Snake oil

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As the Director of Retired Members, I travel to numerous state and branch events throughout the year. One of my goals is to warn our members about unscrupulous financial planners, or "snake oil salesmen." As you know, not all our members attend these events or even read *The Postal Record*; therefore, I decided to take my message to the workroom floor whenever possible. I am amazed by how many of our members have been contacted by financial planners, by methods including letters being sent to their workplace. I must say that not all financial planners are unscrupulous, but all financial planners need to be vetted to be sure they are who they say they are.

I am reminded of a conversation I had with the previous director of retired members, Ron Watson, concerning a disturbing call he received from a member. 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 Ron 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 was likely selling snake oil. His caution was 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 no spouse exists, the balance goes to a child/children. If no child exists, the balance goes to the parents. If no parents are alive, the balance goes to the executor of the estate. If no executor exists, it goes 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.

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

Ron Watson always preached what a financial advisor would have to gain by providing incorrect information about TSP death benefits. The salesman would probably get a sales commission, 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 interest, 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 administering TSP funds is 0.04 percent per $1,000. The expense ratio of private industry investment funds can easily be *30 times as much*. A private investment fund with an expense ratio of 1.5 percent would cost $1,500 per year, versus TSP costing $40 per year for each $100,000 in the account.

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 that 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/forms/civilianForms.html, or call the ThriftLine at 1-TSP-YOU-FRST (1-877-968-3778) and choose Option 3 to request a copy of the form. Be sure to read the directions carefully.

If you do not remember whether you have submitted a Form TSP-3, you can find out by calling the ThriftLine and speaking with a participant service representative. Don't let snake oil salesmen scare you away from the TSP with incorrect information.