THE VETERAN RETIREMENT MYTH

How to Protect Your Retirement Savings from the Certainty of Uncertain Times

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Summary

Veterans are being misled about their retirement investment planning, and it's setting them up for mediocrity or something far worse—the possibility that the money they have worked so hard to save for their retirement won't be there for them when they need it. The Veteran Retirement Rescue Strategy offers an Advanced Private Pension and Tax Protection Strategy that will protect your retirement savings and guarantee you an income for life.

AUTHOR'S NOTE:

Throughout this book, any time I refer to Thrift Savings Plans, whether Traditional or Roth, I want to be clear I am also talking about the other types of qualified retirement accounts that many veterans have: 401(k)s, 403(b)s, IRAs, and anything else that is deemed a qualified retirement plan in the U.S. tax code. These complicated names and acronyms basically just tell us the tax status of the account.

Traditional retirement accounts (401(k)s, 403(b)s, IRAs, etc.) allow you to make tax-deferred contributions, and anything you later withdraw from that account (both the principal that you contributed and any growth that principal has earned as the result of stock market increases) is taxable. You contribute to Roth accounts (Roth TSPs, Roth IRAs, etc.) with post-tax money, so any later withdrawals are tax-free. When it comes to retirement accounts, it really doesn't matter what kind of account it is beyond this question: Is it traditional or Roth? Beyond that, money can be transferred or "rolled-over" between traditional accounts and between Roth accounts, but not from one type to the other without causing a taxable event. How each type of account operates, however, and the options each offer is another matter that will be addressed in this book.

To tell you the truth—as I will about the financial industry—I'm always a bit shocked at how little many Americans understand about how their retirement accounts work. Why punch the clock for 40 years, save a big chunk of that income ONLY for retirement, and then not even understand the basics of how to access that money?! Not only that, very few people understand the amount of risk they are taking by having their money in the stock market. Nor do they really understand the magnitude of what they are paying in fees for very generic advice.

If you're reading this book, it's because you want to understand your finances rather than being misled and confused by our present investment and tax systems. You want to stop gambling on the Wall Street marketing machine, and you want autonomy, which means financial control for your future. The strategy I teach in this book will allow you to take the retirement savings that you have today, and position it so that you can have all three of these things: understanding, protection from risk, and autonomy.

If you like what I have to say, I'll give you access to the vehicles I discuss. If not, no worries, I'm not trying to convince you. As I say in my new book, *Veteran Wealth Secrets*, "I didn't write this book to try to convince you. I wrote this book to share my message with those who already know that what I write about is true. If it happens to convince you, you're welcome. :)"

Introduction

Because of the demographic shift in the American economy, we are facing a looming economic crisis that will be devastating for the next generation of retirees. Veterans who have been saving for retirement in a Thrift Savings Plan (TSP), 401(k), Individual Retirement Account (IRA), or similar traditional retirement asset are at the mercy of a coming perfect storm of massive social forces with the potential to leave them struggling, if not destitute, during their "golden years." Compounding this problem is the fact that most financial professionals are simply ignoring it. Instead of acknowledging the problem and looking for a solution, they are feeding veterans lines from the standard, big-company sales script designed to make them rich while their clients face massive risks with their life savings. In this e-book, I explain what you can do to both protect the principal of your retirement assets and secure additional, risk-free growth.

Is TSP the Best Deal Out There?

The TSP is a traditional retirement vehicle offered to military service members and government employees. Both qualified (tax-deferred) and Roth TSP options offer six different types of funds into which government employees and servicemembers can invest. These options are the Government Securities Investment (G) Fund, the Fixed Income Index Investment (F) Fund, the Common Stock Index Investment (C) Fund, the Small Capitalization Stock Index Investment (S) Fund, the International Stock Index Investment (I) Fund, and the Life Cycle (L) fund, which is an individualized mixture of F, S, C, and I funds. These funds are index funds currently managed by BlackRock Institutional Trust Company as contracted by the Federal Retirement Thrift Investment Board.

The chief attraction of the TSP as an investment vehicle is that it has the lowest fees of any other traditional retirement plan. However, that is its only advantage. The TSP exposes investors to the same market risks as any other traditional retirement plan. Furthermore, the TSP is administered by a government entity and a government-contracted financial firm, not the private sector free market, which means that there is no competition for assets under management, there is no incentive to individualize asset allocation, and there is no tailoring of investments to suit an individual investor's needs. As a TSP account holder, you are solely responsible for deciding how to manage your TSP.

You're Getting Financial Advice, but From Who?

When it comes to retirement planning, military service members and veterans tend to follow a certain path. They open a TSP, which may or may not actually be invested in the stock market. If they leave their money in a G fund, then they're not getting any growth on that money. Of those actually invested in the market, far too many haven't given their account another thought since they opened it. When it's time to retire from the military, they frequently rollover their TSP balance into a different kind of account. For example, they may meet with a financial advisor who tells them to rollover their TSP balance into mutual funds. Now they're paying a 1.5% fee in ex-

change for “more mutual fund and investing options and a financial planner.” These are supposed to justify the fee, but the financial planning aspect of this situation is a joke. There is nothing going on there that you can’t do yourself in a weekend using Google or some online calculators and using an automated IRA that leverages artificial intelligence (AI) at a fraction of the cost they end up paying in fees.

As far as the additional investing options, both the advice and options a financial advisor can give you are limited by their experience and by the options their firm offers or allows them to sell. Financial advisors are essentially salesmen for their firms. Don’t be fooled when a firm offers their amount of assets under management (AUM) as evidence of their capabilities. A firm’s AUM says nothing about how they manage money. All it means is that they were better at relationships and getting clients.

There are Some Things You Need to Know

We are living in perilous times for investing in the stock market. We are currently facing a perfect storm of social problems that are all pointing towards an increasing likelihood that for one reason or another, the average investor will not have the money that they need in order to retire.

Fortunately, there is a way to protect yourself from the inevitable outcome of these forces. Before I get into what that solution is, though, I am going to walk you through the problems that you are facing as a TSP account holder, some of which you may not even realize that you have.

Problem #1: Demographic Trends Are Against You

We have an aging population. If we look back at the U.S. Census from 1900, 4.1% of the U.S. population was over 65. A hundred years later, in the year 2000, 12.4% of the population was over 65. The projection is that by 2050, 20.2% of the U.S. population will be over 65.1 I've even read estimates that two thirds of all the men and women who have ever lived past the age of 65 since we started keeping records are alive today. Improvements in health care and an overall higher standard of living among a large percentage of the aging population mean that the elderly, retired, consuming (but not producing) population just keeps getting bigger.

But that's only half the story. The other half is that birth rates are declining all over the developed world. In some countries, the birth rate is below the replacement rate of 2.2 births per woman. America was right at 2.2%, but even the U.S. birth rate has been declining since around 2007. In 1900, 12.1% of the U.S. population was under five years old. These were the people who were going to grow up, go to work, and produce. By 2000, that number was down to 6.8%. The projection is that by 2050, it will be down to 6.3%.

Why is this a problem? When you put these two trends together, it means that decade after decade, there are less and less working people investing in the stock market, and more and more retired people pulling money out of it. The first rule of economics is that value is a function of supply and demand. As more baby boomers create supply by selling stocks, there won't be enough millennials with demand to buy stocks at that volume. Stock prices will have to come down, unless the Federal Reserve keeps inflating the market with trillions of newly printed dollars. Inflation is essentially another hidden tax in that while it looks like the stock market has gone up, the value of your currency has been reduced, and your purchasing power has tanked.

How We Got Here

The baby boomers are the generation of people that were born after World War II. This generation got its name because a lot of people had a lot of babies after World War II. When this generation started coming of age in the 1970s, they all went to work, earned money, and started buying stuff. There were a whole lot more people buying things than there had been in the past, and this created a demand for more goods. This caused massive inflation in the 1980s.

Up until this time, people used to go to work for a company, stay with that company for thirty or forty years, and retire with a pension. But around this same time, the corporations paying out pensions were starting to go out of business because all these pensions were very expensive, and the companies couldn't continue to pay them. Wall Street saw the situation as an opportunity to go to the government and say, "Hey, let's do something to fix this, so the government

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1 https://www.prb.org/agingpopulationclocks/
https://www.nih.gov/news-events/news-releases/worlds-older-population-grows-dramatically

doesn't have to take on the burden of bailing out the pension plans." They created our current retirement plan system – the 401(k)s and IRAs – and attached tax benefits to them to incentivize the population to use them. Basically, they shifted the responsibility and the burden of financing retirement off of the corporations and onto the individual retirees. This is the same thing they did with the Blended Retirement System (BRS) in the military. They made it sound like they're empowering the individuals when really they're just trying to reduce the government's future financial responsibilities.

What was lost in this switch from corporate/government responsibility to individual responsibility was the concept of the guaranteed retirement income for life. Whereas a pension was paid in perpetuity until you died, the income stream from a 401(k) only lasts until the amount of money that you have saved runs out. As you will see, this was a rotten deal for the working population, because even if you do all the "right things" and save a million dollars or more in the years leading up to retirement, that doesn't mean that your money (or enough of your money) is going to be there for you when you need it.

The Stock Market is Contracting

Wall Street promised (and still does) average annual rates of return of 7% to 8% if you save for twenty to thirty years. This created a huge stock market boom, because all sorts of people who weren't investors before were now investing a percentage of their salaries in the market. Around the same time, the idea surfaced that all Americans should be able to easily get a mortgage to buy a home, and as a result, all kinds of credit became more readily available, especially mortgage credit. So alongside the stock market boom that began in the eighties, we had the credit boom. Well, you remember what happened to the credit boom: in 2008, the mortgage loan crisis finally blew up, crashing both the stock market and the real estate market.

As it stands today, the majority of the money invested in the stock market is baby boomer money. The children of the baby boomers, Generation X, our generation, is currently in their highest income-earning years, yet more and more, people in our generation are turning away from the idea of saving new income into the market. When I talk to people in this group about their finances, more and more often I hear that they are just saving their money in cash, or they are looking into gold, real estate, bitcoin, businesses, private equity, or insurance as alternatives to the stock market. Baby boomers were too old to leverage the information age to re-assess their financial strategies, but we've had a good 10 years leading into these higher-income-earning years to watch a lot of YouTube and read a lot of Kindle books and blogs about how to be more creative and personalized with investing money.

Gen X is the group that has been caught in between the old way of doing things (pensions) and the new way (retirement plans in the stock market). Many Gen Xers, the military retirees, and those who entered the military when the pension was still intact, still have or will have pensions to rely on. But millennials entering the military today are automatically encouraged to save in

the TSP. They know that with the new BRS they won't have much pension at all. Except for many state and local governments, the concept of a traditional pension is almost completely gone. For the federal government and corporations, it is completely gone.

According to a 2019 *Business Insider* article,[2] 45% of millennials are actively saving in a retirement account, compared to only 36% of Gen Xers. This makes sense, since knowing that there is no pension incentivizes millennials to save for retirement. It's also super easy for them because the 401(k) is part of the standard hiring package for most companies. The new hire only needs to click yes and forget about it. 401(k)s were never that easy for Gen X, and the TSP didn't even get started until the 1990s for the federal government and the 2000s for the military.

The baby boomers started to retire in 2000, which means that at about the same time that we had our last significant market crash, baby boomers who had retirement accounts started selling their investments because they needed the money as income to live on. At that time, any Gen Xers who were investing in the market were just getting started. For the past several decades, we have had all these people with the highest account balances pulling their money out of the stock market, while fewer and fewer people (Gen X and the millennials) are putting money into it. Today, there are 10,000 baby boomers retiring every day. Who's going to fill that gap to keep the market growth going? Well, it's up to the millennials, really; they're the next generation entering the workforce and making money who have the kind of time needed to accumulate any substantial savings, but as we saw above when I talked about the declining birth rates, there aren't nearly as many millennials as there are baby boomers, or even Gen Xers, and neither Gen X or the millennials will have enough money to invest to handle the supply of stocks that is going to continue to flood the market.

The millennials also have a lot of problems. Many of them have a crushing amount of student loan debt, and very few of them get jobs that have salaries that justify those student loans, so while 45% of them may be saving, they're not able to save very much. Making matters worse is the fact that the generation after the millennials (Generation Z, the oldest of whom are entering the workforce this year) is even smaller, so there will be even fewer people entering the workforce in the upcoming decades. All of these things taken together mean that the amount of money in the stock market is continually contracting.

Remember, a lot of the money tied up in the stock market in TSPs and 401(k)s is *taxable* money, so that pool of future tax money which can be used to pay for unfunded liabilities like Social Security, Medicare, and Medicaid is continually shrinking too. This is the serious demographic problem that few people are considering: there's an ever-expanding population relying on government programs for financial support and a smaller and smaller population funding those

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[2] https://www.businessinsider.com/millennials-saving-for-retirement-nearly-surpasses-gen-x-2019-11#:~:text=Exactly%20half%20of%20Gen%20Xers,saved%20in%20personal%20retirement%20accounts.

programs. In fact, according to the most recent Government Accountability Office report, about 48% of households headed by someone aged 55 or over have no retirement savings, which means that half of the ever-increasing pool of people reaching retirement age are depending on these unfunded liabilities to support them.

There is already a massive shortfall every year in funding these programs, which is part of the reason why our government is in so much debt. This situation is financially catastrophic for the government, for the ever-decreasing pool of working people paying the taxes that fund these programs, and for YOU. Even though you are paying into these programs with your taxes every year, as this situation evolves, it gets more and more unlikely that you will ever actually benefit from them.

It has been predicted for years that the Social Security trust fund will eventually be exhausted. In 2009, the government began acknowledging this problem right on everybody's Social Security statement. Since 2017, they have been paying more in benefits than they have collected in taxes. Now they just tell people that they need to save for retirement and not to rely on Social Security. So is the takeaway here to save as much as you can in a retirement account to fund your own retirement? Well—yes and no. As it turns out, when you invest inside a traditional retirement account, you are actually taking an enormous amount of risk.

Problem #2: Today's Stock Market Growth is an Illusion

In the financial world, we expect there to be some stock market correction every five or six years. It's not always a big crash, like in 2008, but there are usually corrections. Since 2008, though, the stock market has gone straight up. We have had a bull market for 12 years. Even after the March 2020 market dip because of the Coronavirus, the overall market trend was (and still is) straight up.

How is this possible, when so many people are out of work, businesses are going under, and the economy is slowing down? It's not because the companies in it were all doing awesome. Amazon was, of course, but many, many others were suffering because of supply chain interruptions, a government-mandated lockdown that forced businesses to close for an extended period of time, etc. The market quickly recovered and continued its overall upward trend because the Federal Reserve printed trillions of dollars within a few months and used it to prop the stock market up.

In order to understand the full significance of this, here's a little history lesson.

The Federal Reserve was unconstitutional when it was created because Congress does not have the power to create a central bank. In order to keep their distance from directly influencing the economy in a way that would clearly violate the Constitution, the Fed acts as a bank for the government, as opposed to being a government bank. It's a very fine distinction and cleverly disguised by naming this private bank "The Federal Reserve Bank."

When the government needs to tap into the financial power of the Federal Reserve, they issue a bond to them, and the Federal Reserve then "prints" out money equal to the value of the bond and "loans" it to the government at the interest rate of the bond. The Federal Reserve is literally charging the government and U.S. tax-payers interest on money they created out of thin air. So this is a nice game that benefits the bankers and the politicians at the expense of the U.S. taxpayer. They have kept the details of this arrangement relatively secret and justified these actions by pointing to the increase in income and lifestyle that America has seen over recent decades. But this "prosperity" is really only an illusion propped up by a foundation of debt, and bankers and politicians don't care if they push off that bill onto future generations.

Well, we are that future generation, and the debt is HUGE.

The checks that everyone received in 2020, unemployment benefits, and the Paycheck Protection Program (PPP) loans were actually only a pretty small percentage of the amount of money that the Federal Reserve printed. They gave money directly to the American people because they knew they were going to use it to buy stuff and keep the economy going. But most of the new money went directly to corporations, and the corporations used it to start buying back their own stocks.

This did two things. First, it allowed corporations to divest many shareholders who would otherwise have had a say in their business dealings. Second, it inflated the stock market. How? Basic economics. When there's a high demand for something, the price goes up. All of these corporations took these billions and billions of dollars that the government gave them and bought back their own stock, so the stock market went up. This made it look like the economy was still hunky dory, even though we were looking at a 30% to 40% unemployment rate. This is basically the same thing that the government did in 2008 when they bailed out the banks.

With the distraction of the coronavirus, though, the Federal Reserve didn't just print a crazy amount of money to keep the economy going as they have traditionally done. However horrible a fiscal policy that is, it still managed to keep some level of barrier between the Federal Reserve and their ability to directly influence the economy. In 2020, because so many major corporations like airlines were at the risk of bankruptcy, the Federal Reserve was allowed to directly bail out the corporations and the stock market. It didn't just bail out the banks again—it bought corporate debt and received exchange traded funds (EFTs) on the stock market.

What this means is that the small group of bankers who own and run the Federal Reserve, and who don't have to answer to the government, now have direct financial influence in certain major corporations and thus in the economy to the tune of billions if not trillions of dollars. This goes completely against the Federal Reserve charter. Over the years, the Federal Reserve, which is a private institution owned by many of the big banks, has garnered more and more influence and power over the national and world economies. Now, by owning these EFTs, the Federal Reserve is able to have direct influence in American corporations, and that's a dangerous thing. It goes against the whole point of what the Federal Reserve was created to do: stabilize the economy during periods of economic crisis.

Nothing like this has ever happened before. No nation has ever been 26 trillion dollars in debt, with 200 trillion dollars' worth of unfunded liabilities. How long can this go on???

So the Market Is Still Going Up – Why is That Bad?

The naturally-occurring fluctuations in the stock market are a reflection of the overall health of the economy. Historically, the market has always had ups and downs, but over a long enough period of time, it always trends upward. That's how long-term retirement planning works. Over a period of 40 years of investing, it's true that you can expect to get about an 8% rate of return on your money. But as I said, we've had a bull market for 12 years. There's going to be a correction at some point, and when this bubble bursts, it's going to be bigger than ever.

This situation creates fear because what if this bubble pops and the market crashes just when you need YOUR retirement savings to live off of and half of it has disappeared overnight?

The investor is a human being. Humans have emotions and they act on these emotions. The DALBAR study that comes out every year always shows that the average investor underperforms the actual managed investment accounts they're in because as much as we say, “buy low and sell high,” people just don't do it. Emotion always beats out logic. When the market goes down, and prices get low, most people don’t stay in it and buy low, they get scared because the market is going down. They don’t want to lose any more money than they have already lost, so they pull all their money out.

On the other hand, the artificially inflated stock market also creates the fear of missing out, because as long as the Federal Reserve keeps pumping money into the stock market, and it keeps going up, we don’t want to miss out on that growth, right?

The Average Investor Today Is Not Tuned Into These Problems

Up until you started reading this book, you have probably been largely unaware of these problems. That's not surprising. The media just ignores them, and people tend to assume that the value of their retirement savings plans will just keep going up because that's what they're told is going to happen and because, quite frankly, it's not very pleasant to consider the alternative. But everyone's willful blindness to what is going on around them is extremely dangerous, given the perilous times we are in.

I put out a survey on LinkedIn recently that asked, "How concerned are you about what's going on in the economy?" I was shocked that over 50% of the people that responded said that they haven't considered making any changes about how they invest their money, even given what's been going on for the last six months. I found that strange because at the same time, there's a lot of concern among military and veterans as to whether or not they're going to get their pensions. They're worried that military pensions might be in as much jeopardy as the Social Security program. Personally, I think that the last thing that would ever go would be veterans' retirement pensions. But the point is that when it comes to an aspect of their future that people actually can control – how they manage their own money – half of them aren't even thinking about it.

Why not? Because veterans have little understanding of how the market and therefore their TSP funds really work. Most of them are only in the TSP in the first place because it's the only option that was presented to them and because everyone perceives the TSP as an amazing deal because it's cheap. But since when is the cheapest option the best one?

There are a lot of financial bloggers out there catering to the military and veteran community who say that everyone should do this or that, and they use the word "fraud" to describe anyone who suggests an alternative, as if everyone with a viewpoint that differs from the status quo is a scam artist. The assumption underlying these kinds of articles is that military members and veterans can't think for themselves. This is shameful. Both the government and this financial blogging community have treated everyone like idiots.

Unfortunately, when it comes to understanding what's going on with their money, what's happened is that far too many members of our community have become not only financially illiterate, they're like little children who don't really understand what's going on around them. They believe the lies that are used to "explain" things to them, and they do what they're told. The majority of military service members and veterans just follow the government advice because they believe the government actually cares about them. This creates a lack of financial control for that service member or veteran, and this WILL backfire when the next market correction comes that is too big for the government to "fix" with a bailout.

Problem #3: Traditional Financial "Advice" Is Just Sales Talk

Compounding these two major problems is the fact that veterans who are trying to be proactive about their finances by seeking advice from a financial professional are being led up the garden path. Here's the truth: a licensed financial advisor is no different than a licensed hairstylist, and the hairstylist is far more creative and skilled because they know how to master their craft!

Licensed financial advisors are nothing more than the salesforce for their firm. They are just doing what they are told to do, which is to convince someone that they have a problem so that they can sell them something that will fix it. I know, because I was that guy for 10 years after I got out of the military. They spend 90% of their time trying to "get business," as they must, because it's a ruthless business. To the traditional financial advisor, everyone they meet is a commodity. They all look at prospective clients like wolves look at sheep. Sheep only know how to follow the herd, and when it comes to money management, sheep tend to follow the herd right into the wolf's den.

What you must realize is that the title Certified Financial Planner (CFP) was created as a marketing ploy to regain respect for an industry with a reputation that wasn't far removed from that of used-car salesman. The title CFP tends to give people confidence. It's supposed to. It's the word "certified." This is not unlike how the word "organic" has been co-opted for marketing purposes. Today, all kinds of processed junk foods are available in "organic" versions at premium prices because there is perceived value there—but it's still junk food. Something that has been certified is officially recognized as having certain qualifications or meeting certain standards. But standards for what? Who sets these standards? And in whose best interests?

Contrary to what you probably believe, the CFP designation wasn't created to protect the best interests of an advisor's clients. It's really just a marketing schtick. A group of people got together and formed a "board" (which sounds very professional and official), and said, "Hey, our industry is getting a bad rap because of all these Wolf-of-Wall-Street-type stockbrokers who are just scamming people. So we're going to create these industry standards and set up these rules where you have to qualify in order to be "certified" as a financial planner. Once you get certified, you can only do things in a certain way." So where does the marketing come in?

Well, when they created the CFP designation they also created a mindset shift, right? If there is a "certification" out there, people tend to consider those who have that certification to be more legitimate and more knowledgeable about their field than those who don't. Now, this may or may not be true. It's certainly not necessarily true, but it's perceived to be true, and as such, it kind of sets a snowball effect into motion. People think that a CFP can tell them the right things to do with their money, and anyone who is or wants to be a financial advisor at that point is then under a certain amount of social pressure to become a CFP. That's how the CFP became the status quo of the financial industry. What you have to realize here is that the status quo

thing doesn't benefit YOU, the person doing the status quo things. It benefits the people who are pulling the strings on those status quo things, the people who set up those status quo things and set them into motion in order to ultimately benefit themselves.

This is why I am not a CFP. Does this mean that I know less about financial planning than a CFP? No, it means I don't want some big financial company pulling my strings. I want to do what's truly in the best interests of my clients, America's service members and veterans, and I don't want to be limited by the products of any one firm.

So now we have all these financial advisors thinking that if they get the CFP certification they will easily attract clients, and they'll know to guide their clients to do all the "right things," but what actually ended up happening is that now everybody who goes to a CFP gets the same outdated advice. The CFP became just another commodity, and there's one on every corner.

Another buzzword these days is fiduciary. Just as people may tell you, "you should have a CFP," people like to say, "You should have a fiduciary." The word fiduciary is completely misleading. It is specific to a small subset of financial professionals and only refers to investments in the stock market. Fiduciary simply means a financial professional who holds an "investment advisory" license does what's in their clients' best interests when it comes to the stock market. As you will see from this ebook, my position is this: if you're being a real fiduciary, like we are here at US VetWealth, you're going to say, "Is the volatile stock market even the best place to put your money? Are you crazy, or are you just unaware of how it works and what your options really are?"

Modern Portfolio Theory Isn't All It's Cracked Up to Be

The problem with traditional financial advice—whether you work with a professional, or follow the advice of the company you're buying mutual funds through, or even if you just follow one of those TSP investment Facebook groups—is that no one is being held accountable for the "advice" that is given. When you invest, you take on a certain amount of risk in hopes of a certain amount of return. The advice you get from a licensed financial advisor is based on what's called Modern Portfolio Theory. What this means is that they went back and looked at decades' worth of the market performance of all these different asset classes,[3] and they use this data to predict that for different types of investments you take on a certain specified and predictable amount of risk for a certain specified and predictable amount of reward. As long as your investments are spread across different types of assets (this is called diversification), things will "work out" and your investment will grow.

The idea is that over time, as you get closer to retirement age, when you will actually need your money, you (or your financial advisor) adjusts the allocation of these assets as needed in order

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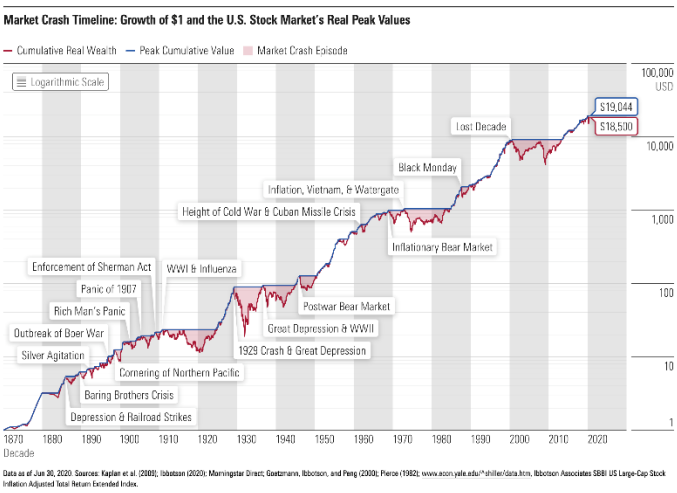
[3] In finance, an asset class is a group of financial instruments which have similar financial characteristics and behave similarly in the marketplace (Investopedia.com).

to reduce the amount of risk you are exposed to. The further you are away from retirement (if you are in your twenties or thirties) you can take more risk (and potentially be rewarded with more growth) than you can as you get closer to retirement (as you get into your fifties and sixties). This is a good story. It sounds reasonable. And yes, if you just let it all ride for 40 years, the averages tend to "work out." But there are a few problems.

The first problem is that Modern Portfolio Theory is taking decades of pre-Internet market return data and applying it to the Internet age. Another problem is that the historical market return data being applied with MPT is reflective of a different era of government. Today, our country is in crazy amounts of debt, $26 trillion as of the writing of this book. It is also faced with unfunded liabilities like Medicare, Medicaid, and Social Security. What this means is that traditional financial advice is preparing people to live in a world that doesn't even exist anymore.



And yet, the financial advisors tell you that the averages will "work out" over 40 years. They show you these fancy graphs and charts, like the one above[4], that "prove" it and tell you not to worry. They explain how your investment is allocated, but what does it mean that you have so much invested in the energy sector, and so much invested in the technology sector, etc.? You don't know, and neither does your financial advisor. These individuals aren't paying attention to everything that's going on in the economy. That's what Wall Street analysts do. The convincing presentation that you get from your financial professional is just a show. They all give you the same show and tell you the same thing: as long as you place your assets in a certain portfolio and you can handle (emotionally) the risk of market volatility, "it will work out."

But this does not address the real risk you face in the stock market. The real risk you are facing, as I already mentioned, is human behavior.

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[4] https://www.morningstar.com/features/what-prior-market-crashes-can-teach-us-in-2020

The Risk of Human Behavior

The risk of human behavior typically manifests in one of three ways:

- People aren't paying attention to risk at all and are basically just ignoring their investments;
- People are paying attention, see the value of their market investments begin to fall, and pull their money out of the market in a panic; or
- They go all in and become a kind of day trader. When you do this on your own, you're competing against huge firms on Wall Street with technology that moves a lot faster than you do, and the amateur day traders tends to eventually lose their shirts.

Telling an investor that over 40 years his portfolio will "work out" does nothing to communicate the risks that an investor is actually taking with their money when they invest it in the stock market, and it encourages the first risk behavior, which is not paying attention. It is much more useful information for you as an investor to understand how much money you potentially stand to lose, compared to how much money you could potentially gain. That's what a real fiduciary should be talking about.

What Your Financial Advisor is Probably Not Telling You

Take a guy who wants to retire in a few years. He has about $250,000 saved in his retirement account, but he needs to grow it more because he doesn't have enough saved to pay for his current lifestyle. According to his financial plan, he's got to make an 8% return across the remaining years that he has to save to be able to have enough money to retire the way he wants to. So, following Modern Portfolio Theory, he's put together a portfolio of roughly 80% stocks and 20% bonds in order to get that 8% growth over the long term. But "the long term" means decades. What's the risk over the short term?

The real math is that in order to get that 8% growth over the long term, over any six-month period of time, he has to be willing to risk a 15% loss in order to potentially realize a 23% gain. That's the real level of volatility he has to be willing to accept. In this person's case, investing in an 80/20 portfolio (which is pretty standard stuff) with a current account balance of $250,000 means that he could gain almost $60,000 over a six-month period—or he could lose almost $40,000. Which one is most likely to happen? Who knows? You don't know. Your financial advisor doesn't know. I don't know either. But when people go through a period when they actually lose that $40,000, they start to question their investment strategy, and they sometimes pull their money out of the market because they fear more loss, in which case, they're not going to get that 8% return over the long term.

The reality of this volatility is a problem in two different ways. It's a problem for the person who pulls their money out of the market and is now getting no significant growth on their money, and it's a problem for the person who isn't paying attention to a) how the stock market really works, and b) what's going on in our economy vs. what's going on in the stock market. If you aren't paying attention to these things, and if you don't take advantage of financial vehicles that exist today that can substantially mitigate these risks for you, then one way or another, you are risking not having enough money for retirement.

So where do you fit into this picture? And exactly what risks are you facing?

The Risks You Probably Don't Know You Are Taking

Financial advisors will typically advise you to put your money into the stock market, in whatever funds their firm is pushing at the moment. If you read currently popular financial planning books, they will tell you to invest in traditional retirement vehicles. The government is encouraging you to invest in traditional retirement vehicles. The financial blogging community is telling you to invest in traditional retirement vehicles. Not only all that, but everyone you know is either already doing it, or thinks they should be doing it, because traditional retirement vehicles are the status quo.

Yes, there are many people who have saved for retirement in a TSP, 401(k), or IRA, and who are now living quite comfortably off of their money. But what you have to realize is that for all the reasons I have just been explaining, just because this situation has worked out for the baby boomers, doesn't mean it's going to work out for YOU, especially if you're a member of Generation X and hoping to retire in the next decade or so. It took me 10 years of working in the financial industry to realize that not only is investing in the stock market all a crapshoot, the financial professionals who are telling you to do it don't even give a shit that they're essentially gambling with their clients' money. They're okay with the status quo: Ehhhhh, sometimes clients make money, sometimes clients lose money. Either way, we're going to make our products and services sound as good as possible in our marketing.

In a nutshell, here's what's wrong with investing in status quo traditional retirement vehicles:

- The sequence of returns risk means that you could suffer that crushing 15% loss of your investment account balance the year you plan to retire; or worse, you could suffer several of them, back to back, in the years leading up to your retirement. In regular language, this means that you may have really bad luck, and the market will undergo a major correction just around the time that you need your money to live on. If you lose a substantial amount of your money during this critical window, you won't have decades left in which to take advantage of the market rebound.

- You could outlive the amount of money that you have saved. This can happen to anybody, even those who have saved "enough," because of the sequence of returns risk.

- You could end up needing long term care that depletes your account balance too quickly.

- You could lose tens of thousands of dollars paying fees to "financial advisors."

- You could lose a substantial portion of your retirement savings to taxes as tax rates inevitably escalate due to the problems I described earlier.

- When you die, a substantial portion of your legacy could be taken from your heirs in the form of estate taxes.

Don't Be Fooled By the TSP Bubble

Many, many TSP investors have seen huge increases in their account values since 2008. In 2008, there were 3,000 people who had at least $1,000,000 in their TSP accounts. By 2017, there were almost 24,000 TSP accounts with a value of more than $1,000,000. In March of 2020, right before coronavirus became a household word, there were 49,620 TSP millionaires! Why did this number get sixteen times bigger in about a decade? Did people just become better savers? No —the market went up for everybody, artificially and without the corrections that normally occur. To conclude from this data that the TSP is somehow an amazing investment vehicle with the power to turn any investor into a millionaire is a sham!

But because the TSP now has this reputation, many TSP investors have gotten complacent. They have grown comfortable with the stellar performance of their TSP (which is really just the market, NOT the TSP as distinct from other retirement plans), and they have conveniently forgotten about the risks. It's like there's an assumption out there that the TSP is its own little isolated stock market that always goes up. It's incredibly misleading.

If you need proof of that, consider this: Since that high water mark in March 2020, the number of TSP millionaires has fallen by 45%, down to 27,212. Given that this was an artificially inflated number anyway, is it safe to assume that the hard times are over? Hardly.

Yet in September 2020, *FedSmith* was still writing about how awesome the TSP's performance was over the previous five months, and saying that "TSP investors can feel good about the financial returns they are seeing on their investments that will help fund their future retirement," without acknowledging the reality of economic devastation that so much of our country has seen this year that is completely incompatible with these returns. Coronavirus, riots, and protests get a casual mention at the end of the article, but not in the context that these events have had inevitable market repercussions that are still ongoing. The Federal Reserve is mentioned, not for their role in artificially propping up the market, allowing it to produce all these amazing returns, but for involvement that "helped stock returns" by erasing "concerns that the Federal Reserve would raise interest rates to dampen inflation in the near future."

The military media and financial bloggers still say that the TSP is the best retirement plan out there, and you're damn lucky to have it available to you. Sure you are, but does that mean you have to stay there forever?

Of course these TSP millionaires want to stay millionaires. And people who aren't TSP millionaires yet sure as heck want to be. So what are their options as they separate from the military?

If you go to a traditional financial advisor, which many do, they will tell you that you have three options:

- You can leave your money in your TSP;
- You can roll your TSP over into a new 401(k), or consolidate your retirement assets into an employee 401(k) when you get your inevitable civilian job with a federal contractor; or
- You can roll your TSP over into a mutual fund or investment advisory account within an IRA.

None of these are good options, because not one of them does a damn thing to mitigate against the big three risks I have been talking about. I'm going to talk about each of these options in turn. Then I'm going to tell you about a fourth option available to you that your "financial advisor" is probably not going to tell you about. Why? Because this fourth option doesn't require them to charge you a fee for their advice to make them any money. But I'll get to that.

The Big Three Unsatisfactory Options

Option #1: Leave Your Money in Your TSP

The conventional wisdom frequently shared by financial bloggers is that "government benefits are the greatest thing since sliced bread," and that the best option is to leave your retirement savings in the TSP, or get a federal job and roll your TSP into a FERS TSP. Furthermore, the TSP itself has an ongoing campaign encouraging people to leave their money in the TSP even after they leave federal service.[5]

Many people do this since the TSP has a reputation as being the greatest investment vehicle out there because it's so cheap. The problem is that if you leave your investment in the TSP, for all the reasons I have already explained, you are making a whopping assumption that your money is going to be there when you need it to live on. You're also making a whopping assumption if you believe that because your TSP has done well for you already, that it will continue to do well for you in the future. It's human nature to believe that something that has happened before will happen again, or that things will continue to happen in the same way that they have already happened.

In the financial industry, we are *required* to tell clients that the past performance of any fund or vehicle means exactly nothing. And yet, this very critical bit of information never seems to register. People just don't get it. The TSP website, Armed Forces Network (AFN), the military media, and federal TSP blogs all act like the military world exists in its own little bubble: we have our own media, we have our own investment vehicle. It's hilarious whenever the performance of TSP is talked about like it's some sort of unique thing. It's just an index fund, people. Looking at daily TSP values on AFN is useless unless you're day trading your S, I C, F, and G funds!

"There's just no escaping the economic downfall created by the coronavirus pandemic. All the signs are there. Every single Thrift Savings Plan fund took a much-anticipated nosedive last month. More TSP participants are withdrawing from their accounts. Inter-fund transfers — albeit from a relatively small group of participants — are up too. Even the number of the TSP millionaires is down — by 45% at the end of March." ~ Federal News Network

Option #2: Rollover to a 401(k)

A second option is to roll your TSP over into a new 401(k), or consolidate your existing retirement assets into an employee 401(k). One reason people are typically advised to do this is because a 401(K) offers more investment options than the TSP, and then you'll have all your retirement money consolidated with one employer. This is technically true, but in addition to the fact that your money is still very much at risk in the stock market, there are several other rea-

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[5] https://www.fedsmith.com/2015/12/07/the-tsp-really-wants-you-to-stay-with-them-after-you-leave-federal-service/

sons why a 401(k) is not the best option when it comes to investing for retirement. Not to mention, people often don't stay with one employer very long.

I've worked with many government contractors who have 401(k)s at various old companies, and they end up having a hell of a time consolidating them. 401(k)s are the most difficult vehicle to transfer your money from. Why? Because there are many layers of people taking a fee. There are a lot of moving parts that are expensive to manage. They make it hard for you to transfer your money out of these plans, so they can keep charging their fees, which are far more than what you'd find in a typical mutual fund in an IRA.

People seem to believe that their retirement plan needs to be associated with their employment, but there is no reason why that has to be the case. As I explained previously, the 401(k) is a retirement planning solution cooked up by Wall Street and the government in order to relieve companies of the burden of paying pensions to people who are living decades longer than their pension systems were designed to accommodate. The 401(k) is a win-win situation for Wall Street and the government. Wall Street is able to collect substantial fees that are based on the total value of these accounts, and the government is able to collect taxes on a substantially bigger pool of money down the line than they would have been able to tax if people's money wasn't growing in value. This is why the government offers tax breaks on 401(k) contributions to incentivize people to save in them.

One of the problems with the 401(k) is that there is no conversation going on between whoever is managing a 401(k) and the individual investors. Companies that manage 401(k)s simply present the options that they offer and investors choose from those options. This is not "financial advice," which leads us to the second problem with the 401(k): the fees on a 401(k) plan are quite high. They can be 2.5% or in some cases even 3%. At one time, the companies offering their employees these plans paid those fees, but not anymore. Now you, the investor, pay them. Why? It's simple. The employers were paying attention! They don't want to pay those astronomical fees on your retirement account, so they worked things out with the investment company to charge *you* those fees instead. And it worked like a charm, because your average investor *isn't paying attention*.

Who is the fiduciary in this situation? Is someone who will take financial advantage of you because you aren't paying attention to your own money acting in your best interest?

"It turns out that paying even 1% more in fees than you need to can dangerously slash your nest egg. Take the example of an average American worker, making $30,000 a year and putting 5% of each paycheck into a 401(k). Over the lifetime of this investment, an extra 1% in fees will result in a loss of almost $154,000 – and that's not even including what you would have earned, with compound interest, if that money had been invested in your plan. For each 1% in unnecessary

fees, you lose potentially 10 years of retirement income. So much for the 'golden years'." ~Tony Robbins, *Rescuing Our Retirement Plans*

Option #3: Rollover to an IRA

A third option is to rollover your TSP into an IRA. There are a few different ways to do this. You can use a self-directed IRA, which means that you as the investor take full control of your investments and decide what you want to invest in. With a self-directed IRA, you can invest in things that you typically wouldn't be investing in with a managed account, like real estate or gold. The more popular option, though, is to rollover into an IRA account managed by a financial professional or investment advisory firm so that you get access to stocks, bonds, mutual funds, registered investment advisory firms, asset management, etc., along with financial "advice" about asset allocation and diversification.

The risks around an IRA are no different from those around the 401(k). When you rollover into an IRA managed by a financial professional, there are high fees involved. There is also typically an assumption on the part of the investor that the financial advisor has some kind of specialized knowledge about what they're doing, and that they can somehow use this specialized knowledge to protect you from market losses.

The only "specialized knowledge" that any halfway decent financial advisor has is that they know that when it comes to long-term growth for your money, it's a mistake to pull your money out of the market during downturns. This is essentially what you are getting for your fees: someone who will tell you not to make "the big mistake."

Unfortunately, there's no real perceived value in this on the part of the investor, who tends to ignore the advice and make decisions with their emotions. What frequently happens is that when people lose money, they blame their "financial advisor," and try to solve the problem by getting a new financial advisor. How often have you met someone who has had the same financial advisor for 20 or 30 years? It's very, very rare, because turnover in the financial advisory world is so high. There is frequent turnover of clients, and there is also frequent turnover of advisors, because the attrition rate for employment in the financial industry is 95%!

"We need to be careful in saying 'what every Federal Employee should do.' One of my personal peeves is general financial advice. Everyone's situation is different. Each Federal employee is unique in their age, risk tolerance and plans for their money. What a Federal Employee should do is establish their goals for their TSP assets. Once those goals are established they can decide whether or not those goals can be achieved inside their Thrift Savings Plan." ~Jesse Black, FedSmith.com

You Have A Fourth Option

As we discussed, baby boomers are already starting to use their combined massive wealth to retire, which means that they're pulling their money out of the market. They're also dipping into government programs like Social Security, Medicaid, and Medicare first, and for much longer periods of time than these programs were designed to handle. They've gotten all the profits from a stock market that has gone up dramatically since 1980, originally because of economic forces which are no longer in play: a massive, producing work force creating an increased demand for consumer goods. As I have already shown, the exact opposite is currently going on in our economy. When the market finally corrects, when our most recent, 12-year-long bubble bursts, the baby boomers, who now need their money to live off of, are going to be the first ones to pull it out of the market. And when the market begins to go back up, they're not going to put their money back in there because they're at a point in their lives where they can't risk losing their money, right?

This is alarming, because if you take the baby boomers out of the equation, who's left to put money into the market to help it rebound? There is a much smaller population of young, working people than there used to be, and of those, a large percentage are still in school chasing degrees, unemployed, underemployed, and/or carrying very heavy debt. Few of the younger population are in a position to save significant amounts of money any time in the near future. And even if there are more millennials saving for retirement than Gen X-ers, there just isn't nearly enough of them to balance the scale against the much larger population of departing baby boomers.

The baby boomers have a 50+ year head start in the amount of wealth they have created. They also know they won't have to foot the bill for the national debt they have created by blindly voting in a bigger and bigger government, which now not only taxes us for useless bureaucracy but also controls more and more of our lives. This isn't the definition of liberty I thought I had signed up to defend, so I'm not going to risk my life savings with them or the gamblers on Wall Street.

Are you?

This particular economic paradigm has never happened before, and it's a real concern that hardly anybody is talking about. I hope that at this point you're asking yourself, what can I do about it? How can I save for retirement, beat inflation, take advantage of stock market growth, and also protect myself from the inevitable coming correction?

Here at US VetWealth, we've created something called the Veteran Retirement Rescue Strategy to answer all of these questions. Our solution is based on three simple rules:

- First, our solution has to beat inflation, because as the Federal Reserve continues to pump money into the economy, the value of the dollar is going to continue to go down, so we need to have our money growing more than inflation.
- Second, we don't want to lose money.
- Finally, we don't pay for stuff that doesn't have value. Total long-term costs (including taxes), if there are any, is the #1 factor that destroys wealth.

1. Avoid "paying for advice" as much as possible. That's why I wrote this book. I'm not charging you $3,000 up front with a $450 monthly retainer like a "fee-only financial advisor" would for doing work you can easily do in a weekend and could automate, and none of them have had the time to do the research I've done for this book, because remember, they spend 80% of their time looking for clients.

Risks aside, the fact remains that the financial markets are the only game in town for the average person when it comes to getting some sort of growth on their money. Sure, you can get into real estate investment, or do Bitcoin, or start a business, but the average person needs to have somebody else or some vehicle manage their money for them in order to grow it to beat inflation, which means they need to have their money invested in the market. Is it possible to do that without risk? Would you want to avoid the financial emotional rollercoaster if you could?

Absolutely.

The Veteran Retirement Rescue Strategy

The Veteran Retirement Rescue Strategy uses an Advanced Private Pension and Tax Protection Strategy that leverages an insurance product called a Fixed Index Annuity (FIA) to give you the advantage of having your money invested in the stock market, without the risk. A FIA is another option within an IRA other than mutual funds. With this option, you don't have to manage mutual funds, and you don't have to be worried about whether or not the financial advisor has you in the right fund. When you choose a FIA, you are getting two guarantees that are not possible with traditional retirement plans: the guarantee of principal protection and the guarantee of a retirement income stream later in your life. The insurance companies that offer these products have innovated them so that you can now leverage advanced versions of a FIA to also get growth on your principal.

Note: Yes, when someone buys one of these through me, I receive an affiliate commission from the company for helping explain the product to the right type of user. That's why I research and produce so much content on these topics, so that I can introduce the right buyers to these companies. This is how I make a living, and for the fee-only financial planning Nazis who have a problem with that, why are you still reading? My clients love that these companies pay me well, so that they don't have to! And if you think the annuities are still charging ridiculous fees like

you do, look deeper. They have improved the technology. The fees are low, with the baseline version of these FIAs, in some cases, still charging no fees at all.

What is a FIA?

Although it is an insurance product, a FIA is categorized as a retirement contract. When you set up a FIA you are essentially getting insurance coverage on your retirement assets (as opposed to buying insurance on your life). It is called a "fixed income annuity" because based on the amount of principal that you move into a FIA, the insurance company guarantees you a certain fixed amount of annual income for as long as you live, even if at some point you cross the threshold of receiving more money than you actually originally put into the product.

For example, if you set up a FIA by rolling $500,000 out of your traditional retirement plan, a given company might guarantee you an income stream of $25,000 a year (5% of the principal) for as long as you live, even if you outlive your assets. The FIA is basically a private pension, which means a pension a person can create for him/herself. It is an excellent measure to guarantee that as a person retires, they will never run out of funds.

Here's How the Older Fixed Annuities Work

The concept of a fixed annuity has been around for a long time. Historically, it has been a very low-risk financial vehicle because you don't lose any of the principal that you place into a fixed annuity. The older version was simply a contract that you make with an insurance company. You give them your principal, and they pay you an agreed-upon amount every month, based on the amount of your principal, for the rest of your life, even if you outlive the actual amount of that principal. That's how the older fixed annuities benefitted you. In turn, if you died before the amount of your principal was depleted, the insurance company you contracted with kept what was left. That's one of the ways that the older fixed annuities benefitted the companies that issued them. Additionally, while these vehicles offered the guarantee of security, there were no moving parts within them that allowed for the growth of that principal or for the necessity of beating inflation.

Here's an example of how these older products work. Let's say you're at age 65, and you decide you want to guarantee a stream of income for yourself for the rest of your life based on your accumulated assets. You could buy a guaranteed annuity from an insurance company and "annuitize" the lump sum. This means that the company will calculate an income stream based on the amount of the principal you are annuitizing, and pay that to you annually, monthly, or quarterly as a retirement income. This is basically taking the lump sum of your savings and turning it into a guaranteed private pension that you funded yourself. The drawback with these older policies is that if you annuitize, and then you get hit by a bus a year later, you lose all control of the asset. The insurance company would keep the balance.

If you have heard bad things about annuities being a racket or a rip-off, it's probably because of the things that I just described. It's true that with an older annuity there was no way for your remaining principal to be passed on as a legacy to your heirs. It's also true that in order to get market growth on your principal, like with a variable annuity, you were charged high fees on your principle.

That is NOT the kind of FIA that I am going to talk about in this book.

Here's How Variable Annuities Work

Neither am I talking about a variable annuity, which is a completely different product. With a variable annuity, the value of the account is based on the performance of a portfolio of mutual funds that the annuity owner selects. It is called a variable annuity because the amount of the annuity varies depending on the performance of the funds it is invested in. Like the TSP, a variable annuity offers the possibility of higher returns and greater income, alongside the risk of lower returns and lower income if the value of the account declines due to market losses. Much like a 401(k), the typical variable annuity has layers of fees: the underlying product fee, the income rider fee, and a fee for the actual product itself. Most variable annuities average fees of about 3.5%.

Neither am I talking about variable annuities in this book. I am talking about a modern annuity product that doesn't have the disadvantages of these older models.

The Technology Shift: No-Risk, Market-Linked Growth

Most people don't realize that like so many other successful industries, the insurance industry has been innovating their products, and the technological improvements they have made in the fixed annuity marketplace are a game-changer for people looking to protect their retirement incomes, realize continued growth on their principal, have the security of a guaranteed retirement income, and still be able to pass on what's left of that principal to their heirs.

Because of this innovation, which I will explain in a moment, modern fixed annuities are not only able to offer a safe place to protect your retirement savings against market losses and the decline of your principal and future income, they also offer significantly higher pensions than both the older models of the fixed annuity and what you could expect to draw as income if you were tapping into your TSP, all for fees in the 0% to 1% range.

Instead of ever annualizing an annuity, what we choose to do is set up the FIA as a guaranteed lifetime income with a Guaranteed Withdrawal Benefit. This gives us the protection and benefits of the annuity with much more flexibility for growth and more access to income.

With the older products, you would lose what was left of your original principle when you died. But with modern products, that's a non-issue, because these innovative products allow to you guarantee a retirement income for yourself and ensure that anything that is left over passes your heirs.

The rule of thumb when tapping into your traditional retirement account as an income stream is to only pull out 4% per year. The reason for only taking 4% is so that you can keep the majority of it invested in the market to hopefully beat inflation, while still leaving room to handle all the volatility and risk that comes along with having your money in the market. What this means is that even if you save a million dollars, you have ONLY saved enough to provide yourself an income of $40,000 a year (pre-tax, if you have been saving in a qualified retirement plan and not a

Roth). That's it?? You became a millionaire, and you can only have a $40K a year lifestyle! Oh, and you still owe taxes on it? This is the system they created for us and that we all bought into: work 40+ years, do the right thing saving for retirement, pay all the fees and taxes along the way, and this is what's left. Sounds pretty scammy to me—What do you think?

Even combined with a military pension, this is not a lot to live off of today, and with the value of the dollar continuing to decline, we can expect $40,000 a year (minus taxes) to buy you even less in the future. Why the withdrawal cap? On the one hand, limiting the amount that you withdraw every year means that more money stays invested and able to grow (with no guarantee of growth, however, and no protection against the loss of your principal). But the other significant part of this picture is that all of that money that is still invested in a traditional retirement plan is still earning fees!

With the newer FIAs, the guaranteed withdrawal rates often start between 5% and 7% and can go up when the market goes up. Your principal is guaranteed, there are little to no fees (fees on most FIAs average 0% to 1%), and you will never run out of money, no matter how long you live. And unlike a government or corporate pension, you can leverage the free market to get the features and benefits that best fit your needs.

The FIA Guarantees Your Principal

Unlike other insurance products like Indexed Universal Life (IUL), where you are actively funding the account over a period of time, with a FIA, we are taking an existing sum, rolling it out of a TSP, 401(k), or mutual fund within an IRA, and rolling it into an IRA that has a FIA inside it. In doing this, you guarantee (i.e., insure) the principal. The longer that you leave the principal untouched within the FIA (the longer you wait to begin taking withdrawals), the higher your payout percentage will be when you start to withdraw. Many companies guarantee that your payout percentage will increase with each year that you wait to begin taking income from your account. The reason for this is that during this time that you are not taking income withdrawals from the account, you are allowing your principal to grow along with market growth. Not only that, the companies that offer these vehicles are able to offer guaranteed streams of income while allowing the actual annual income that you receive to increase with the stock market even once you begin to take money out. This is how a FIA can guarantee that your money will continue to beat inflation.

The FIA Grows Your Principal

Annuities operate in two phases: the accumulation phase and the income phase. During the accumulation phase, the principal accumulates based on market growth, as I will explain in detail a little later. These gains are tax-deferred during the accumulation phase. In the income phase, the client takes distribution of the moneys accumulated during the accumulation phase. The longer a client waits to begin taking income, contractually, the larger each monthly payment will be, regardless of the market-linked growth.

Accessing Your Money

While most FIAs allow you to withdraw up to 10% of your account balance penalty free, distributions are treated as taxable income. If you are under age 59 ½, there is also a 10% early withdrawal tax penalty, similar to what you would encounter in a similar situation with your TSP, 401(k), or IRA. Money you place into a FIA is not intended to be withdrawn in big lump sums.

The knock that you always hear about annuities is, “Oh, watch out for the surrender charges!” Yes, there are surrender charges (a fee that you pay for withdrawing a lump sum from the account), but these accounts are not set up for you to put money in and then take it back out in the same way that you would use a checking account. The surrender charges are there to help the insurance company guarantee that you will allow them to invest the money for long enough so they can make some money, because unlike traditional retirement plans, the fees with a FIA, if there are any, are fairly low.

The insurance carriers that issue FIAs make most of their money by investing policy-holder premiums for extremely long-term growth, primarily in investment-grade bonds. They are looking at 30+ years or more to see a profit, and that’s why they can offer such great terms to you in the short term. They're giving you growth now, because they’re banking on the fact that because of the sheer scale and size of their company, they'll make profits over the very long term. However, given the new options investment strategies they are using to give you risk-free growth as explained below, they also make a small profit from managing those investments for their policyholders. That helps them get some short-term profits as well. The key here is that you get growth on your principal based on stock market returns when the market goes up, without any losses when the market goes down.

This kind of risk-free investing is possible because these insurance companies are using an options indexed investing strategy. They take a little cut of the gains on your principal in exchange for guaranteeing that you will never lose money in the stock market. It’s almost like you’re going into partnership as investors: your money plus their expertise and the purchasing power they are able to wield by combining your money with that of other FIA account holders. Instead of charging you fees to manage the money in the risky market like with mutual funds or a variable annuity, they just buy very low-cost options contracts with a small portion of your principle, and invest the majority in long-term bonds that give them and you a minimum around 4% to 5% low-risk return.

What if you’re already in your fifties when you set up a FIA? How long do you have to wait before you can take income from your money without these surrender charges? The exact surrender charge policies differ depending on the state you live in, how old you are when you sign up, and which company and which product you are using. Typically, you can opt for 8, 9, or 12-year surrender charge policies. These numbers indicate the number of years you’ll have to wait before you can withdraw more than 10% of your account without incurring penalties.

That said, you can buy an annuity today and take income tomorrow, provided that income stays within the stipulation of the plan and does not go over the 10% limit, at which point it will trigger the surrender charge. There is a type of contract called an immediate annuity, so if someone is at retirement age and wants income immediately, that's possible, but the features and benefits of that contract would be very different from the contract of someone in their 50s who isn't planning on taking income for the next 10 years.

Although surrender charges may seem like an inconvenience, remember that IRAs and 401(k)s have even stricter withdrawal policies. If you withdraw money from these accounts prior to age 59 ½, you incur a 10% early withdrawal fee (plus taxes on the amount withdrawn). With a FIA, you can withdraw 10% of your money after the first year without any penalties whatsoever.

What About Taxes?

Qualified retirement accounts are tax-deferred, meaning that you contribute money to these accounts before you pay taxes on that money, and you pay taxes on the money you withdraw from these accounts decades later. If your current retirement account is a Roth IRA, then you are contributing after-tax money to it, and you won't have to pay taxes on the money you withdraw during retirement.

The tax status of your FIA will depend on the tax status of your current retirement account. If you have a qualified retirement account (tax-deferred), then you can rollover your account balance into a qualified IRA that has an annuity within it. If you have a Roth IRA or Roth TSP, then you can rollover your account balance into a Roth IRA that has an annuity inside of it, so the income still comes out tax-free.

So there are tax benefits associated with a FIA, but the FIA is not as attractive as an IUL when it comes to tax advantages and cash accumulation purposes. Remember, a FIA is not the right financial vehicle to use if your goal is to accumulate money, or if your near-term goals mean that you are going to need to access this money for some purpose like starting a business. With a FIA you are not making monthly contributions, you are taking an existing account that has a few hundred thousand dollars in it and rolling it into an annuity to protect and grow the principal by getting growth from the market upside and market downside protection.

Another cool thing is that a lot of these insurance companies offer bonuses, for example a 10% bonus, so that if you put $100,000 into a FIA, they give you an extra $10,000 right away.

Rolling Over Into a FIA Reduces Your Overall Risk

A FIA is a much better solution for the money you have already saved than just keeping it in a TSP or rolling it into a 401(k) because with your money in a FIA, you don't need to take as much risk anymore. As I explain in detail in the next chapter, with your savings inside a FIA, stock market volatility is no longer a worry, while you still get the advantage of growing your principal

when the market is up. Yes, unless your money is in a Roth account, you will still have the risk of the government hiking tax rates, but you no longer face the potentially devastating sequence of returns risk or the risk of outliving your assets.

“Managing volatility and risk is extremely important for long-term performance. Portfolios with higher volatility have lower compounded returns than portfolios with lower volatility (assuming average annual returns are the same).” ~Zebra Capital Management, LLC

A FIA Substantially Reduces Your Overall Risk

When it comes to retirement accounts, market risk is the elephant in the room that no one is talking about. Even if you're one of those rare people who is willing to accept market risk and who is able to leave their money where it is when the market takes a plunge, that does nothing to protect you from the sequence of returns risk when it comes to whether or not you will have the amount of money that you need to live later in life, and isn't the whole point of retirement accounts to take income? You didn't set up a retirement account simply to accumulate money in perpetuity.

Yes, over decades, the historical performance of a traditional retirement account suggests you will earn an average 7% to 8% growth, but when people look at their TSPs this way, they fail to take into account the sequence of returns that have led the S&P 500 to average this rate. This average rate of return doesn't just reflect market growth. It also takes into account market corrections, such as was the case in 2008, when market returns averaged a 40% drop in value. Market corrections DO happen, and it is truly impossible to predict when this will happen again. It is also the height of naiveté to assume that it could not happen just as YOU plan to retire. I have already talked about the sequence of returns risk. If you get "lucky" and retire during an up year in the market, your money will last longer than if you get "unlucky" and retire in a down year. Our Veteran Retirement Rescue Strategy removes this uncertainty.

Consider the cases of two military retirees who follow the exact same retirement investment strategy. They each have close to $1,000,000 saved up in their TSPs. They liquidate 4% of these TSP balances per year. One starts taking distributions with market returns that start at – 23% and later rebound and increase. His TSP is depleted by time he turns 78. The other starts taking distributions with market returns that start off at +26% and then start to drop. His TSP lasts him past retirement and leaves a healthy legacy.

Everyone hopes that they will have the latter retiree's luck, but it is impossible to guarantee that in the securities market. Both retirees used the exact same accumulation strategy. Both had the same amount going into retirement. One simply had the misfortune of retiring during a bear market. The other did not. It was entirely bad luck that led the former to have to get a job in his late 70s just to make ends meet.

A FIA Protects Your Savings from Market Losses

The cool thing about the insurance companies and annuities is that there is an asset management component. They are going to position your money for growth in the same way as a traditional financial advisor, only unlike the traditional financial advisor, they have a vested interest in getting it right because when you make money, they do too.

The key here, as I mentioned above, is market investments using low-cost options contracts. An option is a contract with an expiration date in which one party agrees to purchase an asset (in this case, a stock or an index) from another party at a specified price and by a specified time (the expiration date). During that specified time, if the stock or index rises in value above the option price, then exercising the option represents a profit for the buyer because they are purchasing the asset at a price that is below market value. In this situation, the buyer would want to exercise the option. On the other hand, if during the specified time the stock or index declines in value below the option price, then the buyer can decline their option to purchase the stock by simply letting the option expire, thus avoiding the market loss incurred by people who already own the stock.

An option is one of a handful of different kinds of financial contracts that are known collectively as derivatives. A derivative is a financial contract between two parties. The value of the derivative is "derived" from the value of another asset, like a specific stock or an index fund. There are risky derivatives for sure, like what happened in 2008 with credit default swaps. There are also people who gamble by selling options on stocks that they don't even own, and who then suffer massive losses when they have to buy a stock at a market price that is much higher than the price of the option and then sell it to someone else for the lower price specified in the option in order to fulfill the terms of the contract they made.

The derivatives used by insurance companies, however, are not gambles. They are very safe, standard financial instruments that have been around for decades, and these insurance companies leverage them in a very conservative way. Because holding an options contract doesn't require you to have your money actually invested in the market, you aren't continually taking risk on things that you simply aren't going to understand. Instead, you can let the big insurance companies with billions of dollars who are playing a very, very low-risk, long-term game execute those options with your money on your behalf only when they are profitable. Any gains come from the same index that your TSP, 401(k), or IRA was invested in, but without the risk of having your money being in the index. Using an option to purchase stock is basically having an insurance policy on your purchase.

You cannot guess this kind of protection in the TSP. You can put money in the G fund without risk of loss during market downturns, but you're going to get really low rates of growth, and there's nobody there to remind you to take it back out of the G fund when the market comes back up, at which point, by the way, you will have already missed out on the best window of opportunity for buying low and selling high.

A FIA addresses the concern of market loss because an annuity is a form of insurance. It's basically insurance on your retirement income. It's insurance on the income-producing potential of an individual and on the potential of their retirement savings. With stock markets at an all-time high, it's never been a better time to protect that principal, while still getting some growth. The

bad news is that you don't get a guaranteed minimum return. But no matter what the stock market does, your principal is protected and most likely growing, and you have guaranteed income for life.

Real People Are Protecting Their Assets with the FIA

When the subprime mortgage bubble burst in 2008 and the stock market took a dive, it left the U.S. and other countries in a recession (now known as "The Great Recession") that lasted for about 18 months. This was a bleak time for many Americans, and it was certainly a bleak time for those with their life savings in traditional retirement accounts who were retiring (or who had planned to retire) around that time. And yet, individuals with their retirement savings in an annuity were unaffected. Not surprisingly, The Great Recession only strengthened their satisfaction with annuities as a product.

According to Gallop's 2013 Survey of Owners of Individual Annuity Contracts, positive sentiment about annuity contracts increased from 2009 to 2013. Annuity owners like the fact that they can invest in the stock market through annuities and still get a guaranteed income (82 % agree, up from 71% in 2009). 85 % also appreciate that they are protected from losing the money they invest (up from 76 % in 2009). Meanwhile, a whopping 87% believe that annuities are secure and safe (up from 79% in 2009). These numbers speak for themselves.

A FIA Has Low Fees

Another elephant in the room when it comes to traditional retirement accounts is fees: the Fee Only Financial Plan, Up-Front Sales Charges, Mutual Fund Fees, Asset Management Fees...even the TSP, which has a reputation as the cheapest financial vehicle out there, has fees.

The FIA has low fees. The older, traditional FIAs did not have any fees, but more and more, these products are now incorporating some sort of fee. That fee is usually related to either the income rider or a buyer-up, which you can use to get a higher cap or greater participation rates in the index (stock market). The average indexed annuity fee is somewhere between zero and 1%. There are still FIA products out there that have no fees, but the trend is increasingly towards charging low fees for the product. The bottom line on FIA fees is that you can choose what you get in the product, and you pay for what you get. So a FIA offers a lot more choices. In comparison, the average fee on a mutual fund is around 1.5%, and the average fee on a variable annuity is 3.3%, and both of these involve the risk of market losses to your principal. As I stated, with the FIA, your principal investment is contractually protected from downside risk.

The bottom line is this: in comparing the fees of the FIA to the TSP, nothing is going to have lower fees than the TSP unless you were to buy a baseline FIA and don't add any riders to it. If you do that, then you are beating out the TSP on fees by a little bit, but the real value-add of the FIA is that you're taking the market risk out of investing. If fees are a big concern for you, only you

can determine whether or not a baseline FIA without any riders (or fees) is sufficient to meet your financial planning needs.

With A FIA, You Won't Outlive Your Money

The third elephant in the room with regards to traditional retirement accounts is the possibility that you will outlive your money. This could happen either because you haven't saved enough, or because the sequence of returns risk wipes out your account to the point that you won't have the time to recover what you have lost.

As I have already explained, this will NOT happen with a FIA because it is insurance against this happening. With a FIA, you are guaranteed an annual income for life, regardless of whether or not at some point your withdrawals exceed the amount of principal that you have saved. You also continue to get growth on the whole principal in perpetuity, not just on what's left of that principal minus your withdrawals later in life. Finally, you don't have to continue to put your money at risk later in life in order to continue to get growth. Nor do you have to limit your withdrawals in order to maximize the growth of your principal.

That said, the purpose of the FIA is to protect what you have. The onus is still on you to save for retirement. If you have saved a million dollars in a traditional retirement account, rolling that amount over into a FIA will ensure that your savings will provide you a guaranteed income stream for the rest of your life, even if you live to be 110 years old. On the other hand, if you have only saved a hundred thousand dollars, the amount of income you can draw from that, even at the maximum of 7% ($7,000 a year), is probably not going to support you. If you don't have significant assets to protect, the FIA is not a magic want that is going to change that.

Additional Advantages of the FIA

As if all of that wasn't enough, the FIA offers some other distinct advantages over traditional retirement plans.

There are no estate taxes when your spouse inherits your FIA

A FIA is not life insurance and does not offer a death benefit in the same way as a life insurance policy. However, because it is an insurance policy, your money won't be taxed when you pass it on to your spouse. This protection against estate taxes is not possible with a TSP.

If you pass on what's left in your FIA to anyone other than a spouse, then there is no difference between the TSP and the FIA with regards to how the inheritance will be taxed. Which is how? On December 20th, 2019, the Setting Every Community Up for Retirement Enhancement Act, better known as the SECURE Act, became law. This act requires your heirs to withdraw the entire balance of inherited retirement accounts within 10 years. Prior to the passage of the SECURE Act, an heir had the remainder of his/her life to distribute the funds within the account, in

order to control his/her marginal tax rate. Now, they have to liquidate that traditional retirement account at 10% per year, which increases their marginal tax rate by that amount as well. To add insult to injury, the entire pre-tax balance is added to their net worth when determining their child's eligibility for need-and-merit-based scholarships, loans, and grants for college. This is Uncle Sam making a naked tax grab.

You Won't Pay Commission on a FIA

If you work with US VetWealth to set up your FIA, our sales charge and management fees are $0. Our agents' commissions are paid by the issuing insurance company. Unlike other managed funds, we don't take our commissions from your account. This means that your annuity value is **never diminished** by commission charges.

Your spouse can continue to receive annuity payments after you die, rather than having to take the principal as a lump sum as part of your estate.

The Lifetime 360 income rider guarantees that annuity payments will last for the duration of the annuitant *and co-annuitant's* lives. An annuitant is the main account holder, while the co-annuitant is usually a spouse. As long as either annuitant is alive, the payments never stop, even if the cash value balance of the annuity is spent down to $0. The fee for this rider is 95 basis points or 0.95% of the principle.

Additional Advantages

Here's a few more advantages:

- You don't have to put all of your TSP account balance into an annuity. You can roll over part of it.
- Unlike life insurance, the FIA does not require any physical underwriting. This is because the FIA doesn't pay a death benefit like a life insurance policy. When you die, the only amount that will pass to your heirs from a FIA is the amount of principal in your account.
- You can own more than one FIA, which is a good way to diversify your savings in order to get the benefits of different kinds of contracts. For example, you can set up an annuity designed specifically for long term care, which pays two times the value of your principal if you need the money for long term care costs.

Conclusion

A FIA allows you to create your own, privately-designed pension so that you don't have to rely on the government. It is an elegant solution to the complex problems our society is facing today. It is best suited for someone who has done "all the right things" when it comes to saving for retirement, and who is less concerned with long-term growth and more concerned with having a consistent retirement income. It is also a good option for people with a lot of cash they want to protect and grow for retirement income. Think of a couple who sells a house and gets a big profit and doesn't know what to do with it. Placing a portion of their cash in a FIA would set them up nicely to protect and grow those profits for retirement.

If you want to get significant growth from your savings, nothing will give you the same growth over the long term than the stock market. However, every "long term" has its own unique starting and ending points, and if you are unfortunate enough to retire or plan to retire during a bear market, a lifetime of diligent saving can be wiped out in a moment at a time when you no longer have a long enough term ahead of you to replace it. The FIA is a viable solution for individuals looking to protect their retirement savings, while still enjoying the advantages of upside market growth.

About the Author section

Scott R. Tucker is an author, speaker, and the founder of US VetLife/US VetWealth, a lifestyle and financial consulting brand that helps service members go from paychecks and government benefits to wealth and liberty. He likes to say, "I help the 1% who serve our country become the 1% who influence it." A West Point graduate, serial world traveler, military financial expert, and entrepreneur, Scott brings valuable experience and insight to those who have sacrificed so much in service to our country. He's the Rosie Network's #1 Fan and a passionate supporter of the Veterans Cannabis Project.