The Government Employee's

Retirement Planning Guide

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Introduction

What is the Future of Our Economy?

Over the last few years I've developed some opinions about our economy. I call it a Bubble Bust. If you're reading this book, I'm sure you know that we have been here before. It's the same thing, just a different name. What's going on with our economy right now is not anything new. But how it's going to affect us overall is going to be overwhelming. We now have a Democrat in the White House. It didn't matter who was elected. The outcome of the United States of America over the next 4,6,8 years is going to change.

The U.S. Economic Timeline

The problem that we face in our country today started 50 to 60 years ago. Grandma and grandpa come back from the big war and started having tons of kids. They're called Baby Boomers. I'm sure you know that Baby Boomers have taken and stretched and pulled everything they've ever done as a generation today. There are two million people each day that are turning 65 and going into retirement.

At age 65, we all have one thing in common. What is it? Medicare. At age 65 Medicare becomes our primary health insurance program. I hope you understand that the problem that we face in America today is unfunded mutual liabilities. What is that? It's basically a promise to pay. My dad spent 20 years in the military and received his pension as a promise to pay. Your retirement program is a promise to pay. Social Security is a promise to pay. What are all of these promises to pay predicated on? People coming behind us, making contributions, putting money in, and taking care of the next generation.

The problem was the Baby Boomers didn't have as many kids as their grandparents. So by pure numbers, there are not enough people paying into the system.

Now take that, those three things, stack on top of this war thing. Wouldn't you agree that we've been stretched as far as we can possibly go?

Add to this a $70 billion bailout. Wouldn't you agree that this is going to stretch us out even more? Our deficit is currently estimated to reach $1.4 trillion by the year 2012. Funding all of the promises to pay is going to come down to you and I because we as donors have always paid the bills in America. They can talk all they want about raising the upper rim and lowering the tax rate, but the responsibility falls on us. We're going to pay the bills. I think it's time we stand up and say something.

I don't believe that we should bail out anybody. This band-aid is really a tourniquet with a chainsaw attached. There is going to be blood in the streets, be it this year or two years from now. I'm sorry. The retirement system is flat broke and it will affect everybody. I believe that what's going to come out is going to unfold a series of problems.

1970s

Between 1973 and 1974 the country experienced a housing blowup. There weren't enough houses because there were too many children being born. This crisis evolved into the school system crisis. We didn't have enough schools to handle all the kids. Out of that we built tons of buildings so people were working coming out of school and looking for work.

1980s and 1990s

Next were the late 1980s and early 90s when we had a serious oil crunch. Remember the situation in Houston? The price of oil went from $25 a barrel to $8. The lights went out and we thought we were done. In Alaska you could buy a house on the hillside or a three-bedroom condo in the valley for free. Those were great opportunities if you had cash. When there is blood in the street there are opportunities, and that's what you need to know. Yes, we have some trouble ahead of us, but if you are forewarned, you become forearmed on what you plan to do.

I did a seminar in Fairbanks where some young kids said they were going to stop contributing to their Thrift Savings Plan (TSP). When I asked them why, they told me because they were losing money. My response to that is simple: You need to change what you're looking at. Don't look at how much you're putting in your retirement account. Instead, look at how many shares you're buying. If you are 15 or 20 years away from retirement, my recommendation to you is to keep buying as many shares as you can. If you are enrolled in the I fund or the S fund, the more you put in these accounts the better.

2000s

By chance did the tech wreck of 2000 affect you? You were if you watched your TSP plan and mutual funds go down. These were some scary times, but we followed that by a 2001 plan. Who would predict that? Adverse geopoliticals. There have always been countries in this world that want to destroy our way of life. It isn't going to change. There is always going to be someone that wants to try and take away our freedom.

The next bubble was the housing bubble of 2005. Believe it or not, in 2005 some places, such as the state of Alaska, peaked. I know people in Alaska who put their house up for sale on Friday and cashed out on Sunday. Everyone was doing it. That was right at the peak. There was an article in the *U.S. World and News* that said: Alaska is the place to retire: Big Lake Alaska. I'm from Alaska and I still have that article framed. Things changed.

Right at the peak things start taking place. Financial stocks popped in 2007. We at Snow Cap use something called exchange traded funds (ETFs). These funds trade like stock, but they act like a mutual fund. The ETF that Snow Cap monitors is SLS. This ETF hit a high 60+ in 2007. If you have guts today, and wanted to speculate, SLS is up to $16/share. The trouble is, who is going to survive?

Do you remember Dean-Witter Reynolds? Are they around today? And now there's Merrill Lynch. Is that around today? What about JP Morgan, First Sterling, and

Lehman Brothers? Did you know that financial experts are projecting that 700 banks are going to fail in all 49 states within the year 2009? This isn't going to be changing them.

The Real Economic Crisis

Think about this. There is a good chance that in the early 1990s you had probably one computer in your home? How many do you have today? Every time you plug something in your wall it demands electricity. And how do we get our electricity? By hydrocarbons, which is oil in some shape or form. And we talk about oil and the price of gasoline today. But no one is talking about the cost of energy. The cost of energy is going up more than the price of gas. So, every time you plug in, another cell phone or get another charger, for example, they are all going to suck up electricity.

Let me just give you an example of how we use cell phones to attract the economy. Cell phones reached mainstream status in 1983. McCall Communications. My number was the 47th number issued by McCall Communications. It was a brick and cost me $3,000. People laughed at me and said, "You're chained to the office. I no longer have to wait in the office for the phone to ring." Today I can run my office from a smartphone, a cell phone that functions like a computer.

We were doing good when we got a 90% market saturation with global tower phones, technology, are going to stat to slip. I discuss these cycles as 10-year cycles. If we go back to 1870 we had a 10-year cycle. Flush that on top of a 4-year political cycle. Take a look at what we think is going to happen tomorrow. No one can predict tomorrow or next year. I can tell you what happened yesterday, before lunch, and 20 years ago, but I can't predict tomorrow. What I do know, and I took this from Winston Churchill, is the further I look back in history it helps me predict what may happen tomorrow. Those predictions are guaranteed to be wrong 50% of the time. Let me share with you what I think has happened and what I think is going to happen. You can agree or disagree.

How the Stock Market Affects the Economy

If we look back at the NASDAQ composite in the year 2000, we got real excited and I thought the NASDAQ by 2010 would actually go to 20,000. We peaked at 5000, came back at a little over 1100, and recently climbed up to 2400. I think NASDAQ is probably done for a while. Technology is being beaten up today. As of this writing, you can buy Apple stock at almost $100 a share. Microsoft is doing another $90 billion buyback of their stocks and raising dividends. There are a lot of changes taking place in this landscape.

Let's consider the geopolitical cycle going back to the 1900s and see how it has affected the Dow Jones industrial averaging. We really thought between 1995 and 2000 that the Dow would be up to 40,000. We're not going to see that. We may see 20,000. We'll probably see 15,000, but I don't see much more than that. These financial credit market risks that we're seeing today are going to have a very adverse affect in the next 12-18 months.

The S&P 500

Just 30 stocks affect the Dow Jones. If you own these 30 stocks, this affects you. Your TSP is more linked to the S&P 500. I am using the Dow because most people know what that is in relation to the stock market. The Dow is horrible. But I'm using that to keep a vernacular in what to think about. I started comparing the S&P, or Standard and Poor 500, to economic profits. As the S&P 500 goes, typically so does our economy.

The S&P 500 is comprised of some of the best-run companies that we have in the United States. When they are profitable, when they are expanding, typically we watch and see expansion in our statewide and national economies. That does trickle down to the global economy as we still are leading. There are articles about how the economy is globally being decoupled from the United States. The reality is we caught a cold today. We may have pneumonia today, but the European and Asian markets are suffering worse than we are on the financial side of it.

The Credit Problem

So we start doing these correlations between the S&P 500 and the economy. During his presidential campaign, McCain was criticized for saying that our economy is fundamentally sound. The S&P 500 companies tell us that our economy is fundamentally sound. What we have is a credit problem. The credit problem is probably going to turn our affect our economy drastically in the next 12-18 months.

Just recently, Bank of America announced to all McDonald's franchise owners their lines of credit have been pulled. I don't know about you but McDonald's is almost a guaranteed million maker. You buy a franchise, people buy the stuff, and you make lots of money. Well, when they expand they start getting into Starbucks' business and doing lattes in addition to salads. McDonald's franchise owners have typically gone to Bank of America to borrow equipment to repay the loan. Well, now Bank of America is saying they are not going to do that for a while.

If you aren't a franchise owner it doesn't affect you directly. It may affect the credit card you're carrying in your pocket. It may mean that you get a letter from Bank of America stating that your Great American Airline Visa, which is at a $25,000 balance has now been reduced. Well, what would you do if you run the credit card and it doesn't work because your limit has been reduced and you don't know about it?

I don't want to scare you. What I'm trying to share with you is the extent of this credit crisis, which everyone is blaming on Wall Street, the big guys, the big CEOs, which it is. The trickle is going to come down and it may affect you and me and the things that we do.

The Housing Bubble

We are all affected by housing. I want to go on record today and say that people at Fannie Mae and Freddie Mac ought to go to jail for what they did. I want to tell you that those people who flipped homes on people who never made a mortgage payment should share the same darn cell with the mortgage companies that didn't buy the house, but who said, "Don't worry about it." "Well, my credit won't work." "Don't worry about

it. We'll give you $10,000 and we'll figure it out." They ought to all freeze in the same stupid cell. They won't. Someone will probably go to jail. We'll probably see that in the next 12-18 months. Like WorldCom and Enron, we'll probably see those things happen again. But you and I have to endure this today.

So we start going back in history again. Look back at inflation in 1880, and how interest rates went up and went down. I love that ad that the Alaska state is running. "Interest Rates are at an All-Time Low at 6%." By first count it's 3 or 4%. The interest rate for my parents was about 2 1/4. Do you remember the old days? 7% in the last 30 years? It's not low. It is expensive.

Building Costs

Then we start tracking building costs. What drives building costs? The big "D" word—Demand. If I want to build a house, I want 2x4s, or 4x4s, and I order more and more and more, while somebody else is ordering less and less and less. It starts to creep up. As demand for building supplies goes up, what happens to the home prices? They start to increase. Track any market you want, I don't care which it is. If you take a chart and draw a 40-degree angle, split it in half, at any time you get too far above the mean, the same thing happens. It goes directly back to the mean and then down. What did Einstein tell us with his law of relativity? For every action there's an equal and opposite reaction.

So, you want to know how low the home prices have to go to stabilize? Calculate how far they are in relative to the mean. If you say, well that's too simple. The problem really is that simple. We're letting emotions get involved. Some people are still investing in the S fund or the I fund because they think it's going to turn around. Because they know what? Last year when you looked at that statement it was the best performer wasn't it? The C fund? That horrible thing. Oh, the G fund didn't make anything. Do you wish that last October you put everything into he G fund? Be honest. All of the except the G & F funds have gone down in value.

What will happen next year? Look at your statement. The G and F funds are doing well. What are you going to do? I'm going to move into the G and F funds about the time that everything else is going to take off. It's very important to understand what happened, but no one can predict it. What you can do is start looking over the horizon and start making reasonable presumptions about the mayhem.

ETFs

SLS is tracking financial assets. This is an exchange-traded fund, an ETF. It acts like a mutual fund, but it trades like a stock. You can buy and sell them from 5:30 am to 12 noon. If you change your TSP plan, hen does the change take effect? After the market closes. So let's say for example that Thursday the market went down 500 points and you were panicking trying to get to a computer to say, "Get me out. Sell, sell, sell." And that afternoon the market went up 400 points. You made a good deal. What happens if the market is up to 500 points and you hit sell, and at the end of the day its down 400 points? Did you make a good decision? You might not have.

With an exchange-traded fund you can stock trade all day long. SLS decapped a little over 40 something odd dollars a share, and now carries a little over $16 a share. I'm not telling you to buy it. I'm just trying to show you this as an example of the tools that should be evaluated as you're looking at financial markets.

Emerging Markets

I also compare emerging markets. The NASDAQ is one of them. It typically sells lower-end, higher-priced stocks as well as emerging markets, such as Argentina. Like China was before the Olympics. The torch went out. If you have money there you might think about making some changes because they are expecting to have a lot of problems on down the line.

Do you like Brazil? People love Brazil. Do you know why? Bravo found a oil discovery in the Atlantic that is almost seven times the size of Cruden Bay. Do you

think that there may be a lot of money being put into the Brazilian economy in the next four or five years? Attract oil at $100+ a barrel? The answer is probably yes.

Wait a minute. South America has inflation problems. They have food riots. They have currency problems. Well, they did in 1999 and 2000. But since then they're current B&F, they're current on all their interest payments, so inflation is under 3%. It might be an opportunity. Here it is. This tells me that our parade is almost coming to an end, as well as this market saturation on mobile phones.

We started out in 1994 with less than 2% market saturation. In 1995 the tech bubble came on, and we were at 13%. At the time of the tech wreck I mentioned earlier we were at 47%. In the last 17 years we've gone up three times the amount we did in the first five years. Do you have one or two cell phones? Most people in the early days either had two cell phones and a pager or two pagers and a cell phone, all stacked up.

Now take a deep breath because I'm about to show you something. I started tracking demographics and trends in the late 70s and early 80s, and I used to look at when taxes were high and inflation was high, markets were horrible. In 1974 what was the highest marginal tax bracket in the United States? 90% or very close to it. In 1974-1976 what was the rate of inflation in the United States? A strong 12, 13, 18%. Then we had Spirit Agnew resign, followed by what? Mr. Nixon resigning, and then he appointed Gerald Ford. President Ford was really a good guy. He stumbled a lot, but he was very intelligent. Was he going to be re-elected? No. Why wasn't he going to be re-elected? Because he pardoned Nixon. That was the end of the game. He was done. And out of nowhere you get Jimmy Carter.

Mr. Carter did some phenomenal things around the world. My politics don't support him, but I congratulate him for the things he's done in Haiti and some of the African countries—just phenomenal. But what happened during that period of time was that the global economy lost confidence in the United States of America. They lost confidence in Washington, D.C., and that was followed by a tremendous decline in our stock markets. In 1981 Ronald Reagan got credit for cutting taxes from 70% to 50%. Had Jimmy Carter been re-elected he would have gotten the credit.

The person who took over a Chairman of the Board for the Secretary of Treasury was concerned about inflation. What we don't realize is that in the late 60s and very early 70s is that we embarked upon a slippery slope, and allowed the dollar to get weak, to balance our trade in the balance of the rest of the world. As we allowed the dollar to get weak, what we did was set ourselves for a foul of double-digit inflation. That was coupled with us Baby Boomers coming along and our parents having to buy, buy, buy and take care of kids and putting them through school. We had more dollars chasing fewer goods; inflation drove markets down.

In 1981 to the year 2000, things start to turn around. Baby Boomers come out of school, go to work, and became productive members of society. The lower taxes accelerated their progress until 1991. In 1991 remember the president? Who was it? George W. Bush. What did he say? "Read my lips. No new taxes." Then he raised taxes by 32%. The stock market didn't like it and it fell from 1991 to 1992. Then we started this huge record. There was a jump in inflation and something happened to the Dow Jones industrial average. The birth rates that I started tracking in 1946, peaked in 1974, and have been declining since then.

So let's go back. In 1974 we peaked in birth rates. So, in 2004 what was our age? 46. Add 10 years to that. It's 2014 and we are now 56 or 57. We're going to peak at 2010 at people crossing the age of 65. We didn't know that we would have two George Bushes as president. We didn't know we would have two Gulf wars. We didn't know we were going to run in the deficit that we're running today. Here's what we knew.

We know that when you retire and walk off into retirement after age 65, your federal taxable income goes down. Why does it go down? Your earnings go down. So we've taught people the last 30 years to stay, stay, stay because when you retire your' in a lower tax bracket. Can you believe it? Whether you were for McCain or Obama, it makes no difference. Federal income tax have a high probability of going up in 2009. I say that by the sheer size of the deficit today. I don't support it, but it has to happen.

I'm now going to change your job title. You're now in the General Accounting office. Your job is to fund federal government. And there is only one way you can fund

federal government and how is that? Tax revenue coming in. We don't profit from selling stock. We simply have to have tax revenue coming in. Would you agree? Let's say you're we're at the Global Asset Limited (GAL), and you're looking at the chart of the economy for one reason—revenue. You know that there is a whole big mass of people working. You know that there are a lot of tax dollars coming in. Now here's the $64,000 question. You also know that revenue is at shortfall. What do you have to do? Would you vote for that in Congress? No, you won't vote for it, I won't vote for it. Well, what's going to happen? They'll raise taxes.

What is the biggest segment of the economy that everyone talks about raising taxes on? The rich. Ever heard of taxless corporations? Let's say that I am a corporation and I pay $250,000 in taxes. If you tax me what am I going to do? I'm going to raise your rate. I don't pay it. Who pays it? Middle America pays it. Because if you're buying my services you're paying higher for my services no, right?

I'm against raising taxes. Please believe me What I don't want you to do is walk into retirement thinking that you're taxes are going to go down 10%. If you plan to have 15%, but end up falling into the 25% tax bracket and your taxes are less, do you win? You're better off, right? If you don't plan for taxes to go up, you lose. Take it for what it's worth. Tax rates are going to go higher. It's sad to say it. For 30 years I've taught classes and preached, "Don't worry about. Stay safe and throw money at your TSP plan, do your K plan, save, save, save" because when you retire your taxes are going to go up. I've explained all of this to say that you can expect the economy to continue to experience changes, and for these changes to affect your retirement plans. The best course of action you can take is to recognize what is going on in the economy and make plans according to your circumstances so that you are effectively prepared for retirement.

Chapter 1

Are You Sure You're Ready for Retirement?

This book explains the benefits associated with the U.S. federal employee retirement system. The information presented in this book is based on 30 years of financial services industry experience. I intend to give you some investing advice to a point, and I know that's big on everybody's mind right now. Right? What's going on in the stock market? What's going on in Congress? I will try to help you understand these issues as they relate to your retirement benefits, but I really cannot give you personal advice because I don't know who you are. I don't have enough information.

This book is designed to educate you on the process of retirement planning. I will give you some ideas and thoughts to encourage you to go out and do your own research and come up with some different options, and help you think outside the box and figure out exactly where it is you're headed. I basically want to help you answer the question, "Am I ready for retirement?"

I would like to share a true story with you. A college student married her college professor who was 10 years her elder. About 21 years into the marriage the husband came home one day and said, "Do you care if I retire?" The wife replied, "No, I don't mind. I'm working. There is a condition. You have six months to do absolutely nothing. At the end of six months you have to find something to do. I don't care what it is. Volunteer, charity, anything." The husband agreed. He retired and six months came and went. Then 12 months passed, and then 24 months. The wife came home at nine at night to be greeted at the door with "Gee Honey, what's for dinner?" This was not the thing to say to his wife.

After 21 years of marriage the couple decided they had to patch up their marriage, but unwittingly determined that patching it up required an adventure. And it

wasn't going to be a little adventure. It had to be a big adventure. They sold their house in the city and a little house at the lake, sold their cars, gave away all of their possessions, and stood on the street corner with a suitcase of clothes. That's it. That's all they had. They were homeless. What were they going to do now? They decided to buy a one-way plane ticket to Spain. They wondered around Spain for several months and finally found themselves on another street corner. Homeless once again, they decided they had to do something. After all, they weren't getting any younger. So, they bought a very big house in Spain and spent four years of blood, sweat, tears, and a ton of money to completely refurbish this house. They bought a car and completely furnished the house, which was a really a cool showplace. They adopted two Spanish cats and returned to America divorced.

I shared this story with you to tell you that it is in your best interest to be prepared for retirement. You and your spouse need to be on the same page. You need to gather up your paperwork. Were you in the military? If so, need to locate your discharge papers. Make sure you have a copy of your social security statement, if you are in fact receiving Social Security statements. These statements are sent out every year about three months before your birth date.

It's also very important to obtain a copy of your personnel file. Not only do you need a copy, but you also need to verify that the information in that file is correct. Check your beneficiary designations. Some federal employees are under the impression that if you are married and have a Thrift Savings Plan (TSP) that you do not need to designate your spouse as the beneficiary. That is incorrect. If you are married and have a TSP, you *must* designate your spouse as your beneficiary. Don't leave anything for chance. Reading this book and attending a retirement seminar is a good place to start to prepare for your retirement. They won't answer all of your questions, but they are a very good beginning place. Figure out your options.

You're going to have to make some very critical decisions before you retire. You're going to have to decide, for example, your survivor options under your Civil Service Retirement System (CSRS). You're going to have to make some very critical

decisions about how to handle your TSP. I am going to give you information about all of this. Whatever you do, don't put off preparing for retirement until the very last minute. Do not wait until you're walking out the door to start frantically looking for paperwork and try to fill in the blanks. A new chapter of you life will be starting and you're not going to want to be dealing with paperwork and processes. So, plan ahead. Think about it. Think how you're going to handle this. What is going to go on those various lines that you need to fill out?

In this book I am going to present the ABCs of retirement planning. You will then need to assess your current situation. You're not going to know whether you've arrived if you don't even know your beginning point. I recommend that you determine your net worth. Do you know your net worth right now? If not, simply add up all your assets, subtract all of your liabilities, and the positive answer (we hope) is your net worth. Your net worth should increase ever year. This is not something you do once in a lifetime. Build the basics. Create some strategies.

Ask yourself some very basic questions. Will your income at retirement be adequate to meet your needs? First year? Yeah. Second year? Sure. Fifth year? Not a problem. At some point you're going to start losing purchasing power. Will you be able to protect your purchasing power from inflation? Will you be adequately protected from risks that could destroy your financial future?

Insurance is important, and I'll touch on that. If you cannot afford to lose it, you have to insure it. You don't have a choice. I know people who have spent most of their lives in Kansas. Dorothy, Toto, the little red slippers Kansas—tornado alley. You would be surprised at the number of people in Kansas who do not purchase tornado insurance, which is the only way you're going to get protection from wind, rain, and hail.

Will your family be adequately protected after your death? What happens to your spouse if something happens to you? What happens to you if something happens to your spouse? You've got to think about these situations. How much was your income last year? Most people at least know the answer to that question. How much did you

pay in taxes? Most people say too much, right? And it promises to get higher. How much does it cost you to live on a monthly basis? You need to sit down and figure that out that amount. How much did you save last year? Most people say, not enough.

I'm going to help you identify some issues, give you a lot of basic information, help you analyze your current situation, and probably raise more questions than you want. But they're issues that need to be addressed. Maybe help you identify the gap, Maybe help you define some solutions, and maybe help you come up with a plan to help you answer those questions.

Ultimately, you will be equipped with information to help you, in conjunction with a financial specialist, make better decisions about your retirement future.