US ★ VET WEALTH

Career Military Family Retirement

Ultimate Guide To Thrift Savings Plan Rollovers

How to protect your retirement savings from the risks of stock market volatility and inflation

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Author's Note

First of all, I'd like to personally thank you for taking the time to download *The Ultimate Guide to Thrift Savings Plan Rollovers!*

As a veteran who has gone through the military transition process and worked in the Financial Services industry for several years, I realize that there is a significant lack of knowledge about ALL of the options available to transitioning service members. As I prepared for my own retirement, the majority of useful information I received was from sources other than those that were deemed "official" by the DOD. It was during that time that somebody said something to me that really took hold in my mind..."If you're truly grateful for the assistance I've provided, the best way for you to show it would be to pay it forward." And so began the next chapter of my life.

As I had done several times during my military career, I became a "new guy" again, not knowing what I didn't know... and much like my time in the service, I was lucky enough to have several people help me figure out my new path. It wasn't always smooth sailing, but I became more competent, and even though the waters have never calmed, I achieved a level of skill to where I could navigate them more easily. It was then that I understood that I needed a new challenge in order to grow personally and professionally.

I knew that being a good Financial Advisor would only get me so far, and that in order to truly "pay it forward" I needed to up my game, and share what I had learned on a much bigger scale. So I reached out to Scott Tucker, the founder of **US VetWealth**, and someone who shared my sense of purpose and was already successfully exercising a skillset I wanted to learn, and took on my next challenge.

This resource (and I truly hope that's what it is to you) was created as a result of my own personal journey navigating the military retirement and transition landscape. If my conclusions seem to indicate a certain bias towards certain solutions to problems over others, there's a good explanation for it....I AM BIASED TOWARDS WHAT WORKS!

I've spent years helping hundreds of transitioning service members find answers to the questions that you're dealing with right now, and in those pursuits I have learned what works, and what doesn't. In an effort to continue to share useful information about questions in and around the military transition space, I've put in a lot of time and effort creating (hopefully) helpful content that provides the perspectives service members and veterans need to answer them confidently.

I do have one ask of you before you proceed through the rest of this guide, regardless of your own conclusions at the end, please let me know your thoughts after you've read it, just shoot an email to **trevor@usvetwealth.com** and help me make this guide better for the next generation of future veterans, and as was requested of me years ago... please continue to pay it forward.

-Trevor C. Maxwell, ChFC, USN SCPO (ret.)

Pinpointing the problem

The majority of military retirees are putting their retirement assets at a significant risk by relying on the generalized advice provided to them by official DOD transition seminars that have paid no attention to the specific circumstances of the service member.

With the implementation of the Blended Retirement System, the Thrift Savings Plan is experiencing record levels of participation as the United States Government looks to modernize the military retirement system. While addition of the employer match is a huge benefit for the younger generations of service members, many of the older generations of career military families have elected to stay under the legacy retirement system in order to take advantage of the higher percentages of pension income.

Regardless of which system they fall under, both groups will inevitably encounter the same decision as they transition out of the military…**"What should I do with my TSP after I retire?"**

Unfortunately, due to the DOD's stranglehold on education on options about this and some other very important decisions service members are faced with during the military transition process, the only options they often hear about are those provided to them by the government. They are simply told to *"leave their money in the TSP because it has the lowest fees"* and many of them (especially those who've made the military a career) are inclined to do so because that's what they've done their entire adult lives.

What they don't understand is that they're being given very generalized advice based on one thing, without regard for any of the other factors that should be taken into consideration for this type of decision. The end result is that they're oftentimes exposed to multiple risks that they were never told about and could inevitably cost them hundreds of thousands of dollars.

It's a story akin to one I was told a long time ago where a guy was complaining about his foot hurting him so he goes to a podiatrist. The podiatrist does his thing and the guy feels better for about a week, but no matter what the podiatrist does, the pain keeps coming back. Finally, the guy goes to see a chiropractor who spends a few minutes with him and says "the problem isn't with your foot, it's with your neck" makes a few adjustments, and much to the guy's surprise weeks later the pain in his foot is STILL GONE!

This scenario is a familiar one to me because I've encountered it hundreds of times over several years. Transitioning service members have a significant pain point that they want to address, but they continue to address it with band-aids instead of treating the root cause of the problem. We know the pain points pertaining to the TSP decision and how to address them, and in this paper, we're going to walk you through how we help you understand which factors are of the greatest concern to you moving forward.

After that, it's up to YOU to decide if our solution is the best one for you!

As more and more people are investing for their retirement and other goals, the financial planning industry has become increasingly generalized in its advice to individual investors.

Remember that scene from the movie Edward Scissorhands where all of the suburban husbands come outside in the morning to cut the grass in their cookie cutter yards the exact same way, and then they all get in their cars and back out of their driveways at the exact same time and go to their jobs in the city and all get home at the same time? THAT's Financial Services today!

In this era, there is very little "advice" that is unique to you and you alone. Instead, an advisor or sales representative simply decides which pre-determined profile you fit into and places you into a box with everyone else who fits that profile, there is nothing "individualized" about it.

Which begs the question: Why pay fees to get the same advice everyone else is getting to put your assets at the same risk when there are solutions out that cost YOU less?

Retirement Funding: A Brief History.

Back in the good ol' days when folks would actually work at the SAME COMPANY for 30 or 40 years, the company would provide that employee with a pension as a reward for their dedicated service. Eventually, this model became too much of an encumbrance on those companies, and pensions for the most part, have gone the way of the Dodo.

In fact, the Federal Government is one of the few employers left who still offers a pension, but as we've recently witnessed with the overhaul of the military retirement pension, including the implementation of the Blended-Retirement System, that too is slowly changing.

Luckily, the selfless folks over on Wall Street (I sincerely hope you can detect the sarcasm in my voice) recognized that a problem was arising and offered their "assistance" in developing a fix…and in 1978, the 401(k) was born, which ushered in a new era of the Defined Contribution Plan and the Individual Retirement Account.

Needless to say, employers were ecstatic! Now they could relieve themselves of the burden of the responsibility of managing and funding pension benefits. The situation got even better for employers when the angels who ran the investment companies that managed the new retirement plans let the companies know that the COMPANY didn't necessarily have to pay the management fees, they could have the EMPLOYEES cover those costs out of their individual account. Now that the investment companies didn't have to offer the lowest fees possible in order to compete with one another for business, their fees skyrocketed…with many plans charging between 3-4% of an employee's account balance EVERY YEAR! While for the most part, those extreme fees have been significantly tempered, employer-sponsored retirement plans still typically have some of the highest total fees of any investment accounts in existence today.

Sifting through the clutter: Who should you listen to?

In the age of technology, everyone is unfortunately an "expert" regardless of their actual level of knowledge. In fact, a lot of their "expertise" is nothing more than them Googling articles about a topic for their blog and parroting what somebody else said in their article, who probably got it from someone else…get the picture yet? The actual content CREATORS are few and far between, and a lot of the pieces of content from big companies you come across are relics from a system that was designed to produce profits for the company, not innovate for the benefit of the client.

As a Financial Services Industry professional who actually does create their own content, I can tell you that a lot of the content out there comes from what I would call "extremely skewed" sources. "So what are they parroting" you might be asking? Well, let's look at a few examples:

"You need to find someone who is a fiduciary."

I see this in briefs and articles all the time, but very few people can explain what it actually means, so here it is: The term "fiduciary" refers to the *Fiduciary Standard of Practice* that FEE-BASED advisors are subject to. Then there's the *Suitability Standard of Practice*, which applies to COMMISSION-BASED securities products sold under the severely dated Broker-Dealer model. If you'd like to learn more about what entails the Fiduciary Standard, I recommend you read the *Investment Advisers Act of 1940* (good luck staying awake through that), but essentially which standard of practice applies to you will depend on how your advisor/representative is compensated, and what their legal obligations are to you, the client. Think overall strategy (fiduciary) vs. specific circumstance (suitability).

The Certified Financial Planner (CFP) myth

You know who certifies someone as a CFP? A group of other CFPs! There are some misconceptions out there that CFP is subject to government regulation, similar to how licensing works, that assumption is incorrect. The CFP marks are a designation that was created in 1985 by a group of Financial Advisors who wanted to "re-establish the credibility of their profession".

In reality, the CFP designation is a marketing tool, and a very good one at that. Everyone who holds the "marks" as they're commonly referred to is required to pay annual fees that are used to heavily market the CFP to the public. The CFP methodology is very rigid and is mostly designed around retirement planning, with an emphasis on saving face for the CFP and limiting their liability if the client becomes unhappy with the plan or its results.

Do you need a CFP to accomplish your goals? Absolutely not! But if someone feels that they need someone with those particular letters after their name to help them with their financial planning, then all I can do is thank them for their time and wish them the best of luck.

Those God-Awful Commercials!

You know what I'm talking about. The commercial where the guy is dropping his daughter off at college, and it cuts to scene where he's in the kitchen late at night talking to his wife about how he's not sure if he'll be able to retire when he wants to, and then it cuts back to the college scene and he gets a phone call from his Financial Advisor who says "I was just looking over your portfolio, and I had some ideas I wanted to run by you." Then the narrator says "blah blah blah" and the guy hangs up and his wife says "Is everything ok?" and the guy says "Yeah, everything's gonna be just fine."

I call bullshit! In the real world, your advisor is spending 90% of their time trying to attract new business, they don't randomly sit around and say "How could I help Jim retire 2 years earlier than he's planning for?" It's one of the reasons I tell the people that I work with that there will be effort required of them to ensure their plan is successful. The good news is that with modern technology, it's not as hard or as costly as the industry would have you believe.

"This particular investment/fund has an average rate of return of X%."

This one is perhaps the most fallacious and potentially catastrophic piece of advice I've seen out there because there are different types of averages, and the one most people focus on is the WRONG ONE! I'll explain this concept more in-depth later, and it should make sense afterwards. For now just know that there is a difference between the numerical average of return rates over a period of time and the effective performance of an investment, and if someone either doesn't or can't explain that to you, then you should look elsewhere for advice.

"The stock market is where you need to have your money if you want it to grow."

Ok, I partly agree with this one, you should have SOME of your money invested in the market so that it can grow (or at least keep pace with inflation), but not ALL of it. Especially when you consider that the market owes a lot of its "success" to Government bailouts, what happens when that's not an option anymore?

Unfortunately, most of the people who write about money only focus on one half of the equation…building assets. Very few of these armchair experts ever discuss how you're supposed to live off of those assets AFTER you retire, and if they do, they usually give the same generic advice of the "*4% rule*" despite probably not knowing the entire rule.

That is not a plan, there is no strategy there, and the people who actually can articulate HOW you can effectively use the assets you've spent your entire life accumulating to fund your retirement, cover unexpected expenses, and leave a legacy for your family see right through it.

The current situation

Unfortunately, service members are being told the TSP is the best deal out there simply because it has the lowest fees of any retirement plan available today. That's it! That's the advantage that TSP has over all of the other retirement plans out there…low fees. If you're looking for other metrics of superiority, you won't find them, because besides the low fees, your TSP account is subject to all of the other risks that every other employer-sponsored retirement account that's out there.

Please don't assume that I'm telling you to completely avoid the TSP altogether, because nothing could be further from the truth. It can be a powerful tool to help you build tax-advantaged assets throughout your military career, and with the implementation of the Blended Retirement System for the military, you can now take advantage of an employer match. This is a huge game changer, especially for those of us who decided not to go the career route!

So what do we do with our TSP accounts after we've left the military? There are several options available, and TSP is quick to point out that you can always just leave your money in their loving embrace because, you know…low fees and all. But as you're pondering this decision, ask yourself this question…"What other risks am I subjecting my retirement savings to?"

I'm glad you asked, because that's what we're going to cover next!

You gotta risk it to get the biscuit…really? That's your plan?

One of the biggest issues I typically encounter when working with folks isn't that they aren't willing to take risks, it's that they don't know what those risks even are, or how it affects their strategy. Yes, risk is something that CANNOT be avoided, but it can be mitigated if you know what they are and how they affect your plan. With that, I've provided a breakdown of the risks that you're potentially subjecting yourself to when you have to make the decision about what to do with your TSP after your transition.

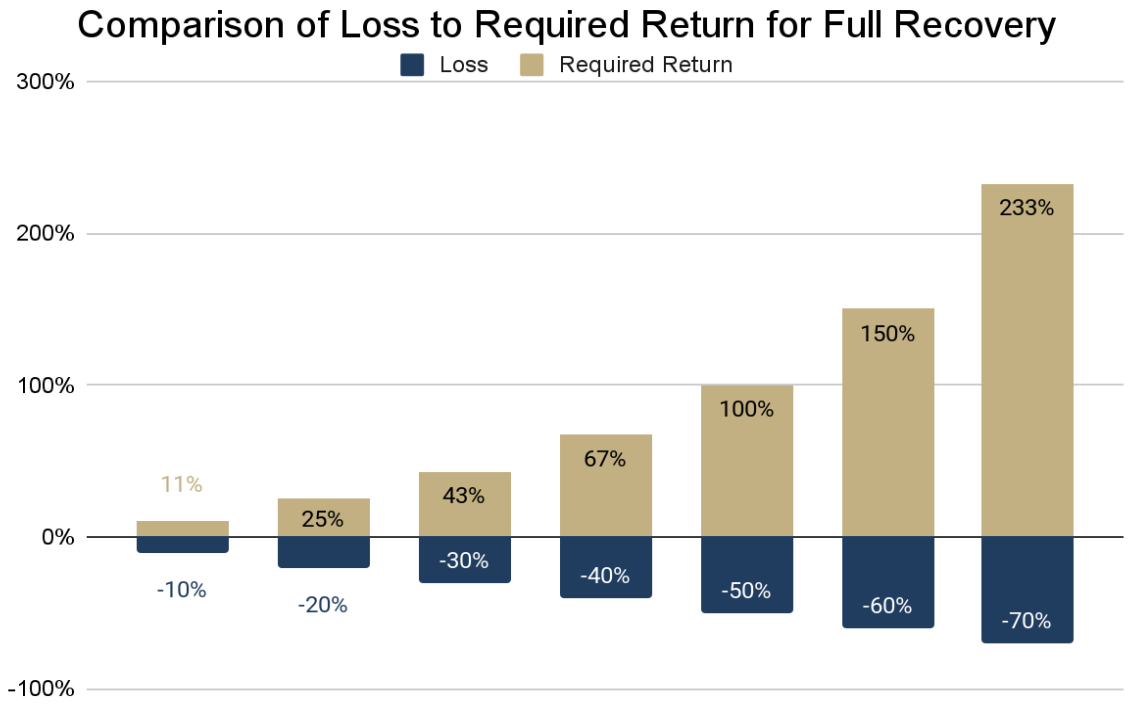
At the time this was written, close to 6.5 million people have almost $900 Billion invested in the TSP, and while they love to tout about how there are over 112,000 TSP "millionaires" at the end of 2021, the average balance of a TSP account was about $40,000.

The problem with flaunting those numbers is that they aren't a good indicator of the overall strength of the investments inside the TSP, especially when you consider that over 45% of these folks lost their status as millionaires back in early 2020 when the majority of accounts lost roughly 15-25% over the course of about a week.

Market Risk

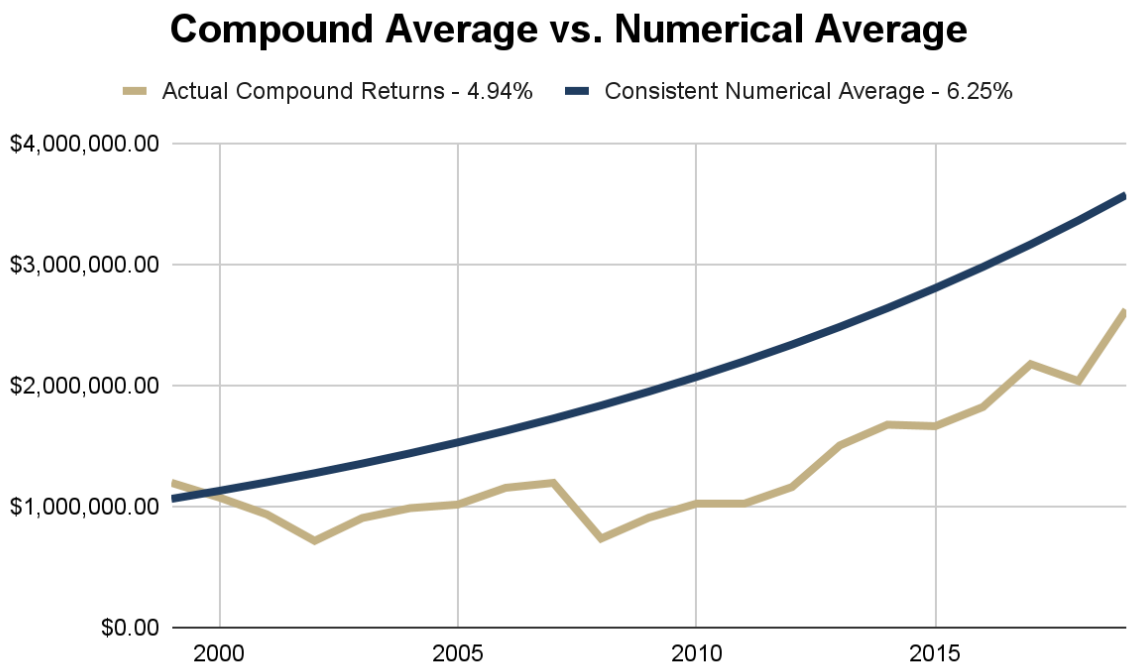
"There's more to be gained by avoiding losses than picking winners." -Don Blanton

One of the biggest problems associated with TSP (and any market-based account) is that your money is subject to market losses, and once your account has lost value, it has to work a lot harder to get back to where it started. This is due to the fact that less money makes less money, and bigger losses require increasingly bigger returns, refer to the graphic below:



Now that we've seen what kind of returns are required in order to recover from a loss, let's talk a little bit about those returns, because this is where a lot of folks are misled. Remember earlier when I explained how there was a difference between numerical average of returns and the effective performance of an investment?

A lot of investors incorrectly assume that because a portfolio has a **numerical average** of 7-8%, that their investments will reflect steady growth at that rate over time. Unfortunately, that is not the case, and it could leave you severely underprepared for your actual retirement because your **compound average** (your EFFECTIVE return) is nowhere near what you were planning on, and we haven't even factored in fees yet! *gasp* The chart below illustrates the point that I'm making:



**Source of return data - S&P 500 annual returns 1999-2019.*

Another pitfall that a lot of folks fall into when discussing performance is that they only focus on the percentages, and not the actual money that was made or lost, here's a quick example:

Scenario: Dave recently inherited $1,000,000 from his recently deceased uncle that he wants to invest. Dave's potential advisor, Chuck has been wowing him with stories about his average rates of return over the last several years, and convinces him to come onboard as a client. *For the purposes of this example, we'll assume inflation is 3.25%.

Year 1: Dave's investments experience 100% returns and he now has $2,000,000

Year 2: Dave's investments experience a 50% loss, and he now has $1,000,000 again

Average rate of return: 100% - 50% = 50% / 2 years = 25% per year

Actual money made: $0… BUT WAIT! THERE'S MORE!!!

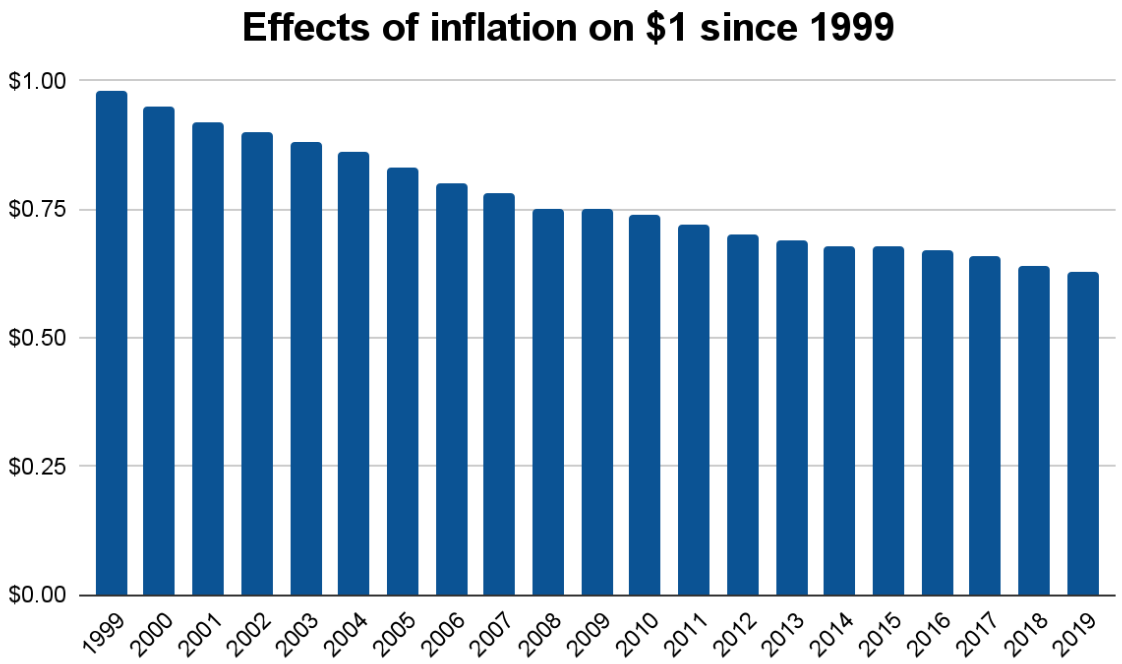
We haven't gotten to it yet, but inflation is still in play here, and now his $1,000,000 has the same buying power as $936,056 did two years ago when he started, which essentially means his EFFECTIVE rate of return is -3.25%.

Try to imagine a scenario where you're building a castle (which in this example would be your retirement). Don't you think it would be a lot easier to finish that castle if you're able to focus only on building the structure rather than spending 20-30% of your time filling in holes? The strategy we'll discuss at the end of this paper does just that because it protects against market risk through a strategy called *index-crediting* that we'll talk more about later.

Inflation Risk

"Inflation is the crabgrass in your savings." -Robert Orben

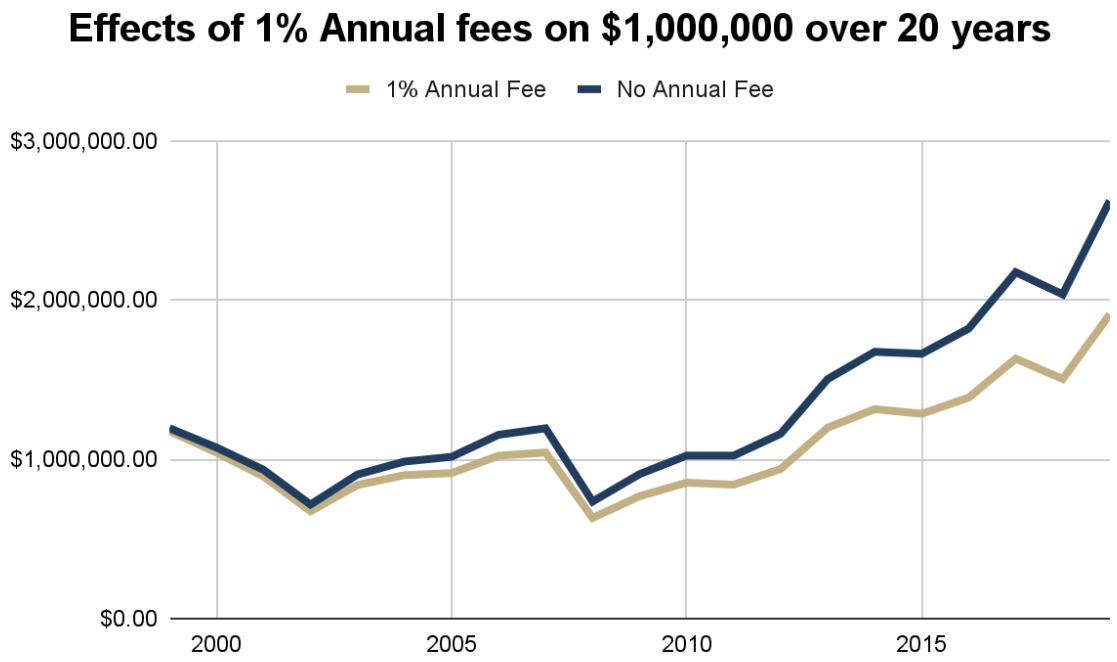
Inflation typically doesn't get paid much attention to until it has a significant impact on the things we interact with on a daily basis such as fuel for our vehicles or the everyday items we buy like food & clothing. Of course, recently it's been at the forefront of the new cycles because media companies want to capitalize on it to generate ad revenue. The sad truth is that over the years, it has slowly eaten away at the value of the dollars you've worked so hard for, and will continue to do so for years to come.



Protecting the principal of your retirement savings is at the forefront of our strategy, but in order to ensure that your money doesn't lose buying power, we have to maintain or beat inflation, that's why we utilize strategies that have consistently provided the best opportunities for growing your assets while also protecting what you've already built

Fees

I like to refer to fees as the "Carbon Monoxide of the Financial Services Industry" because they act in much the same way, silently and slowly eating away at your potential savings much the same way the CO gas robs your body of its ability to absorb oxygen, and you don't notice its presence until it's too late.



Think 1% isn't that big of a deal? Every 1% in fees that you pay costs you around 20% of your potential savings over a 20 year period. This could mean hundreds of thousands of dollars lost over time.

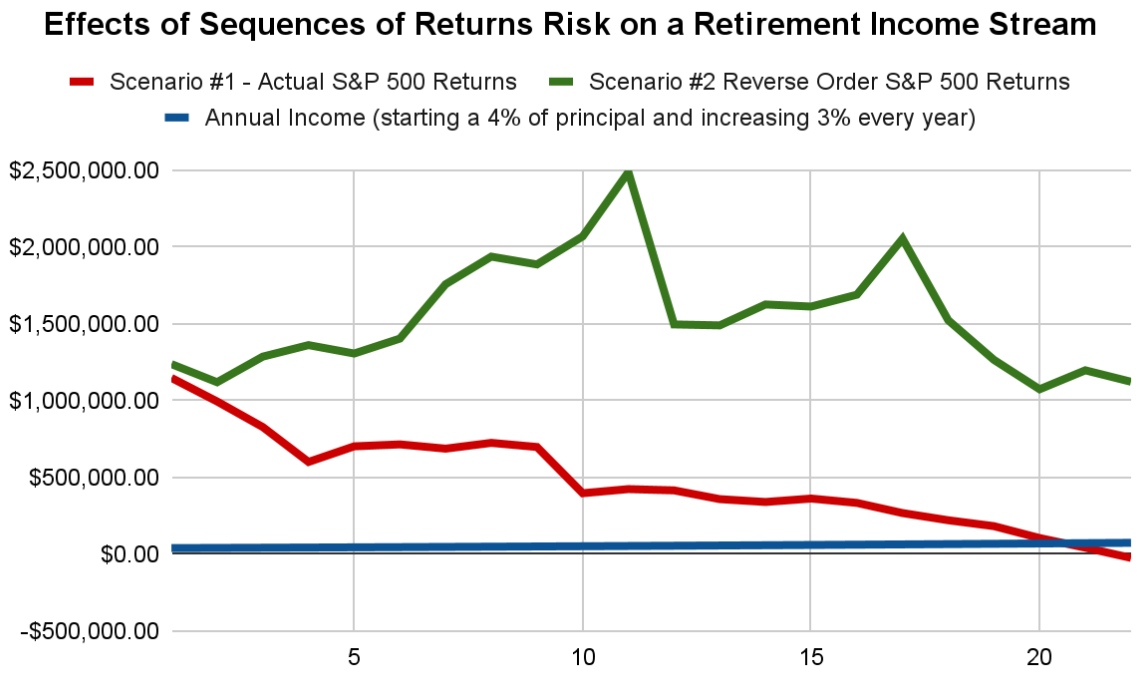
As I mentioned earlier, TSP relies heavily on the fact that they have the lowest fees around, but you know what I've NEVER heard anyone ask? WHY are the fees in my TSP account so low? It's a fairly simple question to answer though, because your money isn't being actively managed by anyone. That's right, your money is simply placed in Index Funds and that's it. If you're not familiar with what an Index Fund is, it's simply a collection of securities that tracks a market index such as the Dow Jones, NASDAQ, or S&P 500. Because there's no real work being done by the investment manager, they're able to keep the fees as low as possible. But, as with most things in life, you get what you pay for, and that's especially true in this case, because your money is simply mimicking whatever the index does and nothing more.

You know what's lower than low fees? How about NO fees? There are strategies to grow your assets without subjecting them to fees or where the fees are optional in return for enhanced growth that I'll be discussing later in this paper. When it comes to fees, it's important to remember that everything costs something, the real question is are you getting what you're paying for?

Sequence of Returns Risk

"It's about how hard you can get hit and keep moving forward." -Rocky Balboa

I'll take that another step and say it's also about WHEN you get hit that has an impact on how easy it is to keep moving forward. Taking a big hit early in your retirement puts you at a much greater risk of running out of money for your retirement than a big hit later. This is the very essence of Sequence of Returns risk. Still not sure how it works? Check out the graphic below:



As you can see, the retiree in scenario #1 actually ran out of enough money in year 21 due to the huge hit they took early on, whereas the retiree in scenario #2 is doing just fine. The problem was exacerbated by the fact that retiree #1 still had to draw income to fund their retirement after taking some big hits early on, and while retiree #2 encountered the same issue, those hits came much later after their assets had the opportunity to experience growth beforehand. The problem with Sequence of Returns Risk is that you don't know which scenario you will encounter, and if you don't have another source of income WHEN this happens, you could find yourself in a bad situation.

The primary means of mitigating this risk is by using what we can call a "buffer". A buffer is a term most commonly used to describe a non market-correlated asset so that if you need income and the market is in a downturn, you can draw income from that asset. There has been a lot of research that shows that even just having a buffer available in the first 10 years of your retirement significantly reduces your chances of running out of money, and in most cases, allows you to safely withdraw more income than you would without one.

Income Longevity Risk

We can look at and discuss charts and tables until we're blue in the face, but at the end of the day, what does any of it actually mean? What are we trying to accomplish? Ultimately, we're trying to ensure that at the very least we're able to comfortably fund our retirement and try to avoid becoming a financial burden to our loved ones. The greatest risk to all retirees is not being able to sufficiently fund their retirement, and it's a much more prevalent risk than you might expect.

According to a study conducted by the University of Massachusetts in 2019, 23% of elderly couples and 50% of elderly singles lack the financial resources required to pay for basic needs.[1] A recent study from the Employee Benefit Research Institute revealed that currently, 40% of households with a head of household between the ages of 35 and 64 are expected to have income shortfalls during retirement.[2]

This issue is exacerbated by the fact that the Social Security trust fund reserves (the excess contributions that are collected and invested in Treasury Bonds) are expected to be depleted, which could result in an approximately 22% reduction in benefit payments.[3] It should be noted that these projections were PRE-COVID, and may need to be adjusted depending on either the increase or decrease in the number of Disability Income claims filed post-pandemic.

What this means for you, the reader, is that you should expect that you'll be shouldering an increased level of responsibility for funding your retirement and that failure to properly address the risks to your strategy could have disastrous results.

Ok, thanks for scaring me…so what should I do with my TSP?

When you go through your official DOD transition seminar, you'll most likely hear about the three options that we'll discuss below. What you won't hear about is a fourth option that your transition counselor/advisor/facilitator probably doesn't even know exists because, while they may the word "Financial" in their official title, there's a good chance that their knowledge of current services, products, and strategies within the Financial Services industry is severely limited. I'm not trying to belittle their dedication or competency, but it's akin to taking advice on how to build a rocket to go into outer space from someone who watches Star Trek instead of a NASA engineer. Now we can discuss your options.

Leave It In Your TSP Account

The most obvious option, and the one most thrust upon service members during their TAP class is leaving your money in the TSP. The argument for this option as previously stated in this paper is that the low fees attached to TSP make leaving your money there a great option for you in your post-military life. While it's true that the TSP does have some of the lowest fees for any employer-sponsored retirement plan, making your decision based on that one consideration is ill-advised, because there are several other relevant risk factors:

- Your money is still subjected to the risks of market volatility, you can mitigate this risk by placing your funds in the G-fund, but now you're also subjecting yourself to inflation risk due to the fact that your money isn't growing as much anymore.
- Now that you're no longer able to contribute to your account, it's impossible for you to take advantage of dollar-cost averaging opportunities by making contributions during market downturns.
- While you do have the option to convert the balance of your TSP account into an annuity option, you lose control of your money once the decision has been made, and your annual increases will never be greater than 2%, again leaving you susceptible to inflation risk.
- There may be restrictions on whether or not you'll be able to leave a legacy for your beneficiaries depending on what decisions you make on your TSP account.

If this is the option you're considering for TSP, ask yourself if you're comfortable with exposing your retirement to all of the other risks just to have the single benefit of low fees?

Leave It In TSP	
Pros	**Cons**
Market growth opportunities	Funds are still subjected to market risk
Continued contributions	Income may become insufficient, max increase of only 2% per year
Employer match	Loss of control once annuity option has been selected
	Risk reducing your benefits in order to leave a legacy for beneficiaries
	No longer able to make contributions

Roll It Into Your New Employer's Retirement Plan

Another strategy for your TSP is to roll it over into your new employer's retirement plan (401(k), 457, 403(b), etc.). There are some benefits to this strategy, you're basically supercharging the growth in your new plan by rolling over the balance of your TSP account, you'll be able to make contributions to the account as long as you stay with the company, and you'll be able to take advantage of the employer match. Sounds good so far.

So what's the downside to this option? Well, these plans typically have some of the highest fees of any retirement accounts out there. Right now, the national average is hovering right around 2.25%. If you remember the statistic about the long-term effects of fees on your potential savings, that's over 40% over 20 years!

What do you get for all of those fees? Well, nothing really. Those fees have very little to do with managing the investments themselves, and very much to do with paying for the costs of compliance and compensating the business expenses of the company. Your investment options are limited, and your money is still subject to market forces, and the higher fees that you pay often have no effect whatsoever on that.

Lastly, probably the most important question you should ask yourself if you're seriously considering this strategy is "How long do I plan on being at this new job?" If you haven't been following the statistics on the veteran workforce, over 40% of veterans leave their first job within the first year, and that number doubles by the end of the second year! That in and of itself is not so bad, but when you consider that most of those employer-sponsored plans come with a vesting schedule (meaning that you don't get to keep employer contributions to your retirement account until you've worked there for a certain amount of time) and having to constantly roll those funds over from one retirement account to another could actually end up costing you even more!

Roll It Into New Employer's Plan	
Pros	**Cons**
Market growth opportunities	Market risk
Continued contributions	Typically has highest fees of all the options
Employer match	Less control over investment options
	Vesting schedule (Veterans have historically high turnover rate after transition initially)
	No guarantee for lifetime income

Roll It Into an IRA

You've probably heard of the 401(k)s smaller, slightly less evil sibling, the Individual Retirement Account. These plans as their name implies are individually owned and give the owner a lot more control over the investments inside the account, the downside to that, is now YOU are responsible for your investment strategy. It is possible to get help with this, but of course you're most likely going to have to pay for that service.

IRAs have grown increasingly popular over the last 20 years as a means of saving for retirement outside the traditional employer-sponsored accounts, but they do still have some of the same drawbacks. There are still fees involved with these accounts, whether they're based on a percentage of the Assets Under Management (AUM) inside the account or upfront sales charges (which still have annual fees subtracted from them). I hate to sound like a broken record here, but I feel that it's important to remember that every 1% in fees could cost you as much as 20% of your potential savings over a 20-year period. On top of the fees, you're still assuming the risks associated with having your funds directly invested in the market.

I'm not completely writing this option off as I myself max out my own Roth IRA every year, and I have a lot of clients who I help set them up as well, but it's only a part of their overall strategy, not the entire thing.

Roll It Into an IRA	
Pros	**Cons**
Market growth opportunities	Market risk
Continued contributions	Higher fees than TSP
Individually owned	No matching contributions
	Owner is responsible for investment strategy (could pay additional fees for an advisor)
	No guarantee for lifetime income

The Veteran Retirement Rescue

Now that we've reviewed the more traditional options for your TSP account after your service has ended, it's time to discuss a fourth option that serves as the basis of the Veteran Retirement Rescue Strategy. Our solution solution is based on four primary goals:

Principal Protection

Growth Opportunities

Avoiding Unnecessary Fees

Guaranteed Lifetime Income

We're able to accomplish all of these goals through the use of an Advanced Private Pension and Tax Protection strategy with an insurance product called a Fixed-Indexed Annuity (FIA). A FIA differs from the investments that are typically held inside of retirement accounts because it is actually a contract between you and the insurance company that also provides guarantees you won't find with mutual funds or other securities-related investments.

**Quick Note: In the interests of transparency, I think it's important to let you, the reader know that when someone purchases an annuity through me, I receive an affiliate commission from the company for helping explain the product to the right type of user. The compensation for these is much the same throughout the industry which helps ensure that the tool you're using is best suited for your goals and not the affiliates paycheck. My clients love that these companies pay me well, so that they don't have to!*

Are you sure about this?

Short answer…YES! For those of you who may have cringed when you heard the word "annuity" please allow me to take a moment to address your apprehensions. I know that a lot of people have probably heard a lot of bad things about annuities, a big part of that is that most of the "knowledge" that the general public has about annuities is either extremely dated, or comes from content that was created by marketers to steer you towards a solution or product that their company provides. So let me begin by defining what an annuity is.

What is an annuity?

The term "annuity" refers to an insurance contract issued and distributed by financial institutions with the intention of paying out invested funds in a fixed income stream in the future. You may not realize it, but you might already own one or more of them already, because your military pension and VA Disability payments are actually types of annuities sometimes referred to as "defined benefit plans".

As with most things in today's world of information saturation, we don't always have the time to do an in-depth evaluation of every option available to us, so we often hear something from what we believe to be a credible source and take it at face-value. The truth is that much like everything else in the world, improvements in technology have led to innovation in products and services, nowhere is this more true than in Fixed-Indexed Annuities. These products have become so popular, that many companies with pension plans are using those funds to purchase annuities in order to offload the expense of managing them.

Unfortunately, there is a surprisingly large number of people who work in the Financial Services Industry that know either the same or even less than the general public about some of these solutions. That's a big part of the reason I research and produce so much content on these topics, to ensure that when people have to make big decisions such as what to do with their TSP, they're doing so with the most up to date and accurate information available. That's not to say that all of the information is inaccurate, there are annuities out there that are not suitable for a 40 or 50 year old who made a career change and is wondering what to do with their old employer's retirement plan, and it's the responsibility of the professionals they're working with to ensure these folks find the right tool for the job. Now that we've addressed the fake elephant in the room about the perception of annuities being a bad thing, I'll tell you why I think they're a great tool for the right people.

They Protect Your Principal

The #1 feature of any fixed annuity product is that your principal *will not* decrease due to market downturns. This is a HUGE benefit to anyone who is worried about losing a sizable portion of their nest egg at a critical stage in their lives (for service members, that would be preparing for retirement #2). Remember earlier in this paper when we illustrated how hard it is to come back from a big loss? How many people do you think had to add 5+ years to their retirement timelines after the tech bubble burst in 2000 and the housing market crash in 2008 in order to get back to where they were before these events? How many will have to do the same after the economic effects of the pandemic and its subsequent aftershocks have been fully realized?

You don't have to worry about the potentially devastating effects of market risk because the insurance company provides contractual guarantees that you won't lose money. They're able to do this because your money isn't directly invested in the stock market, so when the markets go down, your account balance does not.

Your Money Still Grows

Wait a second…you just said that the money wasn't invested in the markets! That's right, I did, but the funds inside your FIA are still able to grow in order to outpace inflation. They're able to do this in two ways:

- First, the majority of the premiums (your principal) you've contributed to your contract are invested in investment-grade bonds that typically provide low-risk returns of around 3-5%.
- Second, a small amount of your premiums are used to purchase options on a particular investment. If it's profitable to do so, the option is exercised, the investment is purchased and immediately resold, and your account receives a portion of those profits. If it's not profitable to do so, the option simply expires.

This is known as "index-crediting" and it's used by insurance companies who have a tremendous amount of expertise and purchasing power for their policy owners. The benefit to you is that you're able to take advantage of their extensive resources to ensure that the best decisions possible are being made to grow your assets without having to worry about recovering from market losses. Additionally, once those gains are realized, they are locked in for the life of the contract.

If you still need help being convinced, ask yourself this question…Would you rather rely on the decision-making ability of a large institutional investor that has a department of analysts led by an executive investment team with decades of experience, or that blogger you've been following who probably isn't even wearing pants as they're telling you that you should hold off on moving your money to the G-Fund? If you're going with the second one, you're wasting your time by continuing to read this paper.

You Can Avoid Unnecessary Fees

"I could've sworn that I could hear my advisor salivating through the phone when we were discussing what I should do with my TSP after my retirement."

That's a phrase I've heard time and time again from folks faced with this decision. They're concerned that they were being guided towards an option that may not be in their best interests. With the Veteran Retirement Rescue strategy, there is a *NO-FEE* option available where you DON'T have to worry about market risk. The insurance company is able to offer these strategies because they're making money by investing your principal and keeping a portion of the profits before crediting your account, keeping your actual costs as low as possible.

However, if you'd like the opportunity to experience more growth, there are strategies that you have access to within Fixed-Indexed Annuity contracts that do have fees associated with them, and give you something in return through enhanced participation rates. Typically, for a fee of 1% of the assets you have invested in that particular strategy (you can spread out your funds into multiple crediting options), that account will be credited with a growth rate that is typically much higher (some companies offer uncapped strategies that have participation rates over 200%) than the funds in a no-fee strategy and still maintain principal protection. Don't worry though, the insurance companies will be ok even with these enhanced participation strategies (I *sincerely* hope you can detect the sarcasm in my writing), they do a ton of analysis to make sure that the rates don't cut into their bottom line (which is kind of what you want if you're depending on them for insurance).

What is a participation rate?

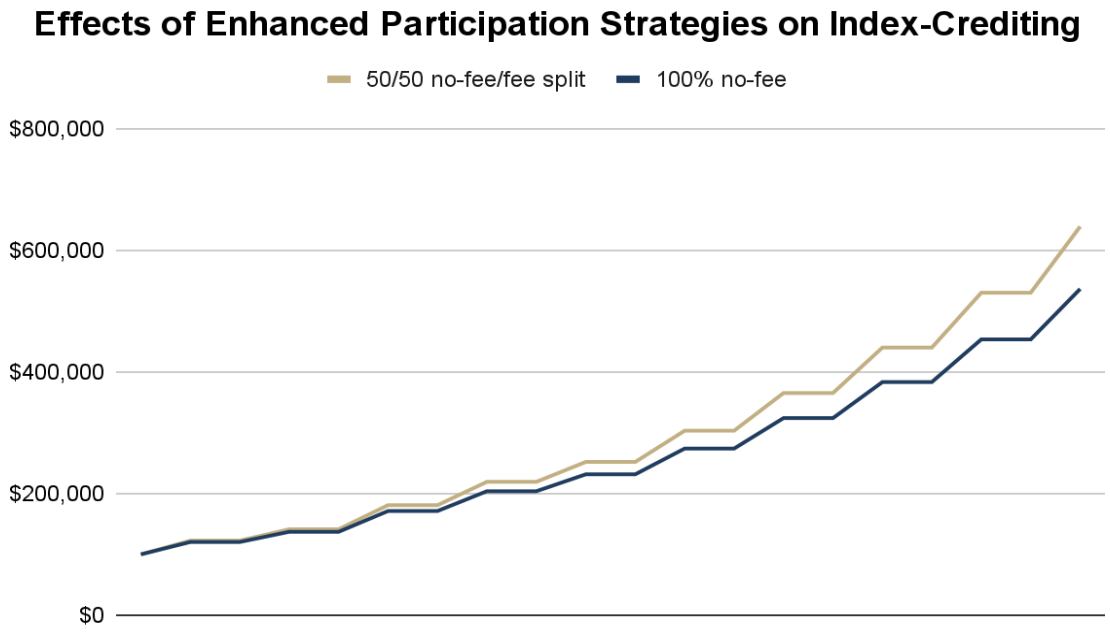
With annuities, the participation rate is a percentage by which the insurer multiplies the index gains to arrive at the amount of interest they will credit to the annuity contract. For example, an index that has a 75% participation rate and realizes a 10% gain, would credit 7.5% (10% x 75%) to the associated account. Typically, contracts with longer life spans (10 years vs. 7 years) will have better participation rates because you're committing to the contract for a longer period of time.

One thing I did want to point out before you continue to read on though because these options aren't always sunshine and rainbows…understand that as long as those funds are inside that strategy, those fees will be withdrawn regardless of whether there are any gains realized for that time period. That doesn't mean that using an enhanced participation isn't worth it, just be cognizant that you're paying for it, the chart below illustrates the difference between two scenarios:

Both examples are using a 2-yr point-to-point crediting option

Scenario #1 is a 50/50 mix of no-fee and 1% fee with enhanced participation

Scenario #2 is a 100% no-fee strategy with a lower participation rate



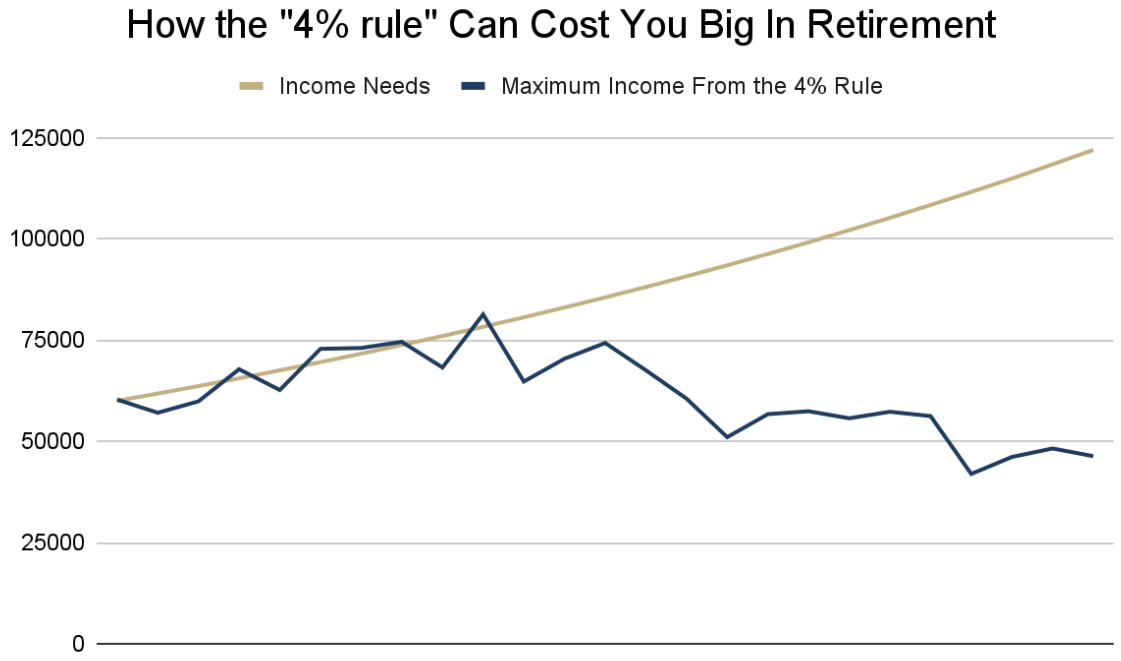
As illustrated above, even with an annual 1% fee being subtracted from the half of the funds, the enhanced participation strategy still accumulated about 20% more than the no-fee strategy with a lower participation rate. While it's important to note that enhanced participation strategies don't guarantee returns, the principal protection feature of FIAs ensures that any gains will be permanently locked in.

Give Yourself A SECOND Pension

I know I mentioned earlier that the #1 benefit of a Fixed-Indexed Annuity is *principal protection*, but right alongside it in my opinion is the fact that you can guarantee yourself another income stream for life! However, I had to put it second because it's an option that you have to pay for, by way of a fee (typically around 1%, but those vary based on the product and company), but you also get a contractual guarantee from the insurance company that you will have an income stream for the rest of your life, even if it exceeds your principal amount! I typically don't mind paying for something, as long as I know that I'm getting something else in return.

You may be saying "I've heard that if I only withdraw 4% of my account, I'll be safe" in which case you may have fallen into one of those *rule of thumb* traps. But if you know the whole story, it's more like "*withdrawing NO MORE THAN 4% of your assets gives you an 80-90% CHANCE that you won't run out of money in retirement*." That's just one part of the problem with that method however, the other consideration that presents a sizable challenge is "What if 4% isn't enough?" We've already discussed the risks posed by inflation, and we've seen the havoc that an increase of just a couple of percentage points in the rate of inflation can wreak on our economy, which leads me to propose to you that perhaps the *4% rule* is at the very least NOT your best bet…or even obsolete?

Of course like most of us who've served in the military I'm a visual learner , and as such, I've provided a visual aid that illustrates the point I'm making a little better. The chart belows difference between a steadily increasing income stream that maintains pace with inflation (3.25%), and an income stream that's based on withdrawing no more than 4% of the principal amount from a retirement account (based on historical market returns from 1999-2019).



When using the guaranteed income features of a Fixed-Indexed Annuity, you can actually account for inflation and increase the amount of income you want to withdraw each year. If you're using the 4% rule, now you're combining the risks of inflation with those of the market and fees and now have all three working against you. In this scenario, withdrawing enough money from your market-based accounts to keep up with inflation would potentially cause you to run out of money during your retirement. Once again, "watercooler planning" fails the day.

One final quick thought on the guaranteed income rider…if you're not planning on turning on the income at some point, it DOES NOT make sense to add it to your contract! Otherwise, you will have paid those fees for the entire life of the contract and received nothing in return.

Got it, so what are the downsides to this option?

Great question! As with all things in life, there is no such thing as a "perfect solution" and Fixed-Indexed Annuities are no exception. I wanted to highlight a couple of the things that might make this NOT the best option (I'd rather you found that out sooner than later), when you're figuring out which way forward is best for you.

You Can't Make Continued Contributions

One advantage of rolling your TSP funds into your new employer's retirement plan or an IRA is that you're still able to make contributions to those accounts, with Fixed-Indexed Annuities, this is more or less not an option[4]. However, those options are still subjected to several of the other risks we've discussed earlier, and the whole point of using a Fixed-Indexed Annuity as a part of your strategy is to be able to protect a portion of your retirement savings from these risks anyways. That doesn't mean that you can't still contribute to those other accounts if you want to utilize them as well.

Surrender Charges

There's a common misconception about annuities that they are investments…this is an inaccurate description. What they truly are, is a contract between you and the insurance company, and with contracts there are expectations on both sides of the deal. On the insurance company's side, they are obligated per the terms of the contract to protect your principal, as well as any growth that has been credited to your account, as well as guarantee an income stream, death benefits, or long-term care depending on the riders or provisions in your contract. On your side, there is the expectation that you will leave your money in the annuity for a specified period of time (also referred to as the *surrender period*) so that the insurance company can use those funds as part of their investment strategy.

Notice that I used the word "expectation" instead of obligation, because in reality, you can remove your funds whenever you wish, but that doesn't mean you can do so free and clear. Your obligation in the contract is that if you do remove those funds before the surrender period has expired, that you will pay a *surrender charge*. The surrender charge allows the insurance company to recoup their costs of issuing the contract if you choose to not meet their expectations and leave your funds with them for the life of the contract (these vary, but usually fall within the range of 3-15 years). Typically, the surrender charge may stay the same for the first few years, but will eventually begin to decline as you get closer to the end of the period specified in your contract.

While this could present an issue for someone who's very close to their second retirement, most of these contracts have a provision where you can withdraw 10-20% of the balance out in any given year without triggering any surrender charges. This is a very important consideration when you're contemplating timelines, but if you're funding the contract with qualified funds (i.e. Traditional Retirement Accounts) and you have at least 10 years until your next retirement date, it's often a non-issue as you'd want to avoid the IRS mandated 10% penalties for early withdrawals anyways. It's important to understand that this is a big part of the deal between you and the insurance company, because if you think that you might not leave those funds in the account for the life of the contract, this may not be the best option for you.

How do I know which one is right for me?

You're full of great questions today! The best answer I can give you is to consider which factor is the most important to you. Hopefully by now I've provided you with enough information on all of the considerations surrounding this decision, and all of the relevant factors involved:

- Principal Protection
- Growth Opportunity
- Low Fees
- Guaranteed Income
- Continuing Contributions
- Surrender Charges

I covered a lot of information in this guide that has hopefully shined a light on all of the things you should be considering when making this decision, and we have now come to a point where I can take you no further, the last part of the journey is on you, and you'll have to make the decision that is best for you and your family and take the next steps. I know sometimes it helps to see how your options stack up against each other side-by-side, so I've provided a table that breaks it down about as simply as it can be.

How do I know which option is right for me?

	Principal Protection	Growth Opportunity	Low Fees	Guaranteed Lifetime Income	Continue Contributions	Surrender Charges
Leave it in TSP	✗	✓	✓	✓	✗	✗ ****
New Employer Plan	✗	✓	✗	✗	✓**	✗ ****
IRA	✗	✓	✗	✗	✓***	✗ ****
Fixed-Indexed Annuity	✓	✓	✓*	✓	✗	✓*****

*While the basic design of VRR offers a no-fee structure, there are options for increased participation in growth strategies for a nominal fee in the 1-2% range.
**Limited to $20,500 ($27,000 if over the age of 50) per year as of 2022.
***Limited to $6,000 ($7,000 if over the age of 50) per year as of 2022
****Although these plans are not subject to surrender charges, non-qualified early withdrawals prior to age 59 ½ from traditional retirement assets will be subjected to a 10% penalty imposed by the IRS.
*****Many plans under the VRR offer the ability to withdraw anywhere from 10-20% of the total principal amount without being subjected to surrender charge penalties.

When would this not be right for me?

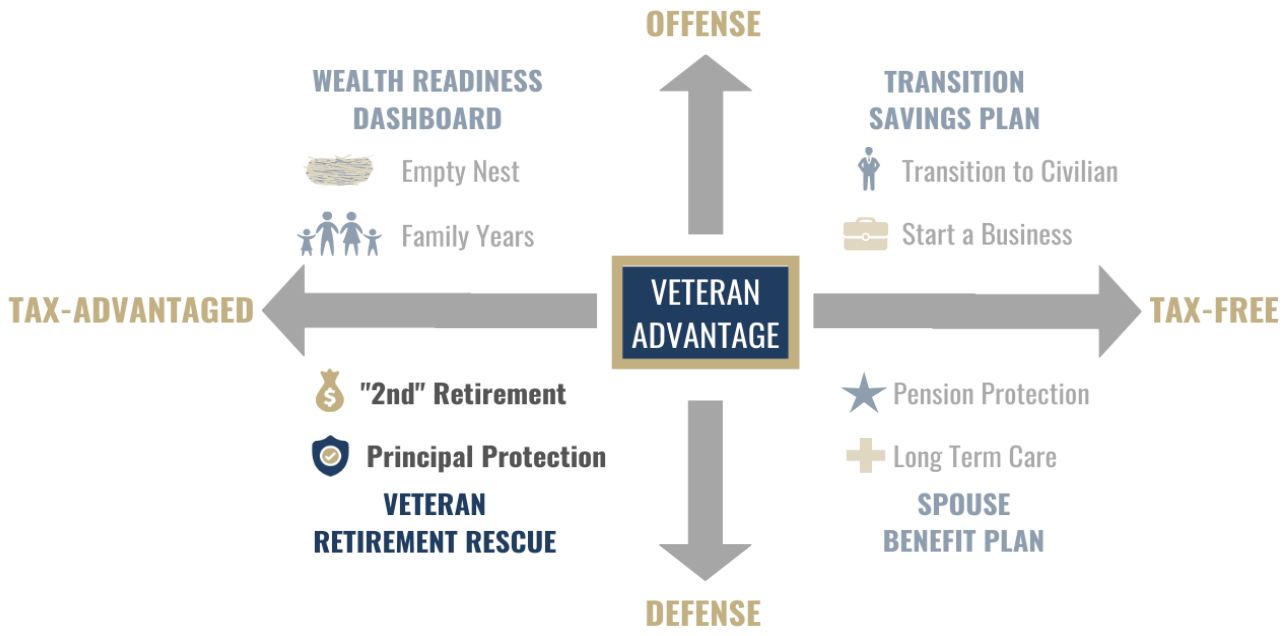
First and foremost, it's important to understand that the *Veteran Retirement Rescue* strategy is not right for everyone for a variety of reasons, including not being able to pass a suitability review. The companies who provide these products perform an in-depth qualification process because they want to ensure that it's a good fit for you. They look at a variety of factors including your income, assets, liabilities, liquidity, and goals to ensure you're making the right decision…and yes, they DO decline applicants. Luckily, we can help you get an idea of whether or not this might be a good option for you before you apply. If you'd like to find out ahead of time, **click here** to start an Asset Map and **schedule an Asset Map Review**.

You may also just not feel that this is just not a good option for you, whether it's because you don't understand it, or you feel that a more traditional investment strategy better suits your needs, and that's ok too! My goal with this paper is to put this information into the world to help you, the reader, make a difficult decision. The Veteran Retirement Rescue is a strategy for the people who want to ensure that a portion of their retirement savings is protected from a lot of the risks associated with those other options while still having the opportunity for those funds to grow. In fact, many of our clients who've utilized this strategy for their TSP funds still use those other options in conjunction with VRR as part of their overall plan, and we're more than happy to help with those types of scenarios as well. If you'd like to learn more about how to do so, schedule a **15-min discovery call** to find out how.

We're not trying to overcome objections or get you to change your mind about whether or not this is a good option for you like a lot of the "used car salesmen" that work in the Financial Services Industry. Just the opposite, we would rather that you made the decision to NOT use this as early as possible so that you can focus on the right path ahead for YOU as soon as possible.

How do I use the Veteran Retirement Rescue?

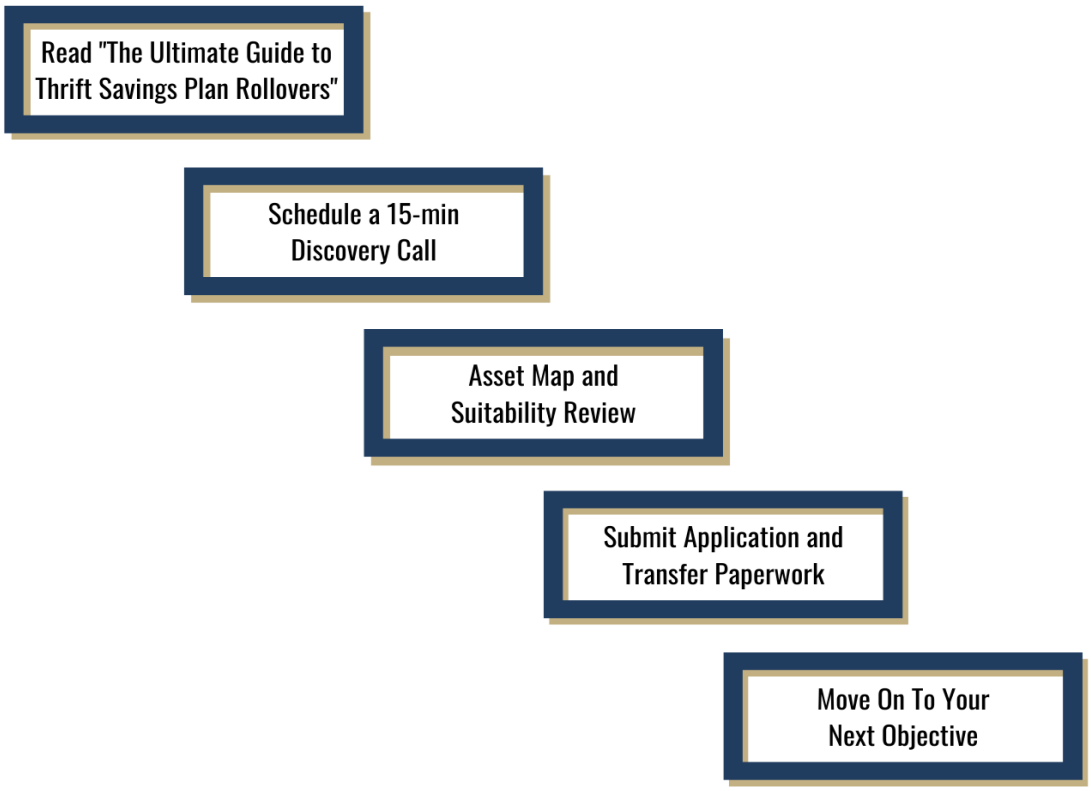
One of the biggest pitfalls of the "advice" you're going to receive during your transition is that most of it seems to be focused on this one date in the future (your ACTUAL retirement), with no regard for what happens after that. Could you imagine if we planned and conducted operations without any idea of what the favorable outcomes were? Why would we try to plan out our financial futures like that? Too many people are simply stashing money away for a retirement that may be 20 or 30 years away without any regard for how they'll take it out when they're not working anymore. The graphic below shows how the Veteran Retirement Rescue fits into both the accumulation and distribution phases of your personal financial plan.



Just in case the graphic doesn't paint a clear enough picture on its own, I wanted to provide a quick explanation. During the accumulation phase, the VRR gives you the opportunity allow a portion of your retirement savings to grow tax-deferred without having to worry about market risk and the option for either no-fee or enhanced participation strategies. In the distribution phase (when you're actually living off of your accumulated assets), you can use it in one of two ways: Either as a guaranteed lifetime (single or joint) income stream, or as a buffer to fund your retirement during times of high market volatility. Regardless of how you decide to use the individual components of your plan, I always highly recommend that you consult a professional to ensure that your plan works for you even when things don't according to plan.

Where do I start?

If you've come this far, I'm gonna assume that you at least want to continue to explore your options, in which case…great! We'd love to help you come to a decision, you can get the process started by scheduling a **15-minute discovery call** to find out if the Veteran Retirement Rescue is right for you. Once we've determined which course of action you'd like to pursue, IF that option is the Veteran Retirement Rescue, the next step for you would be to **map your assets** and conduct a suitability review (pre-qualification) to ensure that you qualify for this option. Once the suitability review is approved and the application is submitted, you'll have to complete the transfer paperwork (TSP Form 99 signed by you and your spouse and notarized) along with the paperwork from the FIA provider. Once that is completed and submitted and the account is funded, and you can move on to your next priority.



I know that you've got a lot of things on your plate as you go through your transition into the next chapter of your life. The good news is that this is something that you can wait until AFTER your transition to complete because you won't be eligible for the Veteran Retirement Rescue until after your military retirement/transition. The actual amount of time that you personally will spend on this task is only about 1-2 hours. If that seems like too much of a commitment, then this probably isn't a good option for you. However, if you can make time in your schedule to learn how you can set yourself up for success for the rest of your life, then we're happy to help! Now that you're aware of all of your options, it's time to stop taking orders and start giving them!

About The Author

Trevor Maxwell is a retired Navy EOD Senior Chief with over 20 years in uniform. During his active-duty tenure and continuing into his retirement, he has had the privilege of working with members of all branches of our nation's armed services.

He began his post-military career working in Financial Services at a local firm in Norfolk, VA before moving over to his current position as an Advisor and Educator at US VetWealth, where he specializes in the financial planning considerations of the military transition process. He has helped hundreds of military retirees and veterans make decisions about Survivor Benefit Plan Alternatives and TSP Rollovers.

He volunteers with several non-profit organizations and provides financial literacy education to service members, veterans, and their families to empower them with the tools they need to gain true independence. In addition to his work in the Financial Services Industry, he also runs his own real estate investment company and the ***Military Money Mistakes*** and ***Get 2 Vet*** podcasts. Trevor's personal mission is to build and maintain long-lasting relationships with other transitioning veterans to ensure that they aren't left without a sense of community after they've departed military service.

He belongs to several networking groups in the Tidewater area and is always looking for ways to create opportunities for other veterans and service members. Connect with him on **LinkedIn**, follow **Military Money Mistakes**, and subscribe to the **Get 2 Vet** podcast.

1. https://scholarworks.umb.edu/cgi/viewcontent.cgi?article=1039&context=demographyofaging ↑

2. https://www.ebri.org/content/retirement-savings-shortfalls-evidence-from-ebri-s-2019-retirement-security-projection-model ↑

3. https://www.cbpp.org/research/social-security/what-the-2021-trustees-report-shows-about-social-security#:~:text=Over%20the%20entire%2075%2Dyear,equals%201.2%20percent%20of%20GDP. ↑

4. There are Fixed-Indexed Annuity contracts available that will allow you to make additional contributions for the first 3-5 years, however, these contracts don't always align with the goals of the majority of transitioning service members that we assist with the TSP decision. ↑