligible FERS participant, it is normally the contribution rate needed to receive the full regular agency contribution.

Matching is calculated from each paycheck, not simply from the employee's annual contribution total. Suppose someone contributes at an unusually high rate and reaches the annual contribution limit several pay periods before the year ends. Once employee contributions stop, regular matching may also stop for those remaining pay periods. The employee could contribute the maximum allowed for the year and still miss part of the available match. A participant seeking both the annual maximum and the complete match usually needs to spread contributions across the full calendar year. Payroll systems differ, so changes should be made with enough time for them to take effect.

An employee is always vested in personal contributions and the investment earnings associated with them. Agency matching contributions are also immediately vested. The Agency Automatic 1% Contribution has a separate service requirement, generally three years for most FERS employees and two years for certain employees in designated positions. Someone who leaves federal employment before meeting that requirement may forfeit the unvested automatic 1% and its earnings, while keeping personal contributions, matching contributions, and the earnings belonging to those amounts. Vesting therefore answers a narrow but important question: which government contributions has the employee earned the permanent right to keep?

Newly eligible FERS employees are generally enrolled automatically at 5% of basic pay, with contributions placed into an age-appropriate Lifecycle Fund unless the employee makes another election. Automatic enrollment helps employees begin saving and may position them to receive the full match, but it does not take away control. A participant can change the contribution percentage, choose Traditional or Roth treatment, and select different investments. The default Lifecycle Fund is a starting arrangement, not a declaration that it is perfect for every person. A worker with another pension, substantial outside savings, an unusual retirement date, or a different tolerance for market movement may reasonably choose another allocation.

The military side of the TSP requires its own understanding. Members covered by the Blended Retirement System, or BRS, combine a reduced military pension formula with TSP contributions, continuation pay, and other retirement provisions. A Service Automatic Contribution of 1% generally begins after 60 days of service. Service matching contributions generally begin with the twenty-fifth month of service and can add as much as another 4% when the member contributes at least 5% of eligible pay. The automatic 1% normally becomes vested after two years of service, while the member's own contributions and matching contributions are immediately vested. BRS matching

generally continues through the completion of twenty-six years of service. [The Department of Defense describes the components of the Blended Retirement System.](#)

This arrangement changes an old military retirement problem. Under a pension-only structure, a service member who left before qualifying for the pension could finish a military career with no employer-funded retirement account to take along. Under BRS, a member who leaves before earning a pension may still depart with vested TSP money. A full military career can produce both benefits: a lifetime pension and a substantial TSP account. The TSP does not replace the BRS pension for someone who qualifies for it. It adds an owned and portable investment account to the military retirement package.

Not every service member receives matching contributions. People who remained under a legacy military retirement system may usually contribute to the TSP, but they ordinarily do not receive BRS automatic and matching contributions. Reserve and National Guard members covered by BRS can also receive contributions based on eligible basic or inactive-duty pay. Military members may be able to elect TSP contributions from categories such as basic pay, incentive pay, special pay, or bonuses, subject to the payroll and plan rules that apply to them. However, BRS matching is generally calculated from eligible basic pay rather than every type of compensation. A large bonus contribution can strengthen the account, but it should not be mistaken for an amount that automatically earns an equally large government match.

TSP contributions can be Traditional, Roth, or divided between the two. A Traditional TSP contribution generally reduces current taxable income because federal income tax is postponed. The contribution and its investment earnings are ordinarily taxable when withdrawn. A Roth TSP contribution is made with money that has already been included in taxable income. A qualified Roth withdrawal can later come out free of federal income tax, including the associated earnings. Choosing between them is therefore a choice about when to pay income tax, not a choice between investing and avoiding investment.

Agency and service automatic and matching contributions generally enter the Traditional side of the account, even when the participant's own contributions are Roth. This means one TSP account may contain several separately tracked sources of money. A participant might have Roth employee contributions, Traditional matching contributions, tax-exempt military contributions, and earnings connected with each category. The TSP maintains those records behind the scenes. Beginning in January 2026, eligible participants can also request an in-plan conversion of Traditional TSP money to Roth TSP money. The taxable portion converted is generally added to that year's taxable income, so a conversion should be judged by its total tax cost rather than by the appeal of the word "Roth." [The TSP explains its Roth in-plan conversion rules here.](#)

For 2026, the regular employee contribution limit is \$24,500. That is one combined limit for Traditional and Roth employee contributions; it is not \$24,500 for each. Participants who are at least 50 by the end of the year may generally contribute an additional \$8,000, while those who will be ages 60 through 63 at year-end may qualify for the higher \$11,250

catch-up amount. Under the Roth catch-up rule effective in 2026, certain higher-paid participants whose prior-year TSP-eligible wages exceeded \$150,000 must make catch-up contributions as Roth contributions. These dollar limits can change with inflation and should be checked each year. The TSP publishes the current contribution limits and catch-up rules.

Military service in a combat zone can create an especially valuable tax situation. Contributions made from tax-exempt combat-zone pay receive treatment that is not identical to ordinary Traditional or Roth contributions. Traditional contributions made from tax-exempt pay retain their tax-exempt contribution status, although the earnings they produce are generally taxable when distributed. Roth contributions made from tax-exempt combat pay can be even more powerful: the pay may avoid federal income tax before it enters the account, and a qualified Roth distribution can allow both the contribution and its earnings to come out tax-free. Traditional contributions from tax-exempt combat pay may also continue under the larger annual-additions limit in circumstances where the regular employee deferral limit would otherwise stop contributions. Because several limits interact, a service member making substantial combat-zone contributions should monitor the account and leave room for applicable government contributions.

Depositing money is only half of the TSP decision. The other half is selecting investments, because contributions do not grow merely by being labeled retirement money. The TSP's central investment menu consists of five individual funds—the G, F, C, S, and I Funds—plus a collection of Lifecycle Funds. Each fund serves a different purpose. None is universally best, and the fund with the smoothest short-term performance will not necessarily build the largest long-term balance. The sensible selection depends on when the money will be needed, how much fluctuation the participant can tolerate, and how the TSP fits with other retirement resources.

The G Fund invests in special U.S. Treasury securities issued specifically for the TSP. Its principal and interest are guaranteed by the federal government, and it does not experience the ordinary market-price losses associated with publicly traded bond funds. That makes it useful for preserving money and reducing account volatility. Its weakness is not a sudden market crash but the possibility of growing too slowly to keep pace with inflation and a long retirement. A young participant who holds everything in the G Fund for decades may avoid visible losses while accepting a quieter danger: inadequate long-term growth. Safety from market decline is not the same thing as safety from rising living costs.

The F Fund is a broad U.S. bond-market fund that seeks to track the Bloomberg U.S. Aggregate Bond Index. It owns exposure to government, corporate, and mortgage-related bonds and can provide income and diversification. Unlike the G Fund, its value can fall. When market interest rates rise, existing bonds with lower rates may become less attractive, causing their market prices to decline. Credit conditions and changes in the

bond market can also affect performance. The F Fund is therefore a genuine investment fund with price movement, not a guaranteed savings account.

The C Fund follows the Standard & Poor's 500 Index and represents many of the largest publicly traded companies in the United States. Owning it gives the participant a small economic interest in hundreds of major businesses rather than betting everything on one employer. It has historically offered greater long-term growth potential than stable-value investments, but it can fall sharply during recessions, financial crises, and periods of investor fear. A decline does not automatically mean the fund has failed; market fluctuation is part of owning stocks. The real question is whether the participant has enough time and emotional discipline to remain invested through difficult periods.

The S Fund invests in U.S. companies that are not included in the S&P 500 benchmark used by the C Fund. It includes many medium-sized and smaller companies, giving participants access to another section of the domestic stock market. These companies may have considerable room to grow, but their prices can be more volatile than those of large, established corporations. The C and S Funds are not duplicates: the C Fund represents the S&P 500 segment, while the S Fund fills in much of the remaining investable U.S. market. Holding both in deliberate proportions can create broader domestic stock exposure than holding either one by itself.

The I Fund supplies international stock exposure. It currently tracks the MSCI ACWI IMI ex USA ex China ex Hong Kong Index, giving participants access to companies outside the United States while excluding the named markets. International stocks can behave differently from American stocks, so they may broaden an investment mix. They also introduce currency movements, foreign political conditions, different accounting environments, and regional economic risks. The I Fund is not automatically safer because it owns more countries, nor is it automatically inferior because some years favor U.S. companies. Its role is diversification beyond a single national market.

Lifecycle Funds, usually called L Funds, combine the five individual funds into ready-made portfolios. A participant selects a fund associated with the approximate period when withdrawals are expected to begin. The TSP then manages the allocation, gradually reducing stock exposure and increasing more conservative holdings as that period approaches. Someone selecting an L Fund is not buying a sixth type of asset; the person is buying a professionally arranged mixture of G, F, C, S, and I. The L Income Fund is designed for participants who are already withdrawing or expect to begin soon. A target year offers guidance rather than a guarantee, and it cannot promise that the balance will be sufficient or protected from every loss. The TSP describes how its Lifecycle Funds are constructed and adjusted.

An L Fund is intended to operate as a complete portfolio. Adding separate funds beside it is allowed, but doing so changes the carefully designed allocation. For example, a participant who owns an L Fund and then adds a large C Fund position has created a more U.S.-stock-heavy portfolio than the L Fund intended. That may be a deliberate

decision, but it should not happen accidentally. Some participants prefer an L Fund because it handles rebalancing and gradual risk reduction. Others prefer the individual funds because they want precise control and are willing to monitor the allocation themselves.

The TSP also offers a mutual fund window for eligible participants seeking investments beyond the core funds. The window requires an initial transfer of at least \$10,000, generally limits the window to 25% of the total TSP balance, and charges additional fees. It greatly expands the number of available investments, but a larger menu does not automatically produce a better retirement result. Participants can already build a widely diversified portfolio using the core TSP funds, often with less cost and complexity. The mutual fund window is better understood as an optional specialized feature than as a missing piece everyone needs. The current eligibility requirements and fees are provided on the TSP mutual fund window page.

Participants should also understand the difference between directing future contributions and moving money that is already invested. Changing a contribution investment election controls where new deposits will go. Moving the existing balance changes the money that has already accumulated. A person who intends to change the entire portfolio but completes only one of those actions may finish with an unintended mixture. Frequent switching based on headlines can be damaging because it often causes people to sell after a decline and buy again after prices have recovered. An investment allocation should change because the participant's needs, time horizon, or financial circumstances changed—not merely because the market had an upsetting week.

The TSP allows loans while a participant is eligible and still employed or serving. A general-purpose loan normally has a repayment period of 12 to 60 months, while a loan for the purchase or construction of a primary residence can generally run from 61 to 180 months. Interest is paid back into the participant's account, which can make a TSP loan appear painless. It is not free money. The borrowed amount is removed from its investments and may miss market gains, loan fees reduce the proceeds, and repayment obligations can become troublesome after a career or payroll change. A loan that is not repaid according to the rules may be treated as a taxable distribution and could also create an early-distribution penalty. The TSP loan rules explain the available loan types and repayment terms.

Withdrawals taken while still employed require equal caution. Participants who are at least 59½ may qualify for an age-based in-service withdrawal, while others may be eligible for a financial-hardship withdrawal under specific conditions. A hardship withdrawal does not function like a loan because the money is not repaid to the account. The withdrawal permanently removes retirement assets and the future growth those assets might have earned. It may also create taxable income and, depending on the person's age and circumstances, an additional tax penalty. The immediate bill may disappear, but the retirement cost can continue compounding for years.

Leaving federal employment or military service does not require someone to empty the TSP immediately. A separated participant can generally leave the balance invested, continue changing investments, and take distributions later. Available distribution methods can include partial withdrawals, a total withdrawal, scheduled installment payments, and the purchase of a life annuity. Eligible money may also be transferred directly to an IRA or another employer's retirement plan that accepts it. A direct transfer normally avoids having taxable money paid personally and subjected to mandatory withholding. Cashing out the account, by contrast, can create current taxes, possible penalties, and the permanent loss of future tax-advantaged growth. The TSP outlines the choices available after separation.

Buying a TSP life annuity is different from simply taking monthly installments from the account. With installments, the remaining balance stays in the TSP and continues to be invested. With a life-annuity purchase, some or all of the money is transferred to the annuity provider in exchange for promised payments under the selected contract. The payment can be structured around one life or two lives and may include additional features, but those choices affect the amount received. An annuity may provide valuable protection against outliving the money, yet it also reduces flexibility and access to the assets used for the purchase. It should not be confused with a federal or military pension, even though both may send a monthly payment.

Traditional TSP balances are eventually subject to required minimum-distribution rules. These rules generally force a participant to begin withdrawing taxable retirement money after reaching the age specified by current federal law. Roth TSP money is not included in lifetime required minimum distributions for the original account owner under current law, although beneficiaries face their own distribution requirements. Tax laws and required starting ages have changed more than once, so someone approaching retirement should verify the rules in effect at that time. The correct withdrawal strategy depends on taxes, Social Security, pension income, Medicare premiums, estate plans, and how much spending money is actually needed.

A TSP account also needs a beneficiary designation. If the participant dies, the designation helps determine who receives the account; without a valid designation, the TSP follows a statutory order of precedence that may not match the participant's current wishes. Marriage, divorce, births, deaths, and changing family relationships are all reasons to review the record. A will does not necessarily override the beneficiary information held by the plan. Married participants should also understand that spouses have important rights regarding certain withdrawals and annuity choices. Maintaining accurate beneficiary and contact information is a small administrative task with potentially enormous consequences.

The TSP's simplicity is one of its greatest strengths, but simplicity should not be mistaken for automatic success. The plan provides a valuable structure: payroll contributions, federal or service contributions for eligible participants, tax choices, low-cost core investments, and the ability to keep the account after leaving service. It

cannot decide how much retirement will cost, prevent panic during a market decline, or replace money that was never contributed. The participant supplies those missing pieces through a suitable savings rate, a durable investment allocation, and restraint when loans or withdrawals become tempting. Used thoughtfully, the TSP becomes more than a federal benefit—it becomes a portable reserve of personal financial independence.