To "G" Or Not To "G"

That Is The Federal Retirement Question

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If you are a federal employee who attended one of our "Federal Pre-Retirement Strategy Webinars", and were smart enough to heed our warnings about the market collapse and put your TSP money in a safe place (like an Enhanced Fixed Indexed Annuity), then read no further because you did the smart thing, and your retirement money is now safe and sound. If that isn't you, then please keep on reading, because this article just might save your "Federal Retirement Destiny".

I know the temptation is and was great, after the market started imploding, to put your money in the G Fund, but you have to ask yourself if that is really the smart thing to do. Prudent maybe, but smart, well keep on reading.

The stock market wasn't the only thing impacted by the "China Virus", as interest rates came tumbling down by 1.5% just in the last two weeks. Do you have any idea what that did to the yield on the G Fund? Before these interest rate cuts, the G Fund was on pace to yield 1.56% in 2020 so for sure that 1.56% is a bloated number but for argument sake let's say it remains at 1.56%. Here are two things you should consider:

Using the "Rule of 72", if you want to know how long it would take to double your money, divide your interest rate yield into 72. If the G Fund is yielding 1.56% divide that into 72 and will take you 46.15 years to double your money. Is that investing for your retirement? At age 60 you would double your money at age 106.

Now let's look at how many years it would take to recoup your TSP loses if you recently lost 30% of your TSP value and put your money in the G Fund. The answer is the year 2039.

There is a safe, tax qualified place you can put your TSP money if you are over age 59 1/2 that participates in the upside of the stock market, without any downside market risk whatsoever; I call them "Enhanced Fixed Indexed Annuities", and no I do not sell them!

To begin with, these annuities are safe. They are issued by Multi-Billion Dollar companies that are strictly regulated by your state. So strictly regulated in fact that every state has a "Guaranty Fund" that protects your annuity principal, up to that states guaranty amount which is at least $250,000, but in many states, far greater than that.

These annuities are unique, because they earn money for you by being attached to Managed Indexes, as opposed to your C, S I and L funds which primarily attach themselves to the performance of Unmanaged Bundles of Stocks, like the S&P 500.

But unlike the C, S, I and L Funds, Enhanced Fixed Indexed Annuities can not lose money due market conditions, regardless of how steep the market decline might be. More importantly, unlike the C, S, I and L Funds, Enhanced Fixed Indexed Annuities can not have prior market gains erased, or “Clawed Back”, once they are locked in. Exactly what does that mean and how does that impact you?
Say your TSP is in the C, S, I and L Funds and it earns 10% a year for 4 years and in year 5, as it did in 2008, and now in 2020, suffers a 40% decline. All of those prior 4-year gains will be erased from your TSP or “Clawed-Back”. That can’t happen with an Enhanced Fixed Indexed Annuity, because once your crediting period is completed, (usually 1 or 2 years) your gains are locked in and can never be “Clawed-Back”.

Federal Employee Advocates has a network of 400 highly skilled Independent Advisors who are well-versed on federal retirement benefits and experts on showing federal employees how to better plan for their retirement. They do not charge federal employees for any of their services, no matter how extensive those services might be. They will answer any questions you may have about your federal retirement and if you want, will explain how Enhanced Fixed Indexed Annuities might be a good alternative for you.

I should add that all of this is usually done on the phone and through our internet portals, so there really is no need for you to meet with your assigned Approved Advisor in person.

I would encourage you to reach out to your Approved Advisor when they contact you and spend 15 minutes on the phone with them discussing any questions you might have about your federal retirement. It will be 15 minutes well spent!