

Snake oil



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The NALC Retirement Department often receives phone calls from members with questions about various retirement matters. A recent call concerning the Thrift Savings Plan (TSP) was disturbing. The member had just retired and had sought information and advice from a financial advisor regarding his very significant TSP account (\$350,000). He reported to me that the financial advisor had cautioned him that he should move his money out of the TSP because, upon his death, any remaining TSP balance would be forfeited to the federal government instead of going to his spouse.

That financial advisor is likely selling snake oil. His caution is utterly false. If an active employee or a retiree dies with a TSP balance, the balance goes to the person designated by the deceased employee/retiree. If the deceased employee/retiree has not designated a beneficiary, the TSP account balance goes to the widow/widower. If none, the balance goes to a child/children. If none, the balance goes to the parents. If none, the balance goes to the executor of the estate. If none, to the next of kin.

You can read the TSP death benefits policy by linking to the TSP bulletin at tsp.gov/PDF/bulletins/14-04.html or read the implementing regulations of the law itself at gpo.gov/fdsys/pkg/CFR-2011-title5-vol3/pdf/CFR-2011-title5-vol3-part1651.pdf.

I asked myself what a financial advisor would have to gain by providing incorrect information about TSP death benefits. Probably sales commissions, if the incorrect information tricked the retiree into thinking the TSP was a bad deal. Consider these two key differences between TSP and for-profit investment funds.

First, the managers of TSP funds are required as a matter of law to make investment decisions solely for the financial benefit of the TSP participants. Stockbrokers, financial planners, life insurance purveyors and other securities salesmen are not required by law to make investment decisions in your financial benefit, which means they can make decisions with your money (if you hire them) in their own financial interest.

Second, the cost of administering the TSP funds is a small fraction of the average cost of administering private investment funds. These costs are ultimately paid by the investors in the funds. The average annual cost of admin-

istering TSP funds is less than 0.3 percent. The average annual cost of private industry investment funds is 1.5 percent or more. For each \$10,000, the annual cost is less than \$30 (TSP) or \$150 (private investment company).

Given these two significant facts, retirees should carefully consider any decision to move investment funds out of the TSP. When doing that, beware the snake oil salesmen.

Here is a list of questions you should consider asking any salesperson, financial advisor, etc. who suggests you move money out of your TSP account and invest it with him or her:

- What is the average net expense I will pay for every \$1,000 invested?
- What additional annual fees, commissions or charges will I pay for investments?
- What profit do you make if I invest with you?
- Do you have a responsibility (fiduciary obligation) to put my interest ahead of your own?
- Will your plan protect my retirement funds from creditors' claims?
- When I retire, can I receive a series of scheduled withdrawals without giving up control of my account?
- Can I change my investments or take withdrawals without being subject to surrender fees or back-end charges?

If you would like your TSP account to be distributed upon your death according to the statutory order of precedence, it is not necessary to complete Form TSP-3, Designation of Beneficiary.

If you do not want your TSP account distributed in the order of precedence, you can complete Form TSP-3, Designation of Beneficiary. You can download the form at tsp.gov/PDF/formspubs/tsp-3.pdf or you can call the ThriftLine at 877-968-3778 and choose Option 3 to request a copy of the form. Return the completed, original form directly to the TSP address on the form or fax it to the number provided in the instructions. Do not submit Form TSP-3 to your employing agency or OPM. Be sure to make a copy of the form for your records.

If you do not remember whether you have submitted a Form TSP-3, you can find out by calling the ThriftLine at 877-968-3778 and choosing Option 3 to speak with a participant service representative.

Don't let snake oil salesmen scare you away from the TSP with incorrect information.

**NALC Retirement Department
Toll-free number: 800-424-5186**

Available Monday, Wednesday and Thursday
from 10 a.m. to noon and from 2 p.m. to 4 p.m. (Eastern time)