-THE BARBELL-

A Strategy for Managing the Thrift Savings Plan in retirement

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Preface

First, let's talk about what this book is *not*. It is *not* financial advice to you. I don't know you. I can no more provide financial advice to someone I don't know, than a doctor can provide medical advice to someone he's never met or interacted with.

It is not *the* strategy of how to withdrawal money from TSP. It is *a* strategy. It might not even be a particularly good strategy.

It is not a strategy that must be followed 100% or nothing. It can be altered and tailored as the user sees fit. There are no rules to this. Set your own. Take pieces and come up with what works for you.

It is not a strategy I invented. I'm not that smart. There have been various versions of The Barbell Strategy kicking around for years now. Maybe decades. If I knew who created it, I'd give them credit.

So what exactly *is* this book then?

It is meant to be a thorough explanation of how someone *could* employ The Barbell Strategy in conjunction with their TSP and IRA, or other account, were that person so inclined.

It is in your best interest to talk with a professional about this strategy to see if it is right for you and your particular financial situation. I'm not recruiting any followers here.

Remember, personal finance is *very* personal. The only account that matters is yours.

Stop caring what other people are doing!

Chapter One

What is it?

Some time ago I came across an investment management strategy that I thought would fit nicely with the withdrawal phase of an individual Thrift Savings Plan (TSP). The "*withdrawal phase*" you ask? Yes, at the risk of oversimplification, there are basically two phases to a person's investment career: the accumulation phase, and the withdrawal phase.

Typically, this means that during the accumulation phase, that is all you are doing—accumulating. This would be your working years for the federal government employee. There are no withdrawals normally; the TSP is a one-way street. Money is just going in. Every pay period. The balance is steadily growing higher (hopefully). At some point, however, that phase comes to an end.

It may be when you retire, or it may be a few years after that. For some of you, it may not be until age 75 when the Required Minimum Distributions (RMDs) are kicking in (NEW LAW—read the SECURE ACT 2.0 of 2022). Your strategy seems to be planning on saving up until you're in your 80's and then you'll really go wild, living the good life.

Regardless of when your accumulation phase ends, there will be a time, when you start to develop a plan for the protection of capital (what you've accumulated so far) and the strategy of how you will take withdrawals (the payoff for all those years of saving). This is the withdrawal phase. And in my experience, it's the more challenging phase. There is a lot more to think about. Such as:

- How do I protect what I've built up?
- How do I know how much to take out?
- How often should I take money out?
- When should I start to take money out?
- What if I start taking it out and the market crashes?
- Maybe I should not be in the market anymore?

These are the decisions that try men's souls, to paraphrase Thomas Paine. Saving is easy. Max out your TSP every pay period and that's it. The biggest challenge is deciding where to put it. And if you should move it around based on what you think the market will do (Pro Tip: You shouldn't).

But come retirement, the easy part is over. Now it's decision-making time. And there are quite a few to make. Ever experienced the phenomena of **overchoice**? It's when you have so many choices to make, you don't know how to prioritize them, or where to start, so you don't do anything. Or you make a hasty decision just to be done with the uncomfortableness. Overchoice can lead to paralysis. Or panic. Or both. And that ain't good.

Enter the Barbell Strategy.

First of all, we have to deal with the name. No doubt, it is an unusual one. Understanding the name goes a long way in understanding the strategy itself, though.

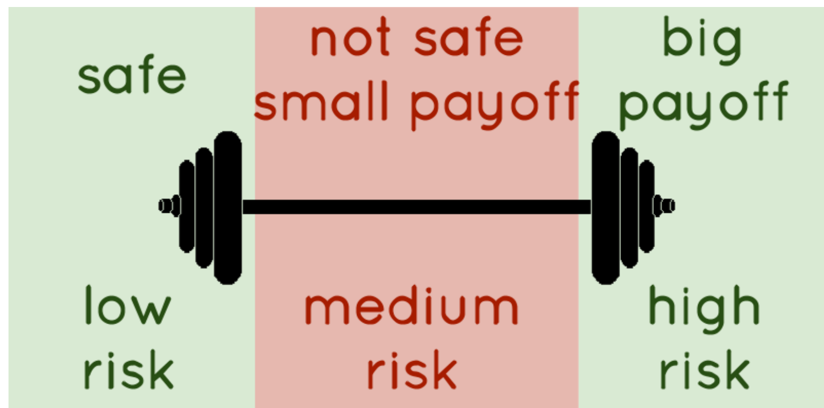
Imagine a large barbell on the floor. Like the ones Olympians lift after eating 10 million calories a year, and strapping on a 12-pound leather belt. On one end is a lot of weight. On the other end is a lot of weight. In the middle, there is nothing. Besides a guy getting ready to blow out his aorta trying to lift it.

Let's translate this into the financial arena.

Traditionally, an individual might have various investments on sort of a continuum of risk in his diversified portfolio. Imagine a horizontal line where the far left represents very safe and stable investments. Let's say a FDIC-insured savings account at a bank. Right next to that the risk increases just slightly. Say some very stable corporate bond mutual funds. As we move farther down the right, we increase in risk, and hopefully in reward. Maybe next we have stock index funds, growth mutual funds, individual stocks, precious metals, and maybe finally, some cryptocurrencies. (If you don't understand these terms, don't worry, we'll get there.)

What you end up with is a line of investments that make up that individual's investment portfolio, from safest to riskiest. Nothing wrong with this at all, but let's assume for a minute that we aren't that into managing a lot of different types of investments. Maybe we don't have an account that offers all those investment options. Maybe we don't even know what some of those investments are! Surely there is a way to simplify things for the person that is so inclined.

What if we eliminated some of those investments? What if we just kept a really safe investment (the far left) and one that is riskier (the far right), and then we got rid of everything in the middle for the sake of simplicity? What would we have? Something that looks like a barbell. Investments on each end, but nothing in the middle but the now-empty line. Make sense?



The Barbell Stratgy: We eliminate the red portion, and keep the greens.

That is the origin of the name of this strategy. The financial universe likes to take charts, patterns, strategies, and other esoteric, weird financial things, and name them after common items. For example, you can employ a Butterfly Spread as an option strategy. There is a thing called a “dead cat bounce”. Bulls, bears, blue chips, haircuts, candlesticks, and teacups, are all financial terms that are borrowed from the real world. They are employed in an effort to simplify, or convey, the strategy or characteristic of the thing being discussed. The Barbell Strategy is no different. That’s all. Don’t get too hung up on the name, but once you understand where it comes from, it does help to understand where we are going with it.

So, what does that mean for us?

When we apply this philosophy, or strategy, to the TSP, we get something that looks like this: G Fund all the way on the left, nothing in the middle and say, the C Fund on the other end. You could substitute F for G and S for C, but in the interest of simplicity, I’ll just use the G Fund and the C Fund. Notice we are eliminating the balanced L Funds. Remember we are not trying to spread risk across all funds, nor are we trying to diversify into everything. That’s the essence of the Barbell Strategy. Simplicity.

This simplicity is meant to combat that overchoice paralysis we covered a little earlier. And I will explain how that works in detail a little further on. But for now, it might be helpful to take a step back, and learn exactly what the Thrift Savings Plan offers in the way of investments.

Chapter two

The Thrift Savings Plan—a deep dive

As a little history lesson, the Thrift Savings Plan was born in 1986 during the switchover from CSRS to FERS, although there was no actual fund to invest in at that time. That would come a year later. The TSP is what is known as a "tax-deferred retirement savings account". Meaning that you can make contributions prior to paying income tax on the money. The taxes are *deferred*, or postponed, until another time. That time is when you withdraw the money. (We are talking about the Traditional TSP here, not the Roth TSP).

It is also known as a "defined-contribution plan". This means that the government contributes a certain amount to each individual's account. And that amount is *defined*, or set. It's not just some random or variable number. The rules are well established, and they state that the government will match up to 5% of an individual's salary in contributions. If you make $50,000 and you contribute 5% of your salary ($2,500), the government will contribute $2,500. However, if you contribute $6,000, the government still will only contribute the $2,500. The *contribution* is limited, or *defined*, to 5%.

The TSP is the largest defined-contribution plan in the world. There is over $700 billion invested in the TSP, among approximately 6 million accounts. The entity that overseas the fund is the Federal Retirement Thrift Investment Board.

To simplify things, it is like the government employee's 401k plan. Each pay period, money goes into your account. This money grows throughout your entire career, and when you retire, you hope to have a large pot of money that at worst, gets you through your living expenses in your later years, and at best, allows you the freedom to travel, enjoy yourself, and generally live in comfort and security.

So what happens to your money from the time it comes out of your check until it comes back to your bank account a few decades later?

Well, that depends on where it spends those decades….

THE G FUND

You can invest your TSP in a number of options. The first fund is the G Fund. It was created on April 1, 1987. At the risk of oversimplifying it, the G Fund is a government bond fund. What's a bond? A bond is a loan. Let's use a simple example. When you buy a government bond, you are loaning your money to the federal government. In turn they pay you back a little bit of money every so often. This payment back to you is called interest. And this payment back to you is for a set time, or in bond-speak, the *term* of the bond. When the term of the bond is up, it is said to have *matured*. At that point you get your original purchase price of the bond back. And you will have gotten all the interest during the time you loaned out the money. On some bonds you get the interest periodically, and on some bonds, they save all the interest and give you everything back at the end—the purchase price plus all the interest all at once.

In the G Fund, all of the money you invest gets pooled with all of the other people that are investing in the G Fund and the TSP buys, or invests, in special government bonds. You may have heard of the term "Treasuries" or "Treasury Bonds" and "Treasury Bills". That's what this G Fund is buying. However, there is something a little special about the G Fund. Something that the general public cannot buy. Everything else available in the TSP (F, C, S, and I Funds) are also all available in the private sector, or at least their equivalents are. Not so with the G Fund.

The G Fund consists of very special government bonds created for, and sold to, only the TSP. What's so special about them? Normally when you buy a bond, the longer the term of the loan, the higher the interest rate. It only make sense, right. If you are going to loan your money to someone for 10 years, and have your money tied up for that long, they'll need to compensate you for that accordingly, right? The bonds the TSP uses pay long term rates, but are actually short term securities. You can redeem your G Fund on any given day. You don't have to wait until a bond matures to get your money out of it. This means not only are you getting paid the higher long-term rate, you don't have the downside of having to tie your money up for a very long time. Also, unlike bonds in the private sector, the price of these bonds don't fluctuate, or move up and down. The only variable is how much interest they pay you. Again, the general public doesn't have access to this type of bond.

This has the effect of making the G Fund riskless in the sense of no loss of principal. Your money won't go down being invested in the G Fund. However, the interest they pay you for the year can get reeeeaaallllly low. And in 2020, it did just that. The interest was less than 1% for the entire year-an all-time low. In 2021, it did much better, bringing in a whopping 1.38%! Not exactly Bitcoin-like returns (Well, at least when Bitcoin was actually making money). But the

money you put in will always be safe. Safe as long as the federal government is able and willing to honor its debts. In 2022, the G Fund returned 2.98%. Better, but not great. Think of it as a pretty good savings account. 2023 brought a more reasonable 4.22% return, closer to its long term average of 4.66%.

The bottom line? The G Fund is the least risky, but you ain't getting rich off of it.

Characteristics of the G Fund

- Almost no credit risk (as long as the government pays its bills), you get interest
- No loss of principal
- Not available in the private sector
- Invests in government securities not available to the general public
- Since its inception in 1987, it has averaged an annual return of 4.66% (as of end of 2023)
- Its return in 2023 was 4.22%

THE F FUND

The F Fund is the other bond fund in the TSP (there are only two). It started on January 29, 1988. It works quite the same way as the G Fund in the sense that you are investing in bonds. You are still loaning your money to an entity who promises to pay you back in the future. But who are you loaning your money to exactly?

In this case you are buying some government bonds, but you are also buying private bonds, such as bonds from large companies. Or bonds backed by assets. Or even bonds based on other loans. (Let's not get too complicated here. Watch "The Big Short".) But you don't have any special protection or privileges like the G Fund. You CAN lose money in the F Fund. The prices of these bonds can go up and down based on a number of factors, interest rates being the main one. Bonds confuse even finance majors so I don't want to dig too deep here. As an example, when interest rates go down, bond prices go up. See—that's confusing. But it's worth understanding if only because when inflation starts to come back, bond prices will go down.

What happens when you buy something and the price goes down? You *lose* money. Do bond prices go crazy high one day and crazy low the next, like you may see in the stock market? No, not normally. Interest rates change over a period of years typically, not a period of days. That means a bond fund should theoretically be a little more stable than a stock fund, which we'll get

to in a minute. Bond funds don't normally earn 30% in one year and lose 20% in another year, especially the F Fund. But the C and S Funds have had fluctuations like that in their history.

This is why you will often hear people say that the F Fund is less risky than the C, S, or I. What they are probably trying to say, but not using the exact terminology correctly, is that it is less *volatile* than the stock funds. And that is normally true. But there is still the possibility of a loss in the F Fund.

Since you can lose money, you would expect it to pay a higher interest rate, in the long term, than the G Fund, right? I mean, if you're taking extra risk, you want to be compensated for it. Otherwise, why wouldn't you just invest in the riskless G Fund? Well, if you are thinking like this, you have a future in investments. You do indeed get paid a little more for the extra risk. Since 1988, the F Fund has averaged 5.36% a year vs the G Fund's 4.66% (as of end of 2023).

In 2022, the F Fund had its worst year ever, losing 12.83%. Pretty drastic for a "conservative" investment. Ouch! 2023 was better at a positive 5.58%

How does the F Fund pick which bonds to buy? That leads us down yet another side trail, but one that's very important for every fund except the G Fund, so we need to talk about it for a minute or two.

Index Funds

If you watch CNBC or read any investment websites, you'll hear the term Index Funds. You already know the "Fund" part—people pooling money together to buy things. But what is an Index? An Index is simply a pre-determined number of investments that people group together because they provide a way to track the performance of something. I know, just bear with me.

There are probably two that you already know: The Dow Jones Industrials and the S&P 500. It is common for the news to report these indices each day as a way of saying what "the market" is doing. But neither one of these is actually "the market". They are only *pieces* of the market. The Dow Jones Industrial Average (DJIA) is only 30 companies. 30. Out of thousands of companies. The DJIA, or sometimes just called "The Dow" contains big companies that you've probably given some of your money to: Home Depot, Coca-Cola, Disney, Nike, Walmart, Apple, and so on. These 30 stocks get grouped together and then tracked numerically. If the stock price of all the companies goes up for that day, the Dow goes up. If they all go down, the

Dow goes down. If they are mixed and only some go up, then the algorithms do their black magic, and spit out whether the Dow was up or down based on the total price movements of all the stocks.

That is an index. So how do we invest in indices? (Did you know the plural of index can be both indices and indexes?) Well, we do it through mutual funds, or in our case, through the funds in the TSP. An index mutual fund that tracked the Dow, would have in its rules that it must buy these 30 stocks, and only these 30 stocks. Whatever that index did, your fund would do. We don't have the Dow Jones option in the TSP, but let's speculate for a second. Let's say that we had a D Fund. And it was the DJIA. We put our money in the D Fund every pay period. The TSP would buy those 30 stocks, and only those 30 stocks, and in the proportion that the companies were represented in the DJIA. If someone thought, "*Hey, we should buy Tesla or GameStop—they are going to really take off!",* they would be prevented from doing so. Why? Because these companies are not in the Dow, and our fund tracks the Dow. Rules are rules. They help make sure the investor knows what he's actually investing in.

What this means is that in an index fund, no one is trying to beat the market. They are trying to copy the index. There is not a team of people sitting around all trying to come up with new investment ideas. The formula and rules are set. They buy the index. Period. In this case, they buy the 30 stocks. No more, no less. There's no research or speculation. This typically makes index funds cheaper because you aren't paying a bunch of geniuses large salaries to sniff out the next hot stock.

Let's help explain index funds by contrasting them with actively managed funds. In an actively managed mutual fund, the managers' hands are not tied by rules saying they can only buy stocks in a certain index. In many of these funds, you do have a bunch of highly paid geniuses sitting around trying to come up with the next great investment, unencumbered with ultra-rigid rules related to indexes. These guys actually *are* trying to beat the market.

All we have in the TSP are index funds. We do not have funds that are actively managed. In other words, we don't have funds that are actively trying to go out and find the next hot drug stock or the next DoorDash or whatever.

Like the DJIA, the S&P 500 is also an index fund. What stocks does it track? The 500 largest US companies. Remember that. The 500 largest US companies. Most of the DJIA companies are also in the S&P 500. Apple, Walmart, Nike, etc. The C Fund tracks the S&P 500 Index, but we are getting ahead of ourselves.

Back on track….

We're done with our brief rabbit trail of what index funds are. What was the point of all that? Well, you had to know what an index fund is before I could tell you what index the F Fund tries to track. And it's probably one you've never heard of….The Bloomberg Barclays Aggregate US Bond Index. Yeah, I know—the *what?*

I don't know if this thing has an acronym or nickname, but I'm about to give it one because I'm already tired of typing it out. The BBAUSBI is an index that consists of over 10,000 bonds. Yep, 10,000. That's a lot to keep track of. And there are some stipulations. For one, the bonds have to be in the US bond market. We aren't lending money to a cattle operation in Buenos Aires.

The F Fund tries to track that index. But it doesn't do it *exactly*. It would be difficult to buy and sell 10,000+ bonds to match the inventory of the BBAUSBI down to the individual bond. So the TSP allows BlackRock Institutional Trust Company (our contracted TSP manager) to buy a smaller number of these bonds that will replicate the BBAUSBI's performance as closely as is reasonably possible. And it has been very close over the years.

As I said, since 1988, the F Fund has averaged 5.36%. What has the BBAUSBI averaged? 5.34%. So, very close. Good job, BlackRock.

Unlike the DJIA and the S&P 500, the BBAUSBI is not widely reported every day. You will never hear someone say, "*How is the market?*" and understand them to mean this particular index. But it is tracked. And you don't have to be in the TSP to be able to purchase something exactly like the F Fund. If you are interested in seeing how it has performed by tracking other funds, you can look at: Vanguard's Total Bond Market Index Fund (VBMFX) and Fidelity's US Bond Index Fund (FXNAX). Both of these funds do what the F Fund does and replicates the performance of the BBAUSBI. I want to be clear on that last point. If you have your money outside the TSP and wanted to have essentially the same thing as the F Fund, you could. You would just buy one of the above funds, or any other fund that tracked the same index. We'll get into this more in a few minutes, but understand the TSP doesn't have a lock on the index funds it offers.

Characteristics of the F Fund

- Invests in US Bonds with maturities of more than one year
- Can lose principal
- Tracks the Bloomberg Barclays Aggregate US Bond Index
- Available in the private sector by many big-name mutual fund companies

THE C FUND

We're done with the two bond funds, G and F. The next 3 funds are stock funds. Is a stock different than a bond? Yes. Time for Finance 101. There are two primary ways to invest in a company, i.e., give them your money for something in return.

Let's take a company most of us are familiar with as an example: Nike. We already talked about bonds. If we were to loan Nike $1,000 we would do that by purchasing a $1,000 bond from Nike. Nike would agree to pay us say, 3%, or $30 a year for 5 years, at which point, Nike would pay us back our original $1,000. Like your mortgage, the loan is for a set amount of time at a set interest rate. The other important distinction is when you bought that bond, you didn't *own* any part of Nike. You didn't become part owner or have any claim on any income Nike made. If they made billions, you still only got your 30 bucks. Conversely, if they lost money, they were still obligated to pay you that same 30 bucks. You were a creditor of Nike, you were not a shareholder.

Stocks are different. If you buy Nike stock, yes the company is getting your money, but in return you are getting something different than interest payments. You are now part owner of Nike. Nike may have issued 80 million shares of stock and you may only own 5 individual shares, but nonetheless you are part owner in that company. You are a shareholder. If the company makes money and divides the profits up among the owners (dividends), you get part of those profits. When it comes time to vote on things in the business, you get the right to vote. There is no maturity date, or expiration date, for the stock. You can hold those 5 shares until you die, and pass them on to your grandkids. "Stock" is the term for the collection of all of the stock of a company. That collection is broken down into individual units that are called "shares". You can buy 1 share of stock if you want. It is not uncommon for people to buy 1 share of Disney stock, have the certificate framed and then given as a gift to a Disney fan.

These days, stock certificates are not issued as a general rule. The broker keeps a record of what you own in your account. In the old, old days (the New York Stock Exchange was founded in 1792), you did in fact take receipt of your stock certificates. Not today. Too much paperwork

and you would have to send them back in when you sold them. Imagine the hassle? But you can get your stock issued to you in certificate if you wanted. I have a few lying around. When this is done today, it is almost always as a novelty or gift.

Stocks are much more common for the average person to own. Most people don't buy individual bonds, but they will buy Amazon, or AirBnB, or whatever the next "hot" tip is they got from their barber. As I said, sometimes people buy just 1 share of a stock. Now you don't even have to buy that much. Just within the past year, both Schwab and Fidelity have come out with a product called "slices". A slice is literally just a piece of 1 share. You don't have to buy 1 whole share anymore. A slice cost $5 and is a percentage of that stock. Are you a huge Disney fan? You can have $5 a month taken out of your account to buy Disney stock. It is literally that easy. In the TSP, we cannot buy individual stocks, like we can in our IRA's. If we want to participate in the stock market, we do it through one of the TSP stock funds that invests in "the market".

When they are referring to "the market" these days, it might be that they are referring to the S&P 500. It was not as popular when I was a kid. By far, the Dow Jones was the main indicator. But lately, the S&P 500 has garnered a lot more attention. As I mentioned, it is the 500 largest US companies that are publicly traded (publicly traded means you can buy shares in the companies on an exchange). It contains the companies you know like Microsoft, GE, Ford, Disney, and just very recently, Tesla and Airbnb. You have to be a big company to be included.

Why is all of this important? Because when we are talking about the S&P 500 we are talking about the C Fund, and vice versa. The C Fund is not actively managed, remember? It is simply tracking an index, and the index it is tracking is the S&P 500. This is an extremely common index. Having 500 companies to invest in really spreads out the risk if one company goes bankrupt. Having them all be US companies means they are regulated by the SEC, and theoretically their reports and financial statements can be relied upon. Finally, these are the companies that are making America great, and since we have historically had one of the greatest economies in the world, it makes for a very popular investment. It also takes the guesswork out of wondering if you should buy Lowes's at a certain price or if you would be better off buying Home Depot. You just give the mutual fund company your money and they buy all 500 of the biggest companies. Done. No hand wringing over when to sell Harley Davidson. You don't.

The S&P 500, and therefore the C Fund, have done well historically, especially over the last 10 years. They have averaged over 12% (as of 2023).

The C Fund was born into the TSP on January 29, 1988 (same day as the F Fund), and since then has averaged 10.81% a year (as of 2023).

Pictorial view of S&P 500 companies by size relative to the overall index

Many, many, many companies have S&P 500 Index Funds you can buy. Vanguard 500 Index Fund Admiral Shares (VFIAX) is one. Schwab S&P 500 Index Fund (SWPPX) is another. Fidelity and many more have them, too. Again, it's a very popular fund. No less than that the great Warren Buffett once said a person who didn't want to pick stocks could do a lot worse than just 90% in the S&P 500 and 10% in government bonds. (In case you're wondering that would be 90% C / 10% G for us TSPheads).

As I mentioned before, the C Fund is what we will be using to illustrate our barbell when we get to it. But first, we have two more funds to talk about.

<u>Characteristics of the C Fund</u>

- Tracks S&P 500 Index
- Stock fund that buys shares (not bonds) of companies
- Widely available at very low cost from Vanguard, Fidelity, Schwab, and others
- Diversified over 500 of the largest US companies

THE S FUND

Here we have another stock fund. And we have one that also invests in US companies only. But unlike the C Fund, it specifically *excludes* the 500 largest companies. It is all of the companies SMALLER than that. You can think like this: Company #501 and down, is what is in the S Fund. (Technically, there are a few more than 500 companies in the S&P 500 so you wouldn't really start with #501, but it works for this example.)

How many stocks does this have in it? Over 3,700. You can see the variety. The DJIA had 30 stocks. The S&P 500 had 500 and this one has somewhere around 3,741. By the way, there are also S&P 100, 200, 300, and other indices, but they aren't as popular. Hopefully by now you're getting the picture that there are all kinds of indices, and they all serve a different purpose. We are really only concerned with 4 as TSP investors.

Which one is the S Fund trying to match? Another mouthful. The Dow Jones Completion Total Stock Market Index. If you want to track the index itself, its symbol is DWCPF.

I want to point out a few things when we are talking about the S Fund. It does not include anything that is in the C Fund. Likewise, the C Fund does not include anything in the S Fund. If you own the C Fund, you own the 500 largest US companies. If you own the S Fund, you own all the US companies smaller than that. If you own both, you own *all* US companies. And there is something to be said for that.

The S Fund is a tad younger than the others. In fact, when I first came on the job, the S Fund was not an option yet. It was born on May 1, 2001. Since that time it has averaged 9.01% annually (until end of 2023). In 2023, it returned 25.3%.

Like the C Fund, you can buy the S Fund on the private market as well. You are looking for something that is replicating the Dow Jones Completion Total Stock Market Index. Vanguard Extended Market Index Fund Admiral Shares (VEXAX) is one.

One of the things I want to make clear to you, whether you go with the Barbell Strategy or not, much of the TSP is available outside of the TSP, just under different names. And much of it is available at the same low-fee expense ratio. Just something to keep in mind. More on that later.

<u>Characteristics of the S Fund</u>

- US Based companies
- Small and Mid-Cap stocks
- Over 3,700 companies
- Nothing overlapping the C Fund
- Slightly more volatile than the C Fund (tends to have higher highs and lower lows)
- S Fund fees are slightly more expensive than C Fund fees (.090% vs .059% for 2022)

Finally…

THE I FUND

This is the one I love to hate. It is the International Fund of the TSP. By that, hopefully you can deduce that it is NOT purchasing US companies. Therefore, if you have the I Fund, you are not holding anything that is also in the C or S. In fact, you can remember this--all of the stock funds in the TSP are independent of one another.

It also started on May 1, 2001. Since that time it has averaged a whopping 5.05% a year as of 2023. Remember the G Fund has averaged 4.66% over its life. And it's guaranteed by the government!

What exactly is my problem with it? Well, for starters, I would encourage you to reread the previous sentence. 5.05% a year is not necessarily a bad thing if it were an investment that was fairly risk-free, or not very volatile. The I Fund is neither. In the past decade or so it has had swings of *negative* 42% in one year (in one year!) and a *positive* 30% in the very next year. The I Fund should come with a case of Tums. That's a lot of volatility. Now, if it paid off in the long run, that would be one thing. You could cut it some slack if it averaged, say 15% over a couple of decades. But it hasn't. Only averaging 5.05% over the long haul, well, that's just downright unsatisfactory.

What exactly does it invest in? It seeks to match the investments inside the…get ready…Morgan Stanley Capital International Europe Australasia and Far East Index Fund. That is the MSCI EAFE for short. Which isn't all that short, come to think of it. As the name implies, it avoids any companies in Canada, Mexico, or South America, which has had some pretty hot companies

over the last couple of decades. It also conspicuously excludes China, which has had some of THE hot companies over the last couple of decades.

People other than me are fed up with the I Fund as well. Legislation was introduced to change the I Fund to match another index (remember—there are tons to choose from). People want an international fund that is taking advantage of other markets. The sticking point is that some want to be able to invest in China where there is tremendous opportunity for growth. Others see that as a threat to national security. That has to be worked out. But until then, we have the I Fund that we have.

Can you find a private sector fund that seeks to match the performance of the MSCI EAFE? Yes, the index is actually quite a popularly quoted one. One way to buy the same performance is through BlackRock's iShares MSCI EAFE ETF, symbol EFA.

2024 NOTE: I Fund will be switching to a new index sometime in 2024. The new index is the MSCI ACWI IMI ex USA ex China ex Hong Kong Index. (Yes, that's the actual name).

Characteristics of the I Fund

- Volatile
- Will be changing from MSCI EAFE to MSCI ACWI IMI ex USA ex China ex Hong Kong
- Invests in companies in Europe and the Far East, but not China
- The worst performing of the 3 TSP stock funds.
- 2023 Return was a healthy 18.38%

THE L FUNDS

This requires a point of clarification. The L Funds are not separate funds. There is nothing new in any L Fund that we have not already talked about. The L Funds are just different combinations of the 5 funds we've already covered (G, F, C, S, I). The higher the number (2050) the more the fund invests in the 3 stock funds. The lower the number (2025), the more the money is concentrated in the bond funds. They adjust quarterly and they adjust automatically, getting more conservative as the date gets closer.

The L Funds don't really have a place in the Barbell Strategy because they are balanced and automatically change their composition over time, regardless of what the market is doing. Those are two things that defeat the purpose of the Barbell Strategy.

That is not to say they are not good or don't have their place. For some, they may be the absolute *perfect* strategy. Diversified across all funds and no need to adjust-they do it for you. But that's a different strategy than this book, so we'll quietly leave the L Funds in peace and finally move along to getting back to the strategy at hand.

SUMMARY

If you remember, we were talking about investment options in the TSP to lay the groundwork for why I use what I use in the Barbell Strategy. Hopefully the previous pages were useful to you whether you are looking to use the strategy in this book or not. I have found, the more educated an individual becomes in the investment world, the easier the decisions get. It is my wish the not-so-brief overview of the TSP helps in that regard somewhat. Here's a quick reference, review chart.

TSP Fund	Target Index	Comparable Mutual Fund Example
G Fund	N/A	N/A
F Fund	Bloomberg Barclays Aggregate US Bond Index	Fidelity FXNAX
C Fund	S&P 500 Index	Schwab SWPPX
S Fund	DJ Completion Total Stock Market Index	Vanguard VEXAX
I Fund	MSCI EAFE Index	BlackRock EFA

*Note I Fund will be changing sometime in 2024

Chapter three

How To Structure the Barbell Strategy?

As we learned from our TSP section, (which seems like we started 3 weeks ago), we have a very safe investment—the G Fund. If we had a goal of protecting what we had earned, the G Fund would be the only one that we could have reasonable confidence in that it would not go down. Think of it as your emergency savings…because really that's what it is. We will use this as one side of our barbell. It's the "safe" money. The money we may need to keep around for short-term living expenses. The non-discretionary money, if you will.

At the other end, we are ok taking a little more risk. We want that money to grow. That allows us the choice between the C, S, or I Funds. However, we have a qualification to add. **We want that risk to be worth it**. We don't want to take a lot of risk, but then expect to have a 5% return. The risk/reward ratio is skewed too far to the risk side, because the potential reward component is so low. So we axe the I Fund. That leaves us C and S.

I won't argue strongly on this point, in case you feel otherwise. But here is my thinking. Over the last 10 years, the C Fund has been the strongest performer. It's beaten the S. It also tends to be less volatile. It has swings up and down, to be sure, but generally they are not as wild as the S. Personally, I prefer less volatility, all else being the same. Not least, the C Fund contains the largest 500 companies in the US as you know if you waded through my TSP chapter. I like big companies that are stable. It is comforting to me. For these reasons, I'll go with the C Fund for my other barbell end.

If you feel strongly in favor of the S Fund, I'll still come to Sunday dinner at your house. There's not that much spread between the two, but since I'm talking about stocks for an older, calmer me, and not a turbulent youth, I'm happier with the C Fund myself. If you want to use the S, feel free. As I mentioned earlier, tailor this strategy to what best suits you. You could even split the right side between the C and the S, but then you complicate things. And keeping it simple is one of the goals.

So, why not the F Fund. If you noticed, I just glossed right over that. For long-term, inflation-beating investing, it really has to be equities. (Equities is another name for stocks.) History has shown that stocks are best at beating inflation in the long run. Being a bond fund, it is conservative and not a lot of upside potential. And also susceptible to interest rate risk, which I personally anticipate we will see more of in the coming decade.

When the dust finally settles from all of that, G and C are standing.

Finally, we've gotten somewhere. Maybe more from the process of elimination than anything else but at least we have both sides of the barbell now. We'll continue with our set up by creating a fictional Fersonian to help illustrate how to implement the method.

CHAPTER FOUR

How To Implement the Strategy?

Let me introduce you to Jeff Fersonian. Jeff just hit his MRA and can't stand one more day of Uncle Sam's cubicle farm. 30 years of moving paper from the in box to the out box was exciting enough for one lifetime. He's gotten his agency estimate, made a copy of his eOPF, verified his beneficiary forms, submitted his papers timely, and is now just waiting for the day—December 31, 2017.

(*I'm using a past date to show exactly how the Barbell Strategy would have worked using real, historical returns).*

Let's assume a few other things about Jeff. He's got $800,000 in his TSP. He's never been one to put a lot of time into what to invest in. Now he wants to get a little more serious about it. He's done some preliminary planning and feels comfortable he can pull out $2,000 a month from it as soon as he retires. He would rather supplement his annuity with TSP withdrawals instead of working a part-time job. Since he's already hit his MRA, he realizes his FERS Supplement would be reduced if he worked significantly anyway--another reason to withdraw from the TSP. He wants to travel with his wife, Judy, and enjoy himself while he's still in good health.

Jeff is planning on taking out $24,000 a year. He realizes that he can move his entire TSP balance into the G Fund and protect it, but he is concerned that's a little too conservative. He's looking for a better approach. He wants to still let a little of his money work for him for his later years. He finally decides on the Barbell Strategy he's been reading about at the ever-sarcastic, borderline-competent, BarfieldFinancial.com.

He knows he's going to protect some money in the G Fund and let the rest of it work for him in the C Fund for the long term. But how much? How does one even start to determine such a thing?

Step One—How much to protect?

Since Jeff has already had his last performance appraisal and he's going to retire in a couple of months anyway, he's got no problem spending a little more time at work reading up on the stock

market. He's learned that most market crashes, or *corrections*, as the financial nerds call "losing money", generally only last a few years. Sometimes even less.

Jeff understands the concept that if the market is down, and he withdraws money, he is locking in his losses, and he's hurting his balance even more. He's selling when it's low. Which means he's pulling a larger percentage of the total out. And he definitely doesn't want to do that. So he comes up with a time frame of 5 years. A cushion if you will. He'd like to have at least 5 years of withdrawals protected in the G Fund so that in a worst-case scenario market crash, he can pull from his G Fund for a full 5 years before he is forced to sell any of his C Fund. The hope being that within 5 years, the market is back up and even higher than before. In the good years, where the C Fund makes a lot of money, he'll take those gains and replenish his G Fund with them. This way, he'll (hopefully) always maintain 5 years' worth of withdrawals in the G.

Jeff decides that $24,000 a year times 5 years is $120,000. He wants an extra cushion for inflation and maybe a little extra here and there for bigger expenses, so he decides to round up to an even $150,000. He will have $150,000 in the G Fund, and the remainder ($650,000) in the C Fund. That works out to roughly a 20% G and 80% C allocation. After thinking about this and talking it over with Mrs. Fersonian, they decide this might be a little too aggressive. Jeff decides to round up again to 30% in the G Fund. This works out to be $240,000 in the G and $560,000 in the C. It isn't lost on Jeff that he now has *ten full years* of $24,000 annual withdrawals protected (not adjusted for inflation of course). This gives him more peace of mind than he had anticipated. He is actually feeling confident and in control of his TSP finally. After years of just hoping he was doing the right thing in his TSP, this feeling of investor confidence is a new and welcomed one for Jeff.

Step Two—The TSP withdrawal hurdle

Retirement day is drawing closer. Jeff is enjoying his last Thanksgiving as a federal employee with family. Just a little over a month to go now. Since he's trying to max out that final annual leave check, he didn't take any annual leave. But he had a few dangling sick days to burn, so he used one on the Friday after turkey day. Over the weekend, Jeff was reading some more on how to make withdrawals from the TSP and came across something that made him panic—**you cannot direct the TSP to pay you from only one fund.** They will pay you proportionately across all the funds you have. "*Wait a second!"* Jeff read that again. If he wants to withdraw only from the G Fund, the TSP won't let him. They will pay him from both the G and the C in the proportion that he has his money allocated. In this case, it would be 30% G and 70% C. This means that if the C Fund is down, the TSP will still cash some of that in to send Jeff his check.

This completely destroys Jeff's strategy. He keeps reading. **TSP money can be transferred to an IRA in retirement.** Aha! "*That's the workaround*", thought Jeff. He will leave his $240,000 in the TSP and put it all in the G Fund. The remaining portion he will direct transfer to an IRA he has set up at Charles Schwab. Jeff already knew the C Fund is just an S&P 500 Fund and he can get those anywhere. He makes his plan to move $560,000 into the Schwab mutual fund with symbol SWPPX once he retires. He's feeling better again. Time for another turkey sandwich.

What's an IRA? An Individual Retirement Arrangement. It is like a private investment account that has special tax benefits. You can set them up at different companies—all of the companies named in this book to be exact. Because they have certain tax advantages, they come with special rules regarding withdrawals, transfers, and what age your funds are available without penalty. Typically within an IRA, you can purchase mutual funds, stocks, and more. Think of it like a TSP for the private sector, but instead of only 5 investment funds, you have virtually unlimited options. Withdrawal options are also typically more lenient than what the TSP allows.

Step Three—Execution

New Year's Day, 2018. Jeff wakes up unemployed for the first time since he was a teenager. Life is good. Stress is gone. Plans are developing. He spends the next few months tackling things he has been either too busy or too tired to get to. He's spent more time with family, and his health is the best in years. So far, the annuity and the lump sum annual leave along with some savings has been more than sufficient. But now the weather is turning warm, and he wants to start traveling. He needs a little bit more money than his annuity provides. He finally submits the paperwork to move some of the TSP money into Schwab.

During this process, Jeff realizes that TSP moves money proportionately too. They won't just transfer the $560,000 that he has in the C Fund. They will transfer some of the C and some of the G. After he thinks about it for a minute, he comes to the conclusion it's really no big deal. Jeff just transfers $560,000 and once the money is out of the TSP, he does an interfund transfer to move the remaining $240,000 100% into the G Fund.

He then sets up his monthly withdrawals of $2,000 starting in June. And gets on Travelocity.

Step Four—Annual Adjustment

December 2018. Jeff has been pulling $2,000 a month from his G Fund for 7 months now. He has decided that he will analyze how his accounts have performed for the previous year each January. That will determine where he will pull his money for the upcoming year. As December 2018 ends, the G Fund returned 2.91% and the C Fund/S&P 500 actually lost 4.41%. "*Well, that's not great*" thought Jeff. "*While 4.41% is not a huge loss, I still don't want to lock it in. I think I'll just continue pulling from the G Fund for 2019. After all, this is why I have this strategy.*" Jeff has made the decision that he will decide late December/early January from which fund to pull the following year's money. It's a once-a-year decision. Not something that he revisits every month. After all, he's in retirement mode. All decisions get made using the easy button.

So, for 2019, the plan is 12 months of $2,000 withdrawals from the G Fund. Revisit again in January 2020. Done. Back to life. *"Man, managing money is easy!"*

Let's take a quick look at where Jeff is as of December 31, 2018.

G Fund started the year at $240,000. Jeff made 7 withdrawals of $2,000 each ($14,000 total). The G Fund earned 2.91% in interest. For the sake of simplicity, let's say the 2.91% was on the ending balance, which is wrong, but errs on the conservative side. And enables you to follow the math better.

2018 G FUND

2018 Beginning G Fund Balance	$240,000
Minus the 2018 Withdrawals	$ 14,000
Equals	$226,000
Plus 2.91% Return	$ 6,576
2018 Ending G Fund Balance	$232,576

2018 S&P 500 FUND

2018 Beginning S&P 500 Fund Balance	$560,000
Minus 2018 Withdrawals	$ 0
Equals	$560,000
Minus 4.41% Loss	$ 24,696
2018 Ending S&P 500 Fund Balance	$535,304

Jeff's Total Investments as of December 31, 2018

G Fund Balance	$232,576
S&P 500 Balance	$535,304
Total	**$767,880**

Year 2019

January of 2019 Adjustment. Since the S&P 500 lost money in 2018, Jeff won't transfer money from the IRA to the TSP. Remember he doesn't want to sell when his S&P 500 account is down. So there is no adjusting transfer to be made. Jeff has made the decision to pull 2019's monthly withdrawals directly from the TSP G Fund again.

Jeff understands the concept of inflation, and how that over time, the $2,000 a month withdrawal will have to be increased. But he got along just fine last year and he sees no identifiable increase in his expenses on the horizon for 2019, so for now, he sees no reason to raise the monthly amount just because some report came out saying there was a tiny bit of inflation last year.

Jeff is really enjoying retirement all through 2019. Still pulling out $2,000 a month from his G Fund. Time flies when you're having fun, and before he knows it, the end of another year is here. Time for the annual 5-minute review of the retirement fund. And time to plan the 2020 withdrawals.

December 31, 2019. When he looks into it, whoa! The G Fund did about the same: 2.24%, but the S&P 500 in his IRA made 31.45% in 2019. That's a nice score! Jeff did the math. The IRA started the year at $535,304. If it made 31.45%, that means his balance increased by $168,353!

That's a no brainer. No reason to damage the G Fund moving forward. He'll pull his $24,000 in 2020 from the IRA. He'll even move a little over to replenish what he's already taken out from the previous years.

Back to the pad and paper.

"*In 2018, I took out $14,000. In 2019, I took out $24,000. That's $38,000 I want to replenish back into the TSP. I also need to plan to pull out my $24,000 for 2020 as well. That totals $62,000. I'll move $62,000 from my Schwab IRA to my TSP. And still have a bigger IRA balance! Because the total of the money I'm transferring is well under my profits of $168,000!*"

Jeff has another hurdle to overcome at this point. He's not quite 59 ½ yet, the age you have to be to withdraw from an IRA without paying the 10% early withdrawal penalty. He doesn't have to

pay it when he withdraws money from the TSP, because the TSP has different rules. If you retire in the year you turn 55 (or 50 for SCE's), you can withdraw from the TSP penalty free. Jeff still has one more year until he's 59 ½. Which means he has one extra hurdle to jump through. He can't pull directly from the IRA without getting dinged an extra 10%. But there is a simple solution…

What he can do is transfer the $62,000 *back* into the TSP, and then continue with his $2,000 a month withdrawals from the TSP G Fund.

And that's exactly what he'll do in January of 2020.

2019 G FUND

2019 Beginning G Fund Balance	$232,576
Minus 2019 Withdrawals	$ 24,000
Equals	$208,576
Plus 2.24% Return	$ 4,672
2019 Ending G Fund Balance	**$213,248**

2019 S&P 500 FUND

2019 Beginning S&P 500 Balance	$535,304
Plus 31.45% Return	$168,353
2019 Ending S&P 500 Balance	**$703,657**

Jeff's Total Investments as of December 31, 2019

G Fund Balance	$213,248
S&P 500 Balance	$703,657
Total	**$916,905**

At this point, it is worth noting a few things. Jeff has been pulling a steady $2,000 a month since he retired, and his investments are now over $100,000 higher than when he turned his papers in. Jeff still has over 10 years' worth of withdrawals protected in the G Fund (again, not adjusted for inflation). Let's continue with the example.

Year 2020

January 2020 Adjustments. Since Jeff made money in the IRA in 2019, he wants to adjust, or transfer this money from the IRA to the TSP G Fund. As we just discussed, he wants to replenish 2018 and 2019 G Fund withdrawals, as well as preparing his 2020 withdrawals. So he transfers all of that money into the TSP ($62,000) and continues to pull from the TSP throughout 2020. Even though he is pulling from the TSP, the money he is withdrawing actually came from the IRA profits.

Jeff continues living the dream, knocking that TSP for $2,000 a month without a care in the world.

December 2020 gets here and it's planning time again. Jeff discovers the G Fund had the lowest return in its history. Less than 1%. Just a measly .97% to be exact. Terrible. But it doesn't matter. That C Fund put in another stellar year at 18.31%!

Another easy decision for Jeff. 2021's withdrawals will be from the profits of the C Fund. But he's going to change things up a bit. For one, he's going to start pulling directly from the Schwab account since he's now over 59 ½. No need for that extra hoop to jump through of transferring money back into the TSP. Since he automatically has his TSP payments coming in the form of $2,000 a month, he'll need to cancel them. This is easily done these days under the new TSP rules. This was not possible just a few years ago. It used to be once you turned on that faucet, you could slow it down once a year, but you couldn't ever stop it. Thankfully, the TSP changed that. I think they saw the post-retirement transfers flooding out of the TSP and realized they need to get with the program.

So Jeff is comfortable with his strategy, and he's going to move up the withdrawals from $2,000 to $3,000 a month. And pull them directly from his IRA. He puts on some Jimmy Buffett, hits the big red Easy Button, and decides to live a little.

2020 G FUND

2020 Beginning G Fund Balance	$213,248
January Adjustments Transfer In from IRA	$ 62,000
Minus 2020 Withdrawals	$ 24,000
Equals	$251,248
Plus .97% Return	$ 2,437
2020 Ending G Fund Balance	**$253,685**

2020 S&P 500 FUND

2020 Beginning S&P 500 Balance	$703,657
January Adjustments Transfer Out to TSP	$ 62,000
Plus 18.31% Return	$117,487
2020 Ending S&P 500 Balance	**$759,144**

Jeff's Total Investments as of December 31, 2020

G Fund Balance	$253,685
S&P 500 Balance	$759,144
Total	**$1,012,829**

Year 2021

January 2021 Adjustments. Things get easier now that Jeff is 59 ½. He no longer has to transfer profits from the IRA to the TSP. Now he can just pull from either fund that has the profits, as we stated above. So…no adjustments needed.

What will happen to Jeff? He's now taking $36,000 in withdrawals this year--$3,000 a month. We'll have to monitor his progress and see how the Barbell Strategy holds up for him. So far, so good.

So good, in fact, Jeff is a millionaire just from his investments. If you do the math, you'll see Jeff's investment balance is $200,000 *more* than when he retired and he has been pulling out money for several years now.

We will just have to wait and see what 2021 has in store for Jeff…

….And, welcome back. 2021 is over. I am updating this paper in real time so here I am checking in on Jeff on Sunday, January 2, 2022. We'll see how 2021 treated him. And we'll see what he's planning on doing for 2022 regarding withdrawals and asset allocation.

If you'll recall, in early January of 2021, Jeff decided to start taking $3,000 a month from his retirement savings. This was an increase of $1,000 a month from his previous $2,000 a month. And because 2020 was such a great year in the stock market, he was going to take those $3,000 a month for all of 2021 directly from his S&P 500 account at Charles Schwab. That's a total of $36,000 withdrawn from his IRA in 2021, which you'll find represented below.

Let's see how that worked out by examining exactly what happened in 2021 to the two accounts:

2021 G Fund

2021 Beginning G Fund Balance	$253,685
January Adjustments Transfer In from IRA	$ 0
Minus 2021 Withdrawals	$ 0
Equals	$253,685
Plus 2021 1.38% Return	$ 3,501
2021 Ending G Fund Balance	**$257,186**

2021 S&P 500 Fund

2021 Beginning S&P 500 Balance	$759,144
January Adjustments Transfer Out to TSP	$ 0
2021 Monthly Withdrawals ($3,000/mo)	$ 36,000
Equals	**$723,144**
Plus 2021 28.68% Return	$207,398
2021 Ending S&P 500 Balance	**$930,542**

Jeff's Total Investments as of December 31, 2021

G Fund Balance	$ 257,186
S&P 500 Balance	$ 930,542
Total	**$1,187,728**

2021 was another stellar year. Even though Jeff pulled $3,000 a month from his TSP, his account still grew by over $170,000! And he's still a millionaire, even after 4 years of retirement.

Now might be a good time to just take a break, and look at a short synopsis of where Jeff stands currently:

- He retired on 12/31/2017. Total TSP balance at the time was $800,000.
- In 2018, 2019, 2020, and 2021, Jeff removed a total of $98,000 in withdrawals from his investments
- On 12/31/2021, Jeff's total investment balance is now $1,187,728. *Or, almost $400,000 more than when he retired.*

Remember Jeff has not rolled any other retirement balances into his investment accounts, and being retired, he has not been able to contribute any additional dollars to the TSP. Jeff remembers when he and his co-workers used to worry about not being able to contribute to their TSPs when they retired. That concerned them. They thought that their accounts really couldn't grow if they weren't continuing to add to them. In fact, Jeff remembers some of his co-workers delaying retirement simply to put a few more thousand dollars into their accounts. "*Man, was that an unfounded fear!*" Jeff thinks now.

Year 2022

January adjustments. Jeff sits down the first week of 2022 and reviews 2021 numbers. Jeff doesn't really have anything to change. It's all humming along fine. Because the S&P 500 Fund made so much money in 2021, he will pull his 2022 monthly withdrawals from that fund, and let the reserve balance in the G Fund just stay there.

However, Jeff has realized one thing is different—prices. Seems like everywhere he goes, he's paying more for food, gas, and well, just about everything else too. It appears inflation might continue to be an issue in 2022 as well. After doing some thinking, Jeff decides to give himself a raise. You can do that when you're in charge.

After some very quick math, Jeff decides to bump up his withdrawals another $1,000 a month, for a total of $4,000. That will be $48,000 a year. Twice what he was initially pulling out when he first retired. This would have given him some heartburn in 2018, but looking back at 2021, he realizes that he's only pulling $48,000 from the $200k in profits…still leaving a lot of gains left in his account.

Jeff even contemplates taking an extra lump sum to replace his old 4Runner. *"Let's keep an eye on the markets for now,"* Jeff thinks. He sets up his automatic monthly withdrawals from Schwab, and he sets off to see what 2022 has in store….

1/2/22 Author's Note:

I decided to track the markets through our fictional character, Jeff Fersonian, real-time. With real, historical numbers. None of this is theoretical or up for debate in any way. The data here is a hard fact, and easily verifiable at www.tsp.gov.

These few years have been outstanding for Jeff. However, my concern is that the reader somehow extrapolates this success as a "sure thing" for their own accounts into the future. Please understand that, while these numbers are 100% factual, they are also very unusual. The long-term average return of the market is around 9%. The last 3 years the market has returned 31%, 18%, and 28% respectively. Amazing returns. Will that continue for much longer? I don't know. It seems unlikely from a historical perspective.

The point is, don't be overly optimistic and fall into the trap of thinking the market always goes up. It does not. If you recall, Jeff planned very conservatively in the beginning, and has just started loosening up on the withdrawals after hundreds of thousands of dollars of gains. That's probably a pretty wise approach. He's still got his G Fund set aside in reserve with somewhere between 5-10 years of withdrawals, just in case. That's one of the main characteristics of the Barbell Strategy—plan for the worst, hope for the best.

What is my point to all this? Simple: ***<u>Don't plan for the best</u>.***

See you in 2023.

And, we're back….

Year 2023

(Sunday, January 15, 2023 to be exact.)

Let's check in on our old buddy, Jeff. What's he been up to? For starters, his health is holding out well. He finally did get around to buying that new 4Runner he had his eye on. 2022 TRD Off Road. Army Green. With a lot of extras. He's traveled around the country, at a very leisurely pace. He's done a little hunting, visited with some old friends, caught a few fish as well as a few sporting events. He's also answered a LOT of questions from his former coworkers about what retirement is like. In short, he's thoroughly enjoying not answering Uncle Sam's government issued cellphone. He hasn't missed the job even once. He is reminded of the phrase "*I don't miss the circus, but I do miss some of the clowns*." But then again, his identity was never his government job to start with.

Jeff sits down the first week of 2023 to perform his 30 minutes a year of financial planning. Step one? Review 2022 numbers and take inventory.

2022 G Fund

2022 Beginning G Fund Balance	**$257,186**
January Adjustments Transfer In from IRA	$ 0
Minus 2022 Withdrawals	$ 0
Equals	**$257,186**
Plus 2022 2.98% Return	$ 7,664
2022 Ending G Fund Balance	**$264,850**

2022 S&P 500 Fund (SWPPX)

2022 Beginning S&P 500 Balance	**$930,542**
January Adjustments Transfer Out to TSP	$ 0
2022 Monthly Withdrawals ($4,000/mo)	$ 48,000
Equals	**$882,542**
Minus 2022 18.13% Return	$160,005
2022 Ending S&P 500 Balance	**$722,537**

Jeff's Total Investments as of December 31, 2022

G Fund Balance	$ 264,850
S&P 500 Balance	$ 722,537
Total	**$ 987,387**

Jeff does the math a few times. Is that right? *"I lost almost $200,000? Well, that's not good."*

"Guess that makes the 2023 withdrawal decision easy: It's going to come from the TSP G Fund."

Jeff is glad more than ever that he started this Barbell Strategy. If he had kept everything in the C Fund, not only would he have lost a lot more, he'd have no other option for withdrawals than to sell his SP500 shares while they are low. This would not only lock in losses, but also require him to sell more of the now cheaper shares to keep up with his $4,000 a month withdrawal.

At least now, he can pull from the G Fund for the upcoming year and leave the SP500 to recover (hopefully). He's also glad to look and see that his G Fund returned $7,664 this year and $3,501 last year. Those gains total over $11,000 he can withdraw before he starts to eat into his G Fund balance.

Jeff also realizes he made a critical tactical error during 2022. Even though his Schwab SP500 had gains of $207,000 in 2021, and he was pulling his $48,000 from that fund throughout 2022, the loss in 2022 was basically enough to cause him to use all of his 2021 gain. He used $48,000 and the account lost $160k, so he wiped out 2021's nice return.

If the market had fallen farther, he *would* have wiped out even more, and *still* be pulling from the SP500, further hurting his balance. In other words, he wouldn't really be pulling from the gains because the gains would have disappeared as the market continued to go down. He decided to modify his plans in the future, and created a new rule for himself:

"In years that the SP500 does well, and I decide to withdraw from that fund for the upcoming year, I will first transfer the year's worth of withdrawals in January to a money market fund to protect those gains from disappearing. To lock in those gains. And then withdraw from that money market fund."

In effect, Jeff is locking in his previous year's gain, so he can ensure he is withdrawing only from gains, even if the market crashes and erases all gains from the previous year. At first Jeff thought that he would lock those gains in by moving them to the TSP and withdrawing from the G Fund. But after hearing all the horror stories in 2022 of the disaster that is the current TSP, he decided to simply move the gains from the SP500 fund in his Schwab account to the money market in his Schwab account. (A money market is just a bank account that pays slightly higher interest rates.) This is much simpler to do inside a Schwab account rather than transferring money to the TSP. And best of all, it requires no interaction with someone at TSP! And NO SPOUSAL CONSENT!

"Where do I stand now?"

Jeff sees his former co-workers in a panic over their TSPs. Some are even deciding not to retire just because the TSP is down. Jeff doesn't understand that at all! But thinking he might be missing something, he sits down to take stock of what's happened to his money since retiring:

Jeff retired on December 31, 2017. At that point in time, his total TSP balance was $800,000.

Since then, he has withdrawn $146,000.

His current balance as of December 31, 2022, is $987,387.

Jeff does the math a couple of times. "*Wait, I've taken $146,000 out of my retirement accounts and my total balance is still almost $200,000 higher than when I retired? I'll take it!"*

January of 2023—Moving Forward

Jeff gets up the nerve to face the TSP. He logs on and sets up his withdrawal amounts for the upcoming year. $4,000 a month. $48,000 for the year. He doesn't really *need* that much money, but it would be nice to have extra spending money, and hey, that's why I sacrificed all those years to save up.

Jeff has read about the 4% safe withdrawal rate. And he realizes this withdrawal amount represents slightly more (4.86% to be exact), but he's ok with that. After all, he's still ahead almost $200k.

Jeff is slightly tempted to move some of the G Fund into the SP500 fund since it's down. "Rebalancing" he thinks the experts like to call it. But in the end, he decides not to. Not this year anyway. He'll revisit that in another year. Jeff's not into market timing…whatever that is.

Jeff's 30 minutes of annual financial planning is done and he's off to see what 2023 has in store. He's already got a few beach trips scheduled.

He's become quite fond of the Portofino Resort in Pensacola Beach. He's even considering buying one of the condos there. Who knows--maybe one of us will run into him there some day, walking the beach, or out with his fly rod trying to hook one of those big Redfish on the bay side. Or taking in a plate of burnt end mac and cheese at Water Pig BBQ.

1/15/23 Author's Note

You can read what I wrote at the end of last year's update. I cautioned you not to be overly optimistic. Recent gains were very unusual. I encouraged you to remember the market doesn't always go up. And I ended with "Don't Plan for the Best".

I don't know what the market's going to do any more than you. That caution turned out to be very prescient for 2022, though.

I cannot tell you how many conversations I had in 2022 with people who are very close to the age where they will begin using their TSP and they were 100% in the market. Why, I asked? Two main answers I would often receive:

1. *The market averages 9% over the long term, and*
2. *I follow (XYX TSP, or Dingbat Diane or whomever) on Facebook and they said the allocation should be 100% in the market right now. After all, they've made me a lot of money.*

Here's the thing, the market **has** *averaged 9% over the long term. But there are periods when the market goes down and doesn't come back for*

years. Like **years!** *You can tolerate that when you're 25. You may not be able to weather that when you're 55. When you're 55 or 65 or whatever the appropriate age is, you are probably wise to put some money into a place where it is safe from extreme downturns. The G Fund is one of those places.*

"But Chris, the G Fund doesn't keep up with inflation!"

Two things: 1.) the G Fund ***DOES*** *keep up with inflation, and 2.) if a* **positive** *2.98% return is not keeping up with inflation, how is a* **negative** *18% doing any better?*

As to #2 (TSP allocation timing), I will not get on my soapbox yet again. I will simply state this. No one has ever come forward yet to prove that they have beaten the C Fund in their TSP by adjusting allocations over the years. No one has ever come forward to prove they could accurately beat the market by timing it. Ever. Not just me saying that. That's Warren Buffett and John Bogle making that claim as well. Buffett bet $500k no one could do it! No one has.

If your investments are keeping you up at night, or keeping you from retiring, or stressing you out in some way, might I suggest something might be broken? Please talk to a professional.

Personal Note. *I retired October of 2022. I get a lot of questions if I am going to employ the Barbell Strategy myself. I'm always transparent with you guys. The answer is yes. I already have. I took 70% of my TSP and moved it to Schwab and purchased SWPPX (SP500/C Fund equivalent) in Nov of 2022. I also left 30% of my TSP in the G Fund.*

I have not set up monthly withdrawals yet but were I going to, I would withdraw from the G Fund for the upcoming year (2023). The logic being I would let my C Fund/SP500 recover for 2023. And maybe the next year…or the next year???

I think you all know the problems with the new TSP record-keeper. It's an absolute mess. Not a day goes by I don't get an email complaining. The rules for transferring in and out of the TSP are still the same. You can still transfer money from the TSP to an IRA and then back to the TSP again later. However, while the rules are the same, the procedure seems not nearly as smooth as it was.

So, if you plan on doing the Barbell, the TSP process may not be convenient enough for you to transfer money back and forth throughout the year. Once a year is probably all you want to endure. I'll let you decide your tolerance for incompetence and pain, though.

See you in 2024!

Year 2024

(Thursday, January 4, 2024)

Old Mr. Fersonian is a tough man to track down. It took some doing, but I finally connected with him, of all places, at Top O' The River restaurant in Gadsden, Alabama. I spotted his green 4Runner with the fly rod case on top as soon as I pulled into the parking lot. If there was any doubt, the personalized license plate gave it away: *FEEDTSP*. Ha! Classic Jeff.

I found him in one of the wooden booths in the back with an array of metal plates spread in front of him, containing sundried southern staples—mostly fried. Jeff looked tan, healthy, and happy. He was wearing a yellow Jimmy Buffett t-shirt. Fruitcakes Tour 1994.

He was a bit surprised as I relayed how many of you were so curious as to what he was doing with his TSP, how it was holding up, and what he was planning on doing in light of the market returns of this past year. Over catfish and a few cans of the best ginger ale ever produced (Buffalo Rock, bottled down the road in Birmingham), he shared with me his 2023 numbers, as well as his plans for 2024. Here they are.

Step One—Reviewing 2023's results.

2023 G Fund

2023 Beginning G Fund Balance	**$ 264,850**
January Adjustments Transfer In from IRA	$ 0
Minus 2023 Withdrawals	$ 48,000
Equals	**$ 216,850**
Plus 2023 4.22% Return	$ 9,151
2023 Ending G Fund Balance	**$ 226,001**

2023 S&P 500 Fund (SWPPX)

2023 Beginning S&P 500 Balance	**$ 722,537**
January Adjustments Transfer Out to TSP	$ 0
2023 Monthly Withdrawals	$ 0
Equals	**$ 722,537**
Plus 2023 26.25% Return	$ 189,666
2023 Ending S&P 500 Balance	**$ 912,203**

Jeff's Total Investments as of December 31, 2023

G Fund Balance	$ 226,001
S&P 500 Balance	$ 912,203
Total	**$ 1,138,204**

Jeff lost almost $200,000 in 2022. He gained about $200,000 in 2023. He's come to the conclusion he likes the gains more than the losses. In fact, he's rather amused that his retirement accounts are now almost as high as they've ever been. That leads to some decisions to make.

FIRST DECISION: The stock market portion of his money has grown faster than the safe side of the barbell, the G Fund. When he started this whole process years ago, he wanted to have about 30% of his investments in safe money. Doing some math based on the new balances, his G Fund only makes up for about 20% of his overall investments. That makes him a little nervous. It seems the first order of business is to realign the accounts so that they are closer to his preferred allocation of no more than 70% in the market. This allows 30% to be protected no matter what happens.

When he does that math, that's about $341k that needs to be in the G Fund. Since he's been withdrawing $48,000 lately (and he's been happy with that number, so he'll continue), $341k, gives him over 7 years' worth of withdrawals in the G Fund even if the SP500 goes nowhere. He quite likes that safety. He'll have to increase that G Fund side balance though.

SECOND DECISION: As he's already decided, $48,000 seems to be fine for withdrawals for the year. At least for now. He'll continue that into 2024. Since the G Fund is about $115k less than his desired 30%, he'll move that amount back into the G Fund to protect it. Additionally, he'll take $48,000 from his SP500 and move it to the G Fund as well to cover the future withdrawals for 2024. That would be a total of $163k coming out of SP500 into the G Fund. Leaving him with roughly $389k in TSP G Fund and $749k or so in the Schwab SP500, after the transfer is made.

Not bad, considering he retired in 2018 with a total of $800,000 in retirement funds.

While explaining this to his wife, Judy, she asks, "*Why bother with the TSP at all at this point? Why not just move everything to Schwab?*" Jeff explained the concept of the barbell to her and how to protect one side of the investments, while letting the other side grow. After some back and forth, Jeff started to see Judy's point. Maybe he just transfers all of his money into Schwab and splits it between the SP500 like he has been, and a money market account, that pays roughly what the G Fund is paying? He likes the simplicity of that. The real inconvenience in this system is the transferring of money to and from the TSP. They don't exactly make it easy. And now that he's over 59 ½, there's no real advantage to the TSP from an early withdrawal standpoint. In fact, the TSP is really more of a hassle than anything. He'd love to be completely done with those people!

He made a note to think about that for 2024, and maybe consolidate everything in the future. It would certainly make things much easier for him. For now, he'll continue as is—TSP G Fund for the safe side, Schwab SP500 for the growth side.

Judy also had a couple of other questions:

- *"Why transfer the $48,000 withdrawals for 2024 back into the TSP? Since it's coming from the gains, why not just pull it from the Schwab side?"* This is an excellent point, but Jeff reminds her of what happened in 2022 (read page 36). He was making his withdrawals from Schwab in 2022 because of the big gains in 2021. However, the market went down substantially in 2022, and those "gains" he had that he was withdrawing started to evaporate. That's when he made the decision to protect gains from the year before if he was going to withdraw them the following year. He had decided in 2022 that, in the future, if he was going to protect gains, he would move them to a money market fund at Schwab from the SP500 side. That would protect them, and he would withdraw from that money market throughout the year, with no fear of the gains evaporating. However, since he's transferring roughly $115k to TSP anyway, he decided for simplicity's sake, to just transfer the $48,000 with it. He's already got $4,000 a

month coming out of TSP set up with them, so now he doesn't have to alter that. He's put the full $4,000 a month x 12 months back into TSP for 2024 and he won't have to make any TSP adjustments. He also doesn't have to set up a money market account at Schwab. It just keeps things simple. And Jeff likes simple. He's too busy living life.

- *"True, the market went up a lot in 2023, but it just barely went up if you count the amount it went down in 2022, so it's not really ahead that much."* Another good point by Judy. In fact, after Jeff makes his transfer from Schwab to TSP, his Schwab account will only be around $749k, when it was $930k in the beginning of 2022. Jeff agrees with this math. But determines his *overall* balance is much higher than the end of 2022, even after the losses and withdrawals of that year. About $150k higher in fact. And Jeff wants to keep roughly 30% protected so he's ok with the SP500 portion being a little lower than it was in the beginning of 2022. It's still higher than it was at the *end* of 2022. He reminds Judy that the point of this strategy is not to necessarily beat the market, or even to grow the account. The main goal is to set up a withdrawal plan that allows them to enjoy the money but limits the chances they'll run out of it in old age. And so far, so good.

In fact, to that end, let's take a summary look at Jeff's overall investments since retirement:

Beginning Balance: **$800,000 (Beginning of 2018)**

Total amount of withdrawals:

2018: $14,000

2019: $24,000

2020: $24,000

2021: $36,000

2022: $48,000

2023: <u>$48,000</u>

TOTAL: $194,000 in withdrawals

Ending Balance: **$1,138,204 million (Beginning of 2024)**

Jeff has taken almost $200k in withdrawals and still has over $300k more than he started with. This is with ZERO market timing. And, as we've seen, Jeff only spends about an hour a year even addressing this stuff. So, there's no stress worrying about the money and trying to manage it 24/7. For the life of him, Jeff can't understand those that are always checking their TSP and worrying about what it's doing during the year. He occasionally meets former coworkers for breakfast, and they are constantly worried about TSP performance from day to day. He always

thinks to himself, "*That's an end of the year issue. Who cares what it's doing during the year? Or on any given day or month???*"

January 2024—Looking ahead.

Jeff feels confident in his withdrawal rate for 2024. It's actually still in the ballpark of the 4% safe withdrawal rate he keeps hearing about. $48,000/$1.13m = About 4.2%. That seems responsible to Jeff. Maybe he'll even give himself a raise in 2025. Who knows. He will also need to address taking Social Security in the near future vs. letting it grow and continue to use his TSP. He's leaning to filing earlier rather than later. When to file. That's a big question. But a question for another day.

Jeff and I finish off the last of the Buffalo Rock and fried pickles. He tells me he's got to go. Apparently, the reason he's in the area is to attend a Bushcraft survival class at the nearby Randall's Adventure and Training school, whatever that is. That Jeff! He's certainly enjoying the freedom of retirement!

As we walk through the parking lot, I ask him if he's missed working for the government at all.

I could still hear him laughing as he got in the 4Runner and drove off.

> *1/2/24 Author's Note*
>
> *I always feel the need to issue a caution after a big year like 2023. These results are **not** the average. Don't feel overly optimistic moving forward. I often see federal employees that don't have the balance they would like to have as they near retirement. So they try to make up for lost time by throwing everything into the C Fund, hoping that the next two years will override 2 decades of not contributing much. That's **very** risky. What happens if your balance you are already disappointed in shrinks by another 40% right before you retire? (It's happened!)*
>
> *A balanced approach is going to be better if you are getting close to the time in your life where you'll start using this money. Sure, keep some in the market, but protect some as well. For all the reasons talked about in the next chapter...keep reading.*

Personal Note. *People ask me all the time. Yes, I am still using the Barbell Strategy. I just have not started withdrawing money yet. Yes, I still have it split between only C and G. With no plans to do anything else. I still have my 70% in Schwab's SWPPX as my C Fund. TSP G Fund has the rest. Like the rest of you, I REALLY wish TSP would allow us to withdraw from a particular fund. If they would do that, how simple would this barbell method be for all of us???? No reason to even transfer money to a separate account like Schwab!*

And yes, you could rebalance every month after you take your withdrawals from the TSP to artificially create the same 70/30 portfolio if you wanted. And feel free to do that. But this method is a once-a-year adjustment option for those that don't want to fool with the TSP transfers every month.

All of that being said, seriously, people—who cares what I do??? I want you guys to do what is best for you, regardless of whatever method I employ. Please come up with what is best for you, because we are all in different stages of life, therefore different stages of investing. If I were in my 20's and 30's in the government right now, I'd be 100% Roth, 100% C Fund, and I wouldn't even check the thing for years. I might revisit the Roth decision once I was in my 40's and was getting up in income brackets, but the point is, we are at different seasons and what is 100% correct for one person may be incorrect for the person in the cubicle next to them. There is no one-size-fits-all in investing.

There's also no reason to go this alone. Please speak to a professional to help you come up with a strategy that causes you very little stress—that's the goal.

Chapter five

Putting it All Together

Hopefully this continuing example isn't too childish or trite. I backed up a few years instead of starting Jeff's retirement in 2020 when I first started writing this. I wanted to use actual returns over the past few years so you can verify everything yourself, and so that it wouldn't just be some theoretical exercise of me pulling numbers out of the air. Because as soon as I do that, I'll get an email that says, "*Your assumption might not be true—then what?! Gotcha!*"

Someone may ask when they should make the transfers (if any are needed). Probably the easiest thing to do would be to sit down in early January and evaluate the previous year's performance. Then adjust accordingly. In the example above, just to make it simple, I placed the transfers for the year in the first couple of weeks of January. When you do it is up to you.

Our friendly neighborhood retiree had only been pulling $24,000 a year, then $36,000 and now $48,000. These withdrawal amounts have been around the 4% rate. Sometimes higher, sometimes maybe lower, because of the gains in the account. But it has hovered around the 4% mark. As you can see, his overall balance has been growing regardless. He left the government with an $800k balance that had grown to over $1.13m even with his withdrawals. These are real numbers, folks. This is what the accounts *actually returned*. This is not just some theoretical model.

Having said that, we could go back and cherry pick some time frames where the markets did not do well. At all. Look at early 2000-2002. The market lost approximately half of its value. If Jeff would have retired at the end of 1999, things would look very different. There would have been 3 years that Jeff would have been pulling from his G Fund and hoping that C Fund/S&P 500 would turn around and get back on track. If you remember, Jeff decided to protect **10 years**' worth of withdrawals. That would have been wise in the early 2000's.

The bottom line to all of this is simple. If you are employing the Barbell Strategy, you pull from the profits in the market during the good years, and use the G Fund to get you through those years when the markets are down.

The G Fund is not really there to MAKE you money. It's there to protect your money. It acts more like a cash account, a savings account, or a money market account. Which is perfectly fine for our purposes. That is not the side of the barbell where we want to *make* money. That is the side where we want to not *lose* money. Please understand that distinction.

I want to be clear on this point again. **The Barbell is not meant to be a way to somehow beat the market**. It is a strategy for drawing down your balance in a systematic, controlled way, that offers you options when the market is down, or the market is up. In effect, it can reduce stress by always providing you with a decent choice, regardless of what the market is doing.

The fact that Jeff's balance has grown is not some promise that yours will grow in the future. The main purpose is a way to withdraw responsibly from the account, not to figure out a way to withdraw while also letting it grow. It may happen like that, but there's no guarantee at all.

Now, if we can imagine something for a second. Put yourself in Jeff's place. Let's say you had the exact same setup as him and you were retired. Imagine we are in January of 2020 (I know, I know—no one wants to relive that year! But bear with me). Life is still good. One new market high after the other. Then you start hearing news reports of some weird virus. (*Wait—bat soup is actually a thing?!)* Two months later what was worth $700,000 is now worth $490,000. You've lost $210k in 2 months. That's nerve-wracking. If you had everything in the markets, you may be tricked into panicking and moving it all into the G Fund to protect what's left. You know, "*Just until this whole thing blows over.*" But before this whole thing "just blows over", we are deep into election season. Now the temptation is to think, "*I'll just ride it out in the G until the elections are over."* Think of the mistake that would have been.

But by January of 2022, we know now, we hit 68 new highs throughout 2021. Then a bad 2022. Then new highs in the TSP in 2023.

We were119% higher than we were in March of 2020. Your $490k was worth over $1m…assuming you kept it in.

Now, change some things around. Let's go back to March of 2020 again, but this time, you have what Jeff has—10 years worth of withdrawals protected in the G Fund. Would that have brought peace of mind? You're probably a lot less likely to move that C Fund out of panic, right? You're probably more likely to think something along the lines, "*Well, this is rough, but I can ride this out for years. No reason to do something rash. The virus will eventually be under control and we'll recover."* See the difference? In one scenario, you don't have a plan, you

have nothing protected, and you are more susceptible to panic. In the other scenario, you've bought yourself plenty of time to let the market do its thing. There is no need to make a decision of any kind. You can sit back and watch all of the panic with mild amusement. You're immune from it. Protecting some money protects some peace of mind. And buys you years of the ability to sit back and watch. **As the great John Bogle used to say, "*Don't just do something, sit there!*"**

That, in a nutshell, is the heart of the Barbell Strategy. It is simple. It buys you time. It buys you peace of mind. It protects some of your money for accessibility, but keeps some in the market to outpace inflation.

CHAPTER SIX

Final Thoughts

I will close with just some final things to consider.

- As I mentioned in the beginning, this is not *the* strategy for how to deal with your TSP during the withdrawal phase. It might not even be particularly appropriate for you. This is just **one of many options**. And this isn't meant to be a comprehensive financial profile or case study. There is a lot I didn't cover in here. I'm not convinced the average government employee will read 30 pages, much less 100 pages if I included things like taxes, Roth conversions, etc. So I try to make it brief enough to keep thoughts of suicide at bay, while giving enough detail for someone to follow it, if they were so inclined.

  I get a lot of questions and comments on the Barbell Strategy so I thought I would expound on it and give a clear (if somewhat cartoonish) example for the average person to follow. If you want to completely dismiss it as worthless to you, feel free. There are numerous strategies out there that compete with this one and you may have already found one that works for you. Some of you may not ever want to take anything out. It's "RMD or Bust" for you. Your entire strategy is trying to figure out a way to *never* get your money. Others may take everything out of TSP and give it to an advisor to manage. Do what is best for you, but please understand the pro's and con's enough to explain it to someone else before you do it. The same goes with the strategy in this book.

- I have used the term "risk-free" a few times in this book. But the reality is nothing is truly completely riskless. Even the G Fund has inflation risk (risk that inflation will eat away at the real buying power of your investment). There is market risk (the market might crash), credit risk (companies may go bankrupt and not pay your bond interest), and a whole host of other kinds of risk. That is why you diversify and protect part of your assets from the various kinds of risks the best you can. Talk to a professional about some of the ways to accomplish what you are concerned about.

- I do not mean to endorse any of the funds or companies in this book. I tried to provide a good cross section of the more popular companies. I personally use Schwab for my brokerage and IRA accounts, but Fidelity, Vanguard, T Rowe Price, and many others are great companies that offer virtually the same products and at the same fees. Fidelity and Schwab even have multiple zero-fee products. Stay with the bigger names and you'll be ok. Buying something from "***Carl's Baitshop, Oil Change, and Financial Planning***" would probably be considered sub-optimal.

- I get this question a lot so I'll address it. Do you need a financial advisor in retirement? No, you probably do not *need* one. **Be careful though--that is not the same as saying you won't *benefit* from one.** But you have to understand what you are looking for. Unless you are specifically wanting someone to take all of your TSP and manage it for you, I would stay away from those types of advisors. I find them to be expensive based on the FERS retirees that I have seen hire them. Here's my take on that. If you've managed to accumulate a $600k, $800k, or even over a $1m balance in your TSP by yourself, you've done an outstanding job all by yourself. There might even be a good chance you will have a higher investment account balance than the financial advisor you are thinking of hiring. So who is teaching whom?

  However, I realize some people are willing to pay the extra fees to have a professional take care of everything and just try make it grow the best they can. Even if it costs a lot more than the TSP fees. If that's you, go for it. I support you. Make sure they are reputable and all of that, of course. And please, make sure you fully understand the costs. They will be substantially higher than the TSP, that I can assure you. Whether that cost is worth it or not, is one for you to decide. It may very well be. You may consider it the best decision you've ever made.

  For the rest of you, what you will probably benefit from is the planning side of what advisors have to offer. Set aside the managing function for a second. An advisor can sit down with you and help you come up with a long-term plan that incorporates multiple aspects of your financial life: how conservative do you want to be, what is a safe amount to withdraw, when should you file for social security, should you do a Roth conversion, and the big one—what moves can you make to minimize the tax consequences. This is where I think a good advisor is worth it. They typically have software that can run various scenarios that provide you with enough information that the decisions become easy. That's what you're looking for. Education that leads to good decisions.

  A good financial planner will know about taxes related to income and investments, but he may not be a CPA. Some CPAs may specialize in taxes related to investments and do some light financial planning, but not all will. Some may just do tax prep and not too much tax advising. You just need to do your homework into what that individual professional does. There's no solid, universal answer here. Don't just look at the designation and blindly hire them.

- You may have noticed that I have not specified whether the TSP we are using is the Traditional or the Roth. I need to address some more little quirks about the TSP. If you have the Traditional TSP, all of what we have discussed so far is accurate. If you have the Roth TSP, you have a few issues to deal with:

1. The 55 year old, penalty-free TSP withdrawal rule does not apply to the Roth TSP. For now that age is still set at 59 ½. That may complicate your Barbell Strategy attempts. But maybe not. You could just use the Traditional TSP balance for the Barbell and treat the Roth TSP separately.
2. Even if you are over 59 ½, you have another hurdle. Transfers involving Roth TSP can only go one way—OUT of the TSP. You can transfer a Roth TSP to a Roth IRA (at Vanguard, for example), but you cannot transfer a Roth IRA to a Roth TSP. The TSP just will not accept transfers in from a Roth IRA. So if you revisit our buddy Jeff above, you'll notice on really good years, when he was under 59 ½, he moved the gains from his IRA into his TSP to withdraw them from TSP penalty-free. This would not be possible with a Roth TSP. Just keep that in mind. There is also a 5 year wait rule in a Roth IRA you'll have to satisfy—read up on that.

- I did not specify in the example if Jeff is Regular FERS or SCE. It really doesn't matter for our purposes since he retired at his MRA. If he were SCE, he could retire as early as mid-40's now and still make penalty free withdrawals from the TSP. If he were Regular FERS, he would have to wait to retire until the year he turned 55. Since he retired at his MRA in 2017, he would be over 55 anyway. What happens if you retire before your particular 10% penalty exception? You don't get to make penalty-free withdrawals when you turn 50/55 as some people think. You actually have to wait until 59 ½. So be careful and talk to someone when planning for retirement. (There is a way to retire earlier and avoid this 10% penalty, but it comes with a series of significant restrictions. You can read about it here.). ***2023 update for SCE's (LEO's, FF's, ATC's):*** *you can now withdraw your TSP when you retire after 25 years, even if you are younger than 50. This is part of the SECURE ACT 2.0. Read up on it.*

- A note of thanks. If you've gotten this far, I appreciate your time. It is never lost on me that time is our most valuable resource. I constantly see people chasing money when what they should be chasing is time—it's worth far more. As with everything I write, this is completely free and shareable with everyone. In fact, I encourage it. I didn't write this to help ME; I wrote it to help YOU. So if you know someone it may help, please forward it along. If you disagree with it, that's perfectly fine too. We can still be friends. (As long as you don't pull for Clemson; that's unforgiveable).

- Check out the Resources page. There are two advisors listed if you want to speak to a professional. I always make it clear that I get zero compensation for any of my referrals to anything or anyone. These are just a couple of guys who understand FERS, who won't cheat you or try to sell you an annuity (*wait-aren't those two things the same?),* and are

competent. Feel free to use them or to go somewhere else. I just provide them as options. Everything is listed in alphabetical order as well, not by any sort of ranking.

- Finally, what's in store for the markets? I don't know. You don't know. And based on the records of the experts in 2023, they don't know. Lots of people called for a serious recession in 2023 and into 2024. Most financial experts were horribly wrong about 2022. Most were horribly wrong about 2023. As the saying goes, *"It's difficult to make predictions, especially about the future."* Everyone I talk to has a plan for what to do as the markets go up. Few have a plan for what to do when they go down. I suggest you have both.

Congrats! We made it to the end. And another year. I truly wish all of you the very best in 2024. And comfortable, secure, and loooonggg retirements, making great memories with family. But don't forget, money is ***never*** the ultimate goal. Don't believe me? Look around. There is no shortage of utterly miserable rich folks. Mark 8:36 reads, "*And what shall it profit a man, if he shall gain the whole world, and lose his own soul?*" Money is merely a tool to be used for good. Go make a lot of it. But then do a lot of good—the world certainly needs it.

Until 2025,

Chris

RESOURCES

TSP Resources

TSP Fund Information Sheets

TSP Withdrawal Booklet

Private Investing Accounts

Charles Schwab

Fidelity

T. Rowe Price

Vanguard

Financial Advisors Familiar with FERS

Andy Hudson, Cambridge Financial

Josh Scandlen, Heritage Wealth Planning

Other Resources for FERS Employees

Barfield Financial

FERSGUIDE

Tammy Flanagan

Chris Kowalik/Fed Impact