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# **Advisory Value in Government Retirement Plans: Managing the Thrift Savings Plan and Beyond**

## **1. Introduction**

Retirement planning is essential for long-term financial security, allowing individuals to maintain independence and sustain their desired standard of living in their later years. By building savings and investing over time, individuals can prepare for life in retirement and reliance on accumulated assets. In the United States, this process has grown increasingly complex, shaped by longer life expectancies and evolving economic conditions. While a variety of retirement plans exist, government employees, in particular, are offered a specific set of structured programs designed to support their financial futures.

But successful retirement planning involves more than just enrolling in a retirement plan; it demands informed decision-making, active portfolio management, and an understanding of how each component fits into a broader financial picture. Without proper guidance, individuals risk underutilizing the benefits available to them or making costly mistakes. Government employees could highly benefit from a financial advisor managing their retirement accounts, as it can help them optimize their plans, manage risk, and adapt to changing financial goals and market conditions. This would also allow for better performance, more investment options, access to advice, and the expansion of opportunities within the financial advisory industry.

## 2. Overview of Major Retirement Plans

### 2.1 Employer-Sponsored Plans

Financial advisors could potentially manage government retirement plans like the TSP, 403b, 457b, and the TSP portion of BRS. This paper will provide an overview of each retirement plan and explain how financial advisor management offers immense benefits.

Two of the most common employer-sponsored plans are 401(k)s and 403(b)s. Most people don't get to choose which one they use because the employer determines the type of plan available based on the type of business they are in.

401(k) plans are the most popular retirement savings plan, allowing employees to contribute a portion of their paycheck. These contributions are typically deducted automatically from their paychecks, making the process simple. Employers might offer either a dollar-for-dollar or percentage match on contributions to help savings grow. Contributions to these plans can be tax-deductible, and the money grows tax-deferred, meaning you won't pay taxes on the contributions until you withdraw the funds later.

There are, however, two distinct disadvantages to 401(k)s. Withdrawals count towards your taxable income, which can potentially move you into a higher tax bracket. Also, withdrawing funds before age 59 ½ usually results in a 10% early withdrawal penalty, unless you qualify for an IRS exception.

The main difference between 401(k) and 403(b) plans is that 403(b) plans are offered to employees of tax-exempt organizations, such as schools, hospitals, religious institutions, and nonprofits. These plans hold very similar characteristics to 401(k)'s, including the money growing tax-deferred, potential for employers to match some or all of your contributions, and

penalties placed on early withdrawals. The purpose of both plans is to help employees save for retirement through tax advantages, long-term savings through payroll deductions, and potential employer matching.

The Blended Retirement Plan (BRS) is a retirement plan for U.S. military service members that combines a military pension with contributions to a Thrift Savings Plan (TSP). With this, you get a pension plan after 20 years of service, and you also receive a 1% contribution to TSP of your basic pay from the government. For the TSP portion, you don't have to have 20 years of service, which is beneficial since most Americans who join the military don't stay long enough to 'retire' with the 20 years of service benefits. But this allows for military service members to still receive the TSP benefits even if they don't serve the full 20 years. After 60 days in service, all members of this plan are enrolled in the TSP and get the 1% of their basic pay contributions each month. After two years of service, members are vested, which means that they own the contributions and they can keep them even if they leave before the 20-year mark.

## **2.2 Government Retirement Systems**

The Federal Employees Retirement System (FERS) covers every Federal civilian employee who has retirement coverage. There are three sources from which FERS can provide benefits: a Basic Benefit Plan, Social Security, and the Thrift Savings Plan (TSP).

The Basic Benefit Plan is a defined benefit plan for federal employees that both you and your agency contribute to while you are actively working. Once you retire, the funds from the plan pay you a guaranteed monthly pension, as long as you meet all the eligibility requirements for participating. The amount that you would receive is based on your length of service for the agency, salary, and age.

Social Security is paid to retirees by the Social Security Administration based on their lifetime earnings. You pay the same 6.2% payroll tax as other covered workers, your agency matches that amount, and those funds are then paid back out to you during your retirement. You can claim eligibility as early as 62, but your benefits are reduced if you claim that early. The typical retirement age at which you receive the full social security benefits is between 65 and 67.

Both the Basic Benefit Plan and Social Security automatically take out a portion of your paycheck each pay period as payroll deductions. After you retire, you receive monthly payments for the rest of your life. These are just two of the three sources that fall under FERS. The third source is the Thrift Savings Plan (TSP).

### **3. Structure and Function of the Thrift Savings Plan (TSP)**

Under the TSP portion of FERS, your agency automatically sets up an account for you. They will deposit an amount that is equal to 1% of the basic pay you earn for each pay period. There is also an option to make your own contributions to this account, and your agency would make a matching contribution, all tax-deferred. You can choose to put these contributions into either a Traditional TSP or a Roth TSP. If you want to use a Traditional TSP, your contributions go into the account before you pay taxes, which is beneficial for potentially lowering your taxable income; however, when you withdraw money from this account, you then pay taxes on your contributions and earnings, all being tax-deferred and using the tax rate at the time of the withdrawal. If you want to use a Roth TSP, your contributions would enter your account using after-tax dollars, meaning they would count as taxable income, but you can withdraw your contributions and earnings tax-free as long as it's a “qualified” withdrawal, meeting certain IRS requirements.

There are six investment options for your TSP: five are individual TSP funds (G, F, C, S, and I) and one is the lifestyle funds (L). Each individual TSP fund has its own investment strategy and broad market diversification. The G fund is a Government Securities Investment Fund that aims to preserve capital and generate returns above those of short-term U.S. Treasury securities. The F fund is a Fixed Income Index Investment Fund that matches the performance of the Bloomberg U.S. Aggregate Bond Index. The C Fund is a Common Stock Index Investment Fund that tracks the S&P 500 index. The S Fund is a Small-cap Stock Index Investment Fund. The I Fund is an International Stock Index Investment Fund that matches the performance of the MSCI ACWI IMI ex USA ex China ex Hong Kong Index, which tracks large, mid, and small-cap equities across developed and emerging markets.

There are eleven L (Lifestyle) Funds, and each of them is a diversified portfolio made up of the five core funds (G, F, C, S, and I), designed so you can invest in a single fund that balances expected risk and return based on your timeline. Over time, their allocations, except for the L Income Fund, automatically shift every quarter, moving from higher-risk, higher-reward investments to more conservative ones as they approach their target dates. Once an L Fund reaches its target date, it is merged into the L Income Fund, which maintains a relatively stable allocation. To stay aligned with their intended strategy, each L Fund is rebalanced on a daily basis. As market performance causes some underlying funds to grow faster than others, adjustments are made by buying and selling assets so the original allocation percentages are restored, following the “buy low, sell high” approach.

#### **4. Why Retirement Plans Require Professional Management**

Retirement plans require professional management from a financial advisor due to the complexity of rules and decisions. These plans have ERISA rules, operational complexities, limited investment options, and many more difficulties that require navigation from a financial advisor. Furthermore, these accounts are crucial parts of an individual's finances and long-term financial goals, yet they are often left unmanaged and fail to account for the individual's risk tolerance or evolving goals. Financial advisors help close this gap by bringing a more personalized approach to retirement planning that involves ongoing guidance, strategic portfolio construction, and continuous monitoring.

The small choices that an individual makes when it comes to their retirement accounts can have a huge impact on their long-term finances, which is another aspect that requires professional assistance. Even the small everyday decisions you make, like how much you save or invest, have exponential impacts on your long-term finances. For example, deciding to increase contributions to retirement plans by 1% or 2% can drastically change an individual's final account balances when they are ready to retire. Financial advisors can help explain these decisions and the impact they will have on their investments, as well as help individuals stay disciplined.

In addition, asset allocation is another essential component of effective retirement planning to consider. Determining the appropriate balance between different investment options requires careful consideration of factors such as age, risk tolerance, and time horizon. Financial advisors bring expertise in constructing and adjusting portfolios to align with these variables, helping to optimize returns while managing risk. It's also necessary to rebalance and review investments, which is another benefit that financial advisors add. Behavioral discipline is equally

important because investors often react emotionally to market fluctuations, which can lead to poorly timed decisions. Advisors play a key role in mitigating this risk by promoting a long-term perspective and guiding individuals to stay committed to their strategy despite short-term market volatility.

Vanguard conducted a study on Behavioral Coaching that helps clients separate their emotions from their investment decisions. This is especially helpful during periods of short-term market volatility because it avoids creating noise and distracting clients, allowing them to focus on their long-term strategies. They believe that advisors are the “emotional circuit breakers” to the clients, helping prevent them from making impulsive decisions that turn out to be costly in the long run. Over time, they found, behavioral coaching can add up to 3% in net returns, as it realigns the client’s discipline and mindset to focus on the long-term impacts of their investment decisions.

## **5. Value Financial Advisors Provide**

### **5.1 Financial Planning**

Working with a licensed certified financial planner to manage your investments offers several important advantages. These advisors have years of experience and the ability to build a comprehensive plan that’s specific to the individual’s needs, goals, and timeline. There are many different aspects to plan for retirement, like managing debt, optimizing current income, and preparing for future expenses that may occur. Furthermore, certain life events or changes may occur, and a CFP has the ability to alter the financial plan and provide advice on the best course of action to take.

In addition to building a strong foundation, CFP professionals help preserve and grow your wealth over time. Many people don't have the time to manage their finances and investments properly, so this is where professional guidance adds significant value. Ongoing portfolio management requires research, rebalancing, and reviewing investments as well to ensure alignment with goals. In addition, CFPs have knowledge and experience that has been built over the years. This allows them to make informed decisions and be able to adapt to changing market conditions, as well as personal circumstance changes. Equally important, CFPs serve as trusted fiduciaries, meaning they are ethically and legally committed to putting the client's best interests first. This standard fosters trust and allows individuals to feel confident that their money is being managed with transparency, honesty, and care.

### **5.2 Tax Optimization**

Tax optimization is an extremely important aspect that financial advisors consider when making investment decisions for their clients. This can be used to minimize an individual's tax liabilities and to make decisions that align with their financial goals. Tax laws are also constantly evolving and changing, but advisors can help keep up to date with this in order to ensure that individuals retain more wealth and are strategic. Furthermore, when deciding between a Roth or Traditional IRA account or making a decision on which one to fund/how much, financial advisors can help guide individuals through their options and which one provides the best tax benefits.

Both a Roth and a Traditional IRA are types of retirement accounts, but they differ in contributions, tax deductions, and limits. A Roth IRA allows for contributions with after-tax

dollars, and withdrawals are tax-free in retirement at the age of 59 ½. On the other hand, traditional IRA contributions are made with pre-tax dollars, and this has the ability to reduce your taxable income during the year that you contribute to the account, which is something that financial advisors will evaluate as a tax strategy. But withdrawals in retirement at 59 ½ are taxed on both earnings and contributions. Financial advisors will consider these different retirement accounts and strategize on the best way to allocate contributions to the best account to maximize a client's tax break and allow them to retain the maximum amount of wealth.

### **5.3 Holistic Financial Planning**

Estate planning is an important long-term aspect to consider, and it's essential to ensure that your assets are protected, with your wealth being passed on after you die. A CFP can help create a holistic financial plan that includes strategies to minimize taxes and maximize the wealth that an individual's family will inherit. But while they can't draft the legal documents, they can help determine the best plan of action for what to do with the money and consider the entire financial situation. Without estate planning, assets have to go through probate after an individual passes, and it requires legal intervention to determine how to distribute assets. But this can be avoided by setting up trusts and a will, which allow the assets to be distributed according to the individual's wishes.

There are also tax strategies that can be utilized in order to reduce the taxes on remaining assets that heirs will have to pay after the individual passes. These include things like charitable giving, setting up trusts, gifting assets, and withdrawal strategies. Additionally, assigning proper beneficiaries to accounts plays a crucial role, as this allows assets to be transferred easily and

avoids probate. Another important thing to consider is that estate plans need to be updated and reviewed regularly. This is especially important after major life events happen, such as marriage, a new child, or changes in financial circumstances.

Withdrawal strategies are another aspect of holistic planning that needs to be considered. They are how you plan to draw income from your retirement accounts and investments over time. One of the most common ways to withdraw money from retirement accounts is by taking required minimum distributions (RMDs). These are required to be done starting when you turn 73, and if you skip any withdrawals, you are subject to a 25% IRS penalty. Another strategy is withdrawing money in a way that minimizes any tax spikes. To do this, you withdraw from taxable accounts first because they are taxed at a lower capital gains rate, then you withdraw from tax-deferred accounts since they are taxed as ordinary income, and then withdraw from Roth accounts because there are tax-free qualified withdrawals after age 59 ½ and there are no RMDs. Knowing when and how you will be withdrawing money during your retirement is a large part of managing your finances, as investing and planning look at the grand scheme of everything and make sure everything is aligned for your future financially.

## **6. Advantages of Managing Government Retirement Plans**

Advisors managing government retirement plans would bring many benefits to individuals and their long-term financial plans, as well as the advisors themselves. Government retirement plans, such as FERS, come with guaranteed monthly annuity for life, and this predictability allows advisors to recommend stable, long-term strategies without the volatility of the markets disrupting the overall investment plans. The TSP has comparatively low

administrative and investment expenses compared to many private 401(k) plans, and this cost efficiency would help advisors attract clients by offering them the most cost-effective strategies. These government plans also manage large pools of assets through centralized investment boards, allowing for the possibility of diversified, professionally managed portfolios, which advisors can leverage to recommend consistent strategies. Advisors can also use the clear rules and timelines that come with government plans to reduce any uncertainty and provide precise guidance on how to make the most out of their retirement plans.

Managing government retirement plans is especially attractive for advisors because they create a consistent, long-term relationship with their clients that is centered around stability. Unlike more short-term investment accounts, these plans are tied to an individual's entire career and retirement timeline, giving advisors the opportunity to provide ongoing, high-value guidance across different stages in their careers. This allows advisors to focus on optimizing strategy rather than reacting to any uncertainties, differing from more volatile or temporary investment vehicles, but also allows for diversification in a client's portfolio to be able to invest in a variety of accounts and products. Overseeing these portfolios allows advisors to transform from simple asset management to becoming vital collaborators in achieving sustained prosperity for their clients. Ultimately, managing these plans positions advisors not just as investment managers, but as essential partners in a client's long-term financial success.

### **7. Challenges and Limitations**

While there are numerous benefits for Financial Advisors to manage government retirement investment accounts, there are a few drawbacks. The first drawback is that individuals would have to pay fees for the investments in their TSP and also additional fees for their advisor

to manage the account. For the TSP, participants have to pay a fee for the investments in their account, and this fee depends on which individual fund you have your account invested in. For example, the G fund has a 0.034% total expense fee that covers both operating costs and investment fees. While this fee may seem low, it can add up when you add on the additional fee you will need to pay your financial advisor for managing the TSP account. Financial advising fees can range anywhere from 0.5-1.5% each year, and it can depend on the type of services being utilized, portfolio size, or complexity.

Another drawback is that the financial advisor and firm wouldn't be able to pull the management fees directly from the TSP account. Instead, the client would need to open an investment account and fund that account so that the fees could be pulled from the additional account. This would require additional monitoring as the individual would need to make sure that the additional account has sufficient funds to pay fees and the financial advisor would need to calculate the amount of fees so that the individual knows how much to fund in the account. This adds an additional step to the process of pulling fees, and it's not as easy as just pulling the fees directly from the managed account.

### **8. Counterargument**

Some may say that government plans being managed by financial advisors may take away some of the advantages that these plans bring. These plans, when managed solely through the federal organization providing to their employees, are very cheap and rebalance themselves on their own. This is beneficial to the clients because the rebalancing happens cost-efficiently and automatically without needing a professional to monitor the plans very often. Although these benefits shine without the assistance of professionals, the additional advantages that financial

advisors add outweigh that independence factor. The advisors provide the value of personalized, strategic decision-making that allows them to avoid any “one size fits all” issues that these plans may come with and thoroughly customize their clients portfolios to what they need most. They are also able to align with the client’s investment strategies and operate in tandem with the other vehicles that they are already invested in. Financial advisors enhance these plans by integrating them into a broader financial strategy, optimizing contribution levels, coordinating withdrawals with other income sources, and adjusting allocations based on life changes rather than just preset timelines. In this way, advisors do not replace the efficiency of government plans, but instead, they build on them, turning a solid baseline into a more customizable and optimized retirement strategy.

### **9. Implications for Financial Advisors**

Managing government retirement plans provides more jobs to the financial industry, while allowing government employees to receive financial advice and assistance. This is a mutually beneficial relationship because both parties are given advantages through this partnership. Government employees receive the benefit of a financial advisor managing retirement investments and assisting in any planning, as retirement is complex. Personalized guidance can also improve financial knowledge and allow employees to plan better for the future and be smarter with their finances.

On the other hand, this relationship allows for more business opportunities in the financial industry and provides more jobs. Financial advisors have the knowledge and skills to assist government employees with retirement planning and help them make informed decisions.

Furthermore, advisors also have knowledge regarding federal benefits and can offer guidance that aligns with the structure and options available. Government employees have many different retirement plans and benefits available to them, and financial advisors can assist in maximizing these benefits and optimizing financial strategies.

### **10. Conclusion**

Government retirement plans have provided millions of public employees with a stable foundation for retirement security. Their low-cost structure, automatic payroll contributions, employer matching, and disciplined long-term savings approach have created an effective starting point for wealth accumulation. However, the financial world has evolved dramatically over the past 40 years, while many government retirement systems and investment menus have remained largely static, standardized, and one-dimensional. In today's increasingly complex financial environment, a retirement plan alone is no longer enough. Individuals need comprehensive guidance that integrates investments, tax strategy, retirement income planning, estate planning, healthcare planning, longevity risk, and multi-generational wealth management into one coordinated strategy.

This is where independent Certified Financial Planners (CFPs) and fiduciary advisory firms provide transformational value. Government agencies are not designed to deliver personalized wealth management. They are administrators of retirement systems—not specialists in investment optimization, tax efficiency, behavioral finance, estate coordination, or holistic financial planning. Their responsibility is to provide access to a plan, not to customize a lifelong strategy around the unique goals, risks, and opportunities of each employee and family.

Opening government retirement plans to broader independent professional financial guidance would dramatically improve outcomes for public employees. Rather than being confined to a limited and outdated menu of investment choices and generalized education, participants would gain access to customized portfolio construction, diversified investment strategies, proactive tax management, retirement income optimization, Roth conversion analysis, estate planning coordination, charitable planning, risk management, and behavioral coaching during volatile markets. Independent advisors can help employees avoid emotional mistakes, maximize long-term compounding, and align retirement assets with the entirety of their financial lives—not simply one account in isolation.

A modernized approach would also encourage greater innovation, competition, and accountability within retirement planning. Independent fiduciary advisors are incentivized to continuously improve technology, communication, education, and service models to better serve clients. This creates a far more dynamic and responsive system than the current rigid framework that has changed very little over several decades. Public employees deserve access to the same level of sophisticated planning and investment expertise available to executives, entrepreneurs, and high-net-worth families in the private sector.

Equally important, expanding access to independent financial planning would create significant economic benefits. It would increase demand for CFP professionals, tax advisors, investment specialists, estate planners, and support teams across the financial services industry. As the need for personalized retirement planning continues to grow, this evolution would create high-quality professional jobs, strengthen the advisory workforce, and support long-term economic growth. The financial planning profession itself would become even more essential as

millions of government employees seek guidance navigating retirement complexity in an era of longer life expectancy, rising healthcare costs, and rapidly changing financial markets.

Ultimately, the future of government retirement planning should not be limited to a narrow, bureaucratic system designed decades ago for a much simpler world. The future should embrace a holistic wealth management approach that combines the stability of government retirement benefits with the expertise, customization, and fiduciary guidance of independent professional advisors. This integration represents a far superior model—one that empowers employees, improves financial outcomes, creates greater confidence, and unlocks the full potential of retirement planning. Independent financial planning is not simply an enhancement to the current system; it is the necessary evolution of retirement advice in the modern era.

## BALTIMORE-WASHINGTON FINANCIAL ADVISORS

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### **Resources used:**

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