What is your federal retirement destiny

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If you have ever attended one of our complimentary federal employee pre-retirement strategy webinars, one of the topics we cover is alternatives to your TSP Funds.

Basically, you have three TSP options when you leave federal service:

1. Leave your money in the TSP and take withdrawals.

This is risky because unless it is all in the G Fund you can lose money. Historically the G Fund Averages 2.5% per year, which means it would take 29 years to double your money, which in my opinion is not preparing yourself for a lasting retirement.

2. Swap out your TSP money for a guaranteed income.

This is a MetLife "Single Premium Immediate Annuity" purchased by TSP on your behalf. You heard it right, an annuity, nothing more and nothing less, for those of you who think it is something else or heard inaccurate information on annuities.

This is risky because if you need money for an emergency (or any other reason), you have no access to it as now MetLife now owns your money.

3. Transfer your TSP money to the company of your choosing on a tax-qualified basis or take it directly and pay the tax, unless of course you have a Roth TSP, where the tax has already been paid.

Before we go any further, let's first explore why so many federal employees who were set to retire in January 2009, delayed their retirement for between 5 to 10 years, keeping in mind that they lost up to 40% of their TSP balance because of the stock market decline, something I believe is now inevitable in the near future. I wrote this article to help you avoid their fate.

If those federal employees in 2008 planned on retiring in January 2009 and putting their money in the MetLife Guaranteed Income Annuity, they were facing the prospect of getting up to 40% less every month than they expected, because the income from that annuity is based on the amount in your TSP ***at the time of conversion,*** and the reduction is permanent. Imagine planning on retiring with a MetLife monthly income of $2000 only to find out that in reality that $2000 a month is actually going to be $1200 a month? That's because once you elect the MetLife annuity, you lose all right to that money and it stops participating in the upside of the stock market. Also, if you need to access that money for an emergency (or any other reason for that matter) you are plain out of luck, because remember you don't own the money any more.

If on the other hand, those federal employees were planning on leaving their money in the TSP when they retired in January 2009, and wanted to start taking withdrawals, many were fearful of retiring with almost 40% less in their TSP because of the market declines. Imagine if you had $300,000 in your TSP and on the day you were set to retire that $300,000 amount was in reality $180,000?

Lastly, those federal employees who lost almost 40% in 2008 and put their money in the G Fund in January of 2009, because they were fearful of losing more of it, still have yet to recover from their losses and will not fully recover until 2028.

Now let's look at an alternative to those three options that is really worth exploring, an alternative that offers you the opportunity to participate in the upside of the stock market, without any risk to your principal due to market conditions, an alternative very much like the MetLife annuity, which offers you a lifetime guaranteed income, but unlike that MetLife annuity, YOU OWN THE MONEY, and best yet, is an alternative that is ***available to you before you retire***, if you are 59 ½ or older.

Enhanced Fixed Indexed Annuities, as I call them, are that alternative. They earn money for you by being attached to Managed Indexes, as opposed to your C, S and I funds (and indirectly the 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 in 2008, it 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!