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Newsletter for March 2020

This has been a really weird month. I have been deluged by people wanting to know what to do about their TSP. I wish I knew. I could make a fortune. Larry Kudlow, the president's economic advisor, said hang tight everything will be fine. However, in the late 90s he said to stay with tech stocks. He said there was a whole new market and P/E (price to earnings) ratios didn't mean anything in the future. People who listened to him lost most of their nest eggs.

Those about to retire, or who are already retired want information about annuities. An annuity is guaranteed income for the rest of your life. If you decide that is the best choice for you, the place to get it is the TSP. Sixty percent of people who leave the government roll out of the TSP into another company's annuity plan. This is a HUGE MISTAKE. Nobody can beat the TSP annuities. About 6 years ago, an employee with DOL who had a doctorate in economics went to several financial planning companies and asked advisors about annuities. All but one said to roll the TSP money to them. He then called the head of each company and told them what happened. They all said it was an honest error on the employees' part and they would train their employees to make sure it didn't happen again.

During the Obama administration, a law was passed that required all financial advisors to be fiduciaries. A fiduciary is required to act in the client's best interest or be sued. The law was supposed to take effect in April 2017, but it has been put on hold by the current president.

If you opt for an annuity, you have several choices.

The first is called a single life annuity. It has several options. You can elect to take it until you die with no payout to anybody at your death. You can elect to increase it every year by the Consumer Price Index (CPI). You can elect a payout at your death of the balance that you invested in the annuity. You can have a ten year certain payout. This guarantees that, if you die before ten years have elapsed, the remaining money that would have been paid during that period would be paid to a designated beneficiary. Each option you select will lower the annuitant's monthly amount.

The second option is a joint annuity with a spouse. The spouse can receive 100% or 50% of the monthly annuity payable to the annuitant. Many people say they will leave 50% to the spouse as it costs less. However, if the spouse predeceases, the annuitant's annuity would be reduced to 50%. The annuitant can elect a cost of living adjustment based on the CPI. A payout of the balance, after the death of the annuitant and the spouse, to a designated beneficiary. Each option elected lowers the monthly annuity.

The last item allows the annuitant to designate a beneficiary who is supported by annuitant. This includes an ex spouse and relatives up to a first cousin. The beneficiary can receive 100% or 50% of the annuitant's amount. If the annuitant elects the 50% option, the annuitant's amount if the designee predeceases the annuitant. A cost of living increase is not available if this option is selected. A payout of the balance if both parties are deceased is an available option. There is no cost of living allowance available. Each election lowers the initial annuity.

There is no requirement to put the full amount of the TSP into an annuity.

I said I would discuss Federal Employees Group Life Insurance this month. I will discuss it in April.