Thirdly, paying down your home mortgage is also an option. Although your mortgage interest rate is relatively low when compared with the rates charged on revolving debt, having a paid-off mortgage is one of the best retirement planning strategies around. Mortgage debt in retirement is a future liability obligation to one or both spouses in retirement. Many Federal spouses, even with a full survivor's annuity, may not have the income to pay their monthly mortgage payments in retirement. This is especially true if the spouse is a Federal retiree and dies before the non-Federal spouse. Many retirees do not consider that their income needs may increase as they grow older due to the additional cost of needed medical and lifestyle services. Therefore, being mortgage-free in retirement greatly increases your chances of being able to live comfortably on a reduced income. If you don't have revolving debt, consider using your excess funds to pay down your mortgage rather than add to your TSP.

The "catch-up" option to a TSP Plan is a terrific long-term investment tool if you should determine that additional investment is the right thing for you. However, before you make that determination, carefully consider diversifying your investments portfolio, reducing revolving consumer debt, or paying off your mortgage by the time you retire. Be sure to review your financial opportunities thoroughly before committing your excess investment funds so that you are confident of getting the most benefit from these funds.

For additional information check the TSP web site at www.tsp.gov and IRS Publications 525 and 590 at www.irs.gov.

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Catch-up Contribution Considerations

By Gerald A. Cannizzaro and Helen Valdes

IRS rules were changed several years ago to allow Federal Government TSP Plan participants, aged 50 or over, to make "catch -up" contributions to their individual plans. If age-eligible TSP Plan participants make regular contributions to their Plans that will result in reaching the maximum contribution ($17,500 in 2013) they would additionally qualify to contribute up to an additional $5,500 in "catch-up" contributions during the plan year.

Before taking advantage of the catch-up option, though, there are several factors to take into consideration. Consider whether your current retirement plan is the most advantageous place to place your money to make it grow for retirement. Once you have taken maximum advantage of your employer's matching contributions, (FERS participants only) you should consider that there are likely to be investment opportunities available to you through an IRA account that are not available through your Federal TSP Plan. Your retirement portfolio should be viewed in its entirety with the focus on balance and diversification. Opening an IRA account with excess funds may enable you to diversify into other investment opportunities. However, these new investments will allow you to provide better balance and diversification to your overall retirement portfolio. An example would be investing in an industry specific mutual fund (real estate, energy, medical) or a geographically specific fund (Asia, Latin America, or Canada).

Secondly, investing in your TSP Plan or in an IRA may not be the best way to maximize the performance return of your available funds. If you carry any type of high cost debt, you should carefully consider the benefit of debt pay down versus additional investment. Odds are that, over time, eliminating the interest expense on your revolving consumer debt may be of greater financial benefit. The average credit card interest rate today is 13.2%. Eliminating an interest expense of this magnitude may be a better investment than the rate of return you achieve from contributing the same funds to your retirement investment account. Unless you can be sure that your invested dollars will return more to you than the cost of your revolving debt, paying down your debt is the smartest investment you can possibly make.