John Grobe

Certifies

Ted Masters

Has completed 16 hours of

Federal Benefits Training

administered by

Federal Career Experts

John Grobe, Instructor

Monday, June 13, 2011

John Grobe

Instructor

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!

What is your federal retirement destiny

By Vincent J. Bono, J.D.

Founder - Federal Employee Advocates

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. The reason we added this section to our webinars is because, with the market at all-time highs, now might be a good time to lock-in your TSP gains on a tax free basis and put that money in a place where it can participate in the upside of the stock market, but without any downside risk due to "market conditions". I am sure you have heard of the sage stock market saying "Buy Low, and Sell High", well now you have a chance to do exactly that!

Let me preface the rest of this article by assuring you that I do not sell anything to federal employees so if your expecting a "sales pitch", it won't be from me.

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".

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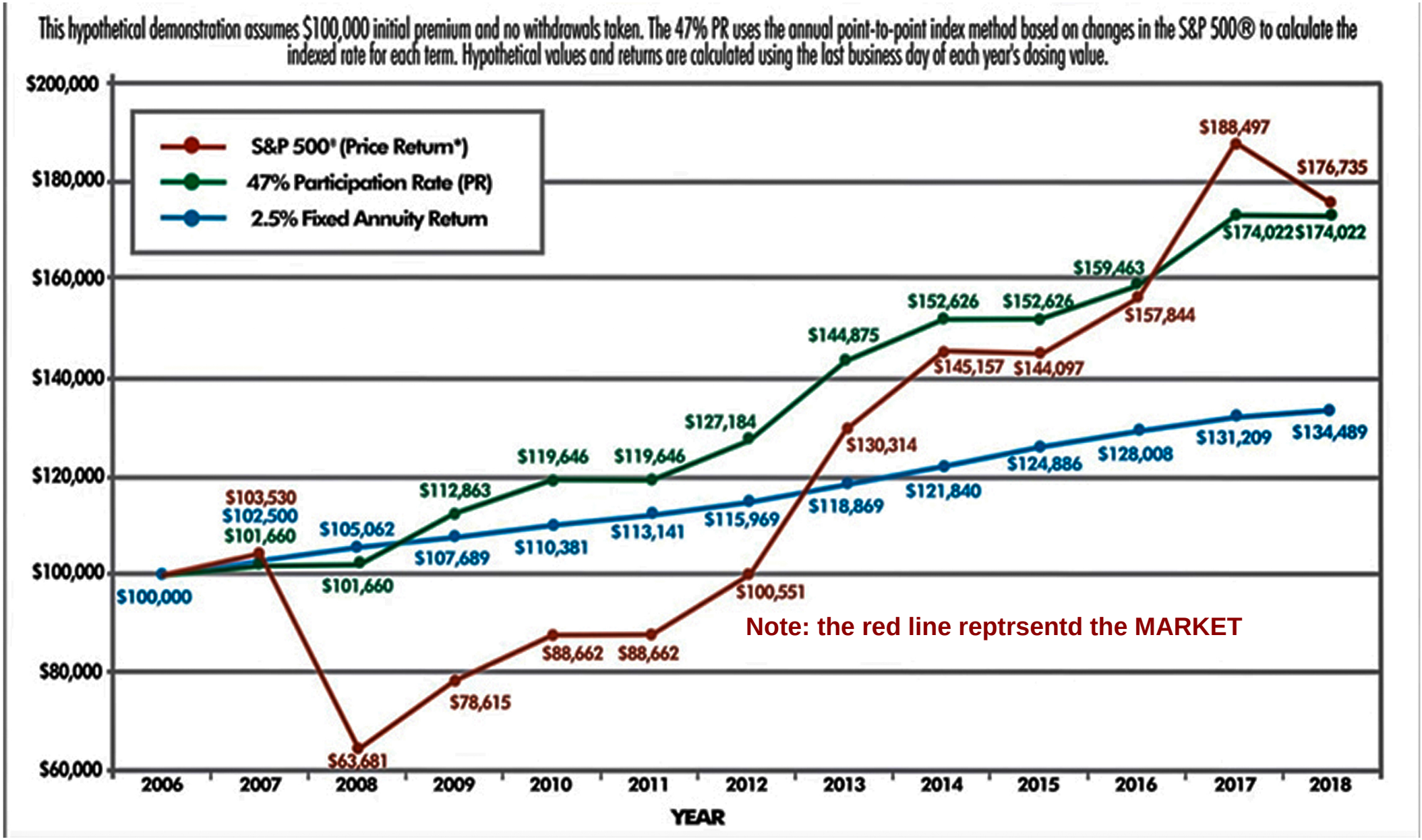
I would encourage you to reach out to your Approved Advisor when they contact you and spend 15 minutes on the phone with them discussing any questions you might have about your federal retirement. It will be 15 minutes well spent!

Fixd Index Annuity: Preservation & Accumulation



SECURITY BENEFIT

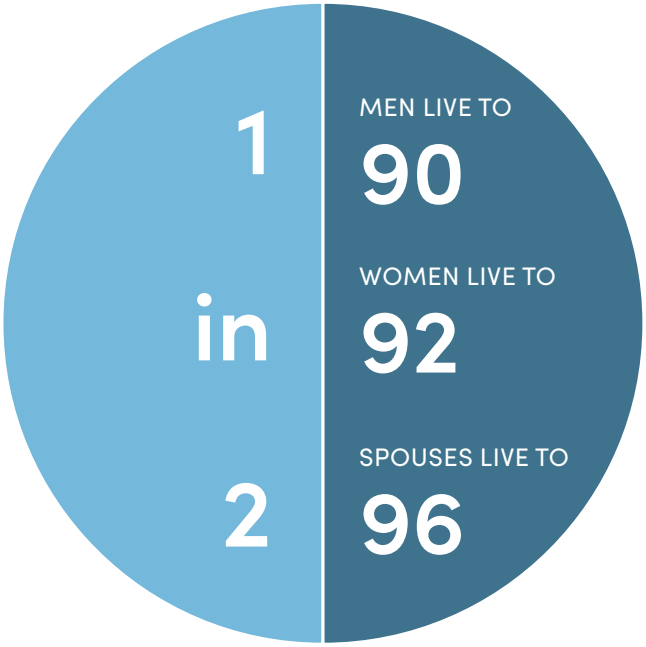
What is a Fixed Index Annuity?

HOW A FIXED INDEX ANNUITY CAN HELP YOU GENERATE AND PROTECT YOUR RETIREMENT INCOME

Thanks to advances in medicine and technology, we're living longer. Many Americans can expect to live 20, 30, even 40 years in retirement. It's possible that you'll be retired for as many years as you worked!

For example, with a 65-year-old couple, there is a 50% chance that one of them will live to age 95.

So as you near retirement, a fixed index annuity can give you a way to protect a portion of your retirement income and create income that lasts for life. It's a promise that you will receive a guaranteed stream of income for as long as you live.



Women Living to	
Age 92	50%
Age 98	25%
Age 102	10%
Men Living to	
Age 90	50%
Age 96	25%
Age 100	10%
At least one spouse living to	
Age 96	50%
Age 100	25%

What is a fixed index annuity:

A fixed index annuity is a contract between you and an insurance company. When you purchase a fixed index annuity, you pay money called a premium or purchase payment to an insurance company. In exchange for your purchase payment, the company agrees to provide you with certain benefits.

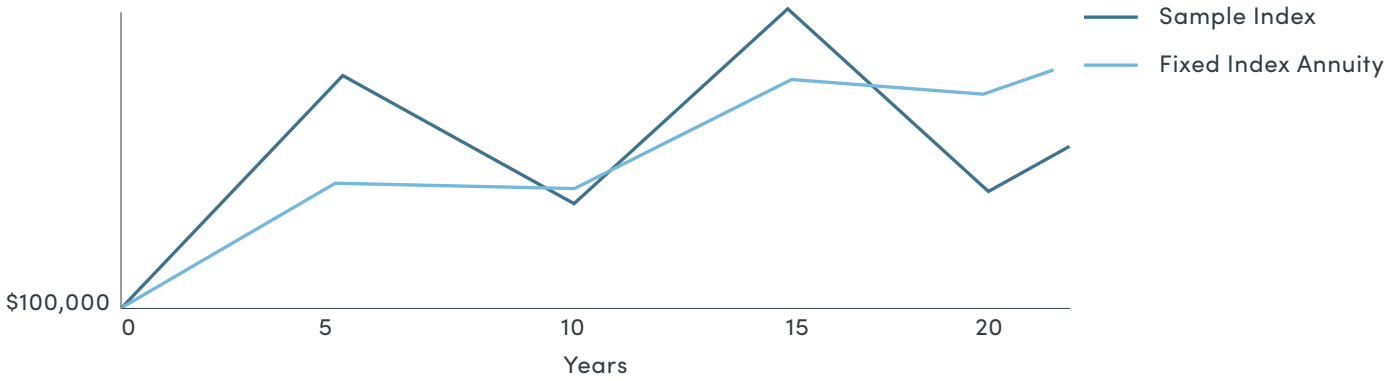
These fixed index annuity benefits can help you:

- Protect the money you've put into the annuity from market risks,
- Create a guaranteed stream of income you can't outlive, and
- Give you access to your money in case of unexpected expenses.

Security Benefit®

1 A fixed index annuity can help protect a portion of your money from market risks.

When you purchase a fixed index annuity, you are buying a contract. You are not investing in securities or in an insurance company. The chart below shows a typical stock index compared to a typical fixed index annuity over a 20 year time period. You'll notice where the stock index has ups and downs, or is more volatile, the FIA is not — there's no potential market downside.



Your money is not invested in the stock market. Instead, if you so choose, interest is credited to your annuity based on part of the performance of an available financial market index, such as the S&P 500® Index (without dividends).

Because it is "linked" to Index performance, a formula determines how much interest will be credited to your contract after a certain period of time.

In order to provide downside protection, index crediting strategies need to have limits on the amount of interest that may be credited. Common interest limits could come in the form of a spread and/or cap. Caps put an upper limit on the amount of interest that can be credited to your contract. As a very simple example of a cap, if the S&P 500® Index goes up by 5% from one point of time to another, but the interest cap is 2%, your contract will be credited with 2% interest. Caps on upside Index growth are a trade-off for the downside protection you receive. As a very simple example of a spread, you have 5% interest credited to your index account at the end of a year — but the spread is 2%. You would take the difference of the spread from the interest credited and your account would receive 3% in interest credits.

Once interest is credited to the annuity, it is locked in. Later on, if the Index is negative, the negative Index performance will not reduce the locked-in values. Your interest would be 0% in that case.

2 A fixed index annuity can help you create a stream of income that you can't outlive.

Most fixed index annuities give you two ways to take these payments: annuitization or income riders.

Annuitization is the process of converting an annuity into a series of periodic income payments. Annuitized contract values are not necessarily paid out completely to the beneficiaries if you die, it could be dependent upon which annuitization option you choose and how long you live. If you choose an annuitization option with a provision to provide income payments for as long as you live, it is possible to receive more in annuity payments than the cash value of your contract at the time you annuitized, but you could also receive less in annuity payments if you pass away sooner than expected.

Depending on the terms of the annuity contract, some or all of the money could go to the insurance company. Annuities may be annuitized regularly, over a long or short time period. Consult the annuity contract for a description of annuitization options that are available to you.

A popular alternative to annuitization is income riders. An income rider, or Guaranteed Lifetime Withdrawal Benefit (GLWB), gives you the ability to receive regular income payments for life without having to annuitize your contract. Even if the annuity contract value falls to zero, you'll still continue to receive regular payments through the income rider. But unlike annuitization, any remaining account value upon death is paid out to your beneficiaries.

3 A fixed index annuity can give you access to your money in case of unexpected expenses, such as:

- Free Withdrawals — allowing you to access a portion of your money up to certain contract limits each year.
- Nursing Home and/or Terminal Illness Waivers — allows you to access your money penalty free under certain circumstances, such as nursing home confinement or terminal illness.

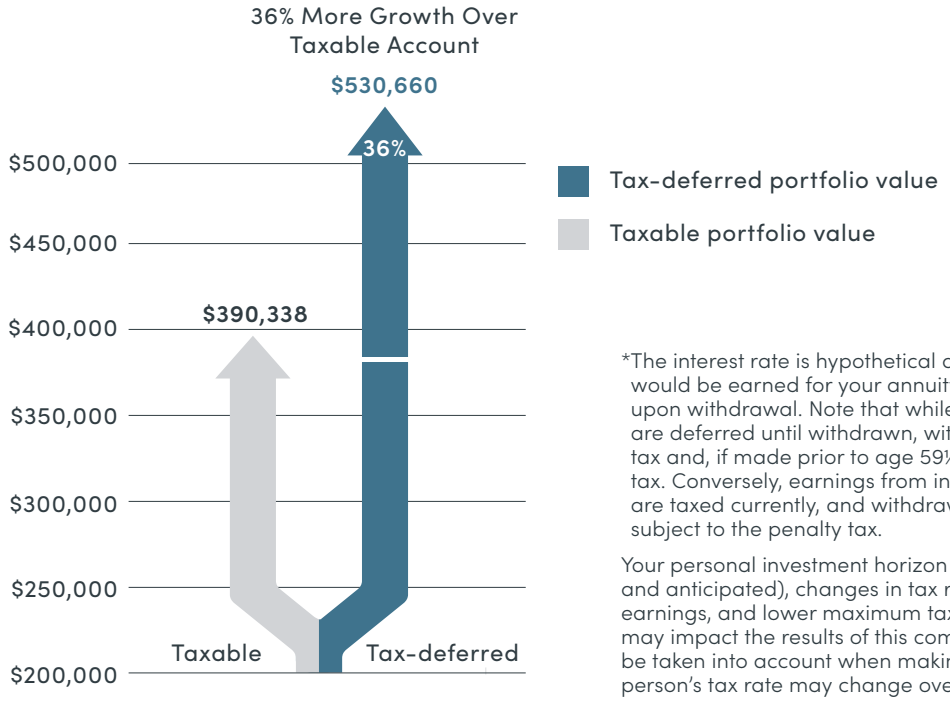
When you own a fixed index annuity, you can protect a portion of your retirement assets from market risks, create a stream of income that you cannot outlive, and access your money through withdrawal options.

4 A fixed index annuity offers tax deferred growth.

Your purchase payments may receive interest on a tax-deferred basis, which means you're not paying taxes until you take withdrawals. This means the value in your annuity contract reaps more of the benefit of compounding since more interest remains on which future interest can be credited.

The example below demonstrates how tax deferral works. This hypothetical infographic assumes a $200,000 initial investment over 20 years at a 5% rate of return with a 28% federal income tax rate and state tax rate of 4%.

Portfolio Value at 5% Rate of Return Over 20 Years



*The interest rate is hypothetical and in no way relates to the interest that would be earned for your annuity. The tax-deferred account is taxable upon withdrawal. Note that while taxes on amounts earned in an annuity are deferred until withdrawn, withdrawals are subject to ordinary income tax and, if made prior to age 59½, may be subject to a 10% IRS penalty tax. Conversely, earnings from investments that do not offer tax deferral are taxed currently, and withdrawals from such an investment are not subject to the penalty tax.

Your personal investment horizon and income tax brackets (both current and anticipated), changes in tax rates and tax treatment of investment earnings, and lower maximum tax rates on capital gains and dividends may impact the results of this comparison. Other considerations must be taken into account when making a purchase decision. Additionally, a person's tax rate may change over time.

The Debt Ceiling and the G Fund: Here We Go Again

Ralph R. Smith March 6, 2019 FedSmith for the Informed Fed

The G Fund and the Debt Ceiling

The G Fund of the Thrift Savings Plan (TSP) invests in short-term Treasury securities that are issued to the TSP. As a result, the G Fund can be affected when the debt limit is reached. The principal and interest payments on these securities are still guaranteed by the Federal Government.

When it reaches the debt limit, the Treasury looks for ways to manage its cash and borrowing to continue funding the government. One way it does this is by suspending investments of the G Fund.

U.S. law authorizes the Secretary of the Treasury to suspend issuing additional amounts of investments to the G-Fund if investments cannot be made without causing the debt limit to be exceeded. This happens with the debt limit is reached.

No doubt, this makes many G fund investors nervous. The G fund is the largest fund in the Thrift Savings Plan. When the Treasury Department takes this action, investments in the G fund are still protected, and G Fund earnings are guaranteed under the Thrift Savings Plan Investment Act of 1987. The G fund continues to accrue earnings and earnings are updated each business day. Loans and withdrawals are not affected.

When the “disinvestment” period ends, the G fund securities are reconstructed as if the suspension never happened. In other words, the G fund is used as an accounting gimmick to give the federal government more time to work out the problem with the debt ceiling.

Presumably, the ceiling will again be raised before there is a government default. That makes some G fund investors uncomfortable although, in the long run, it has not made any difference in the value of the investment.

The TSP said in a statement today:

As of Tuesday, March 5, 2019, the U.S. Treasury was unable to fully invest the Government Securities Investment (G) Fund due to the statutory ceiling on the federal debt. However, G Fund investors remain fully protected and G Fund earnings are fully guaranteed by the federal government. This statutory guarantee has effectively protected G Fund investors many times over the past 30 years. G Fund account balances will continue to accrue earnings and will be updated each business day, and loans and withdrawals will be unaffected.

Why the G Fund is Different from Other TSP Funds

Here is where the G fund is different from the other TSP funds. The G fund is invested in interest-bearing Treasury securities that are part of the public debt. In fact, this is the reason that the G fund is often described as an extremely safe, conservative investment for federal employees. The securities that are in the G fund are issued to that fund; the Treasury securities in the fund are short-term securities unavailable to the general public.

On the other hand, since the G fund becomes part of the trillions of dollars in debt held by the federal government, a portion of the G fund becomes part of the accounting procedures used to avoid increasing the debt limit.

The Secretary of the Treasury cannot sell or redeem Treasury bonds held by TSP participants. But the Secretary does have the authority to “suspend the issuance of additional amounts of obligations of the United States, if such issuance could not be made without causing the public debt of the United States to exceed the public debt limit.”

Summary

The underlying problem is that the federal government authorizes spending more money than it receives. It borrows money to make up the difference between revenue and expenditures. The amount of money that is being borrowed keeps going up, so the amount of interest being paid by the government keeps going up as well.

Congress does not like to cut federal spending and, therefore, cutting government expenses. While the amount of tax revenue is high, the amount of spending is higher than the revenue so debt continues to rise.

As long as this continues, we can expect an occasional suspension of investment in the G fund. We do not know when, if or how the federal government’s debt situation will ultimately be resolved.