To "G" Or Not To "G"

That Is The Federal Retirement Question

By Vincent J. Bono, J.D.

Founder - Federal Employee Advocates

I know the temptation is and was great, after the market started imploding a while back, to put your money in the G Fund, but you have to ask yourself if that is really the smart thing to do. Cautious, yes but smart? Not if you are trying to build a "Bullet-Proof Federal Retirement" it isn't.

What do I mean by a "Bullet-Proof Federal Retirement", you might ask; picture this. One bright sunny day you wake up happier than you have been in years, because you are about to retire with the peace and confidence of knowing that you will never have to worry about running out of money during your retirement, no matter what happens to the stock market!

As you are well aware, the G Fund is tied to interest rates, but what you may not know is that the current G Fund 12-month projected yield rate is currently at an anemic 6/10th of 1%.

If you want to start withdrawing say 6% per year during retirement, it doesn't take a math wizard to figure out your money will dry up long before you leave this planet, taking into account inflation and an unexpected emergency where you need to withdraw a lot more than 6%. By way of example, 70% of all federal employees over age 65 will require some form of Nursing Home or In-Home Care. The average annual cost for that ranges from $50,000 to $100,000 per year. If you don't believe me, go to the HHS website and see for yourself.

Now let's look at it another way. Using the "Rule of 72", if you want to know how long it would take to double your money in the G Fund, divide the 6/10 of 1% interest rate yield into 72. If you do the math correctly, do several double takes as I did, you will find that it would take you 120 years to double your money. At age 60 you would double your money at 180 years old. Is that investing for a "Bullet-Proof Federal Retirement"? Well if you were Methuselah, who died at 969 years old, I would say a resounding yes and keep up the good work. Otherwise, please keep reading

There is a safe, and secure place where you can put your TSP money (if you are over age 59 ½) 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 cannot 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 cannot have prior market gains erased, or “Clawed Back”, once they are locked in.

Exactly what are “Claw Backs” and how do they impact you? Say your TSP is in the C, S, I and L Funds and earned 10% a year for 4 years and in year 5, as it did 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 440 highly skilled Independent Advisors who are well-versed on federal retirement benefits and experts on showing federal employees how to build a “Bullet-Proof” Federal 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 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!