I’ve been asked to write a post about the *Thrift Savings Plan* (TSP), so this will be a bit of a back to basics post for those who are eligible for it. The TSP is basically the 401(k) for federal employees including military members. There is no profit-sharing component to it, so the employee is generally limited to an $18,000 per year employee contribution ($24,000 per year if 50 or over) plus any match she may qualify for.

**Roth Option**

When I was in the military, there was no Roth TSP option, but there now is. While most people should probably use a tax-deferred option instead of a Roth option during their peak earnings years, that is not the case for many TSP-eligible folks. Those in the military are probably in a ridiculously low tax bracket (thanks to low pay, probably no state taxes, and a large percentage of their income from non-taxable allowances and tax-exempt war zone pay) now, so they should generally use the Roth option. In addition, many military and federal workers will have a pension in retirement and the more taxable income you have in retirement, the better Roth retirement accounts become.
The Match

Federal workers (FERS) have had a match (1% of your pay plus 100% of the first 5% of your pay you put in up to a total of 5%) for a long time, but when I was in the military, there was no TSP match. However, the secretary of each of the various services can authorize a match at any time. Occasionally it will be offered for some critical specialties. The Army at one point had a test program going where they would match 100% of the first 3% of your pay that went into the TSP and 50% of the next 2%. With the new “blended retirement system” (automatic for those entering military after Jan 1, 2018 and optional for those already in military) military members will get the same match as federal workers along with significant changes to the pension system. Those changes are much better for those who don’t stay in 20 years since the pension previously had “cliff vesting” and the TSP had no match.

Why The TSP Rocks

The TSP may be the best 401(k) in the country. It has rock bottom expense ratios (people are literally complaining that the ERs increased to 3.8 basis points recently), broadly diversified index funds, and simple “Lifecycle” (like Vanguard Target Retirement) funds. In addition, it has the unique G Fund, which offers treasury bond yields with the safety of a
treasury money market fund. I’ve written about that free lunch before. There are no additional fees.

The TSP is such a great 401(k), that savvy folks don’t roll their money out of it when they leave the military. Instead, they keep it open and roll money into it at every opportunity.

The Funds

There are five basic funds in the TSP:

- **C (“Common Stock”) Fund**: Basically a very low cost S&P 500 index fund
- **S (“Small Stock”) Fund**: An extended market index fund, mostly mid-caps despite the name
- **I (International Stock) Fund**: A developed market index fund- Europe and Pacific, but no emerging markets
- **F (Fixed Income) Fund**: A total bond market index Fund
- **G (Government Securities) Fund**: A unique fund similar to a stable value fund, but backed by the US government instead of an insurance company. As of May 2017, it was paying 2.25%.

In addition to these basic funds, there are also LifeCycle Funds, one for every ten years. The idea is that you pick your retirement date and put all your money in that fund. The asset allocations of these funds in May 2017 were:

- **L (LifeCycle) Income**: 11% C, 3% S, 6% I, 6% F, and 74% G
- **L (LifeCycle) 2020**: 22% C, 6% S, 12% I, 6% F, and 54% G
- **L (LifeCycle) 2030**: 34% C, 10% S, 19% I, 6% F, 31% G
- **L (LifeCycle) 2040**: 39% C, 12% S, 22% I, 6% F, 21% G
- **L (LifeCycle) 2050**: 44% C, 14% S, 25% I, 5% F, 12% G
Like with any retirement date fund, you should pick your fund by the desired asset allocation, rather than the date. Bear in mind these asset allocations are significantly less aggressive than what Vanguard puts in their Target Retirement funds. That’s not necessarily good or bad, just different so be aware of that.

**Tax-exempt Contributions**

Military members can contribute an additional $36K in after-tax money into the TSP while they are deployed. This is not necessarily the best move given that earnings on that money remains tax-deferred. But if you can figure out a way to get that tax-exempt money into a Roth account, then it is a great idea. Unfortunately, in-plan conversions are not currently allowed.

**The Downsides of the TSP**

The TSP has been legitimately criticized as well (and for more than just raising ERs by 1 basis point.) Here are the problems I see with the TSP:

1. **S&P 500 instead of Total Stock Market**

   Total stock market (TSM) funds are slightly better than S&P
500 funds. Not only are they more diversified, but nobody can front-run them. Together with the inclusion of theoretically higher returning small stocks, TSM should have slightly higher returns.

# 2 No True Small Stock Fund
An extended market fund is a poor substitution for a small stock fund. It’s 46% mid-caps. Of course, that’s not all that different from the Vanguard small cap index fund which is 42% mid-caps. If you want a small cap fund that is mostly small caps on a Morningstar X-ray you pretty much have to buy a microcap fund. But it demonstrates the importance of looking under the hood before you buy.

# 3 Simplicity vs Diversification
The TSP is traditionally very slow to add any additional asset classes. So one big criticism that many have of it is that you can’t buy REITs, TIPS, Small Value funds, Gold etc. Again, that’s not necessarily a bad thing since simplicity helps lots of people avoid dumb mistakes AND keeps costs low. But it forces asset class junkies like myself to build around what the TSP has using Roth IRAs or a taxable account.

# 4 Only One Partial Withdrawal
The big problems with the TSP, aside from the fact that you have to deal with government bureaucracy and military finance offices when using it, are all related to getting your money out of the account. For example, you can only do one partial withdrawal from the TSP IN YOUR ENTIRE LIFE! I’m not talking about while you’re employed (you can’t do one then). I’m talking about after you separate from service. I had to use mine to get my tax-exempt money out into a Roth IRA. But the next time I want to roll money out of the TSP, I’ve got to take it all out. They’ll let you do as many rollovers into the TSP as you like, but it’s a lot harder to get your money out.
# 5 Limited Distribution Options

Speaking of getting your money out, another big issue is when it comes time to spend your money in retirement. You have five options:

1. Leave the money in the TSP and just take your RMDs.
2. Take it all out- either pull it out and pay the taxes (and possibly penalties) on it and put it in a taxable account or roll the entire thing into an IRA or 401(k).
3. Take out a specific dollar amount every month until the money is gone. This amount must be at least $25.
4. Take out an amount each month calculated based on your life expectancy. This is not technically an annuity (i.e. no guarantee the payments won’t go down over time with poor investment performance) and the amount you get is recalculated each year.
5. Annuitize the account. The annuity can be single, joint, with 100% or 50% to the survivor, and can be flat payments or indexed to inflation.

You can also do various combinations of the last four options. i.e. you could annuitize half of it and roll the other half into an IRA.

# 6 No Mega Backdoor Roth IRA Option
There are no real in-service withdrawal or in-plan conversion options and the only time you can put in after-tax money is while deployed. Most 401(k)s don’t offer these, but some do!

**Loans and Hardship Withdrawals**

Like many 401(k)s, the TSP also offers loans and hardship withdrawals. Obviously, try not to. Neither are great options for extra cash. Loans must be repaid upon separation (or it triggers taxes and penalties) and hardship withdrawals may still cause penalties to be assessed (along with the expected taxes.) Either way, it’s certainly going to impede the long-term growth of the account.

**Summary**

In summary, the TSP is a great 401(k) and you should feel lucky to have access to it. It does, however, have a few quirks you should be aware of. Hopefully it will continue to improve as the years go by.

What do you think? Do you have access to the TSP? How do you use it and why? What do you like and dislike about it? Comment below!

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**Revamping My Small Business Retirement Plan**

*[Editor’s Note: This is a guest post I asked a regular poster on the Bogleheads board to submit to the blog. He is an attorney who wishes to remain anonymous who was responding to*
Q.

I’m an interested employee doing research on options for improving the 401k plan for the company I work for. My primary goals are to reduce cost and improve fund selection (including the introduction of index funds, preferably without any additional asset-based fee imposed on top of the expense ratio).

One thing that’s come up in my research is the possibility of paying somebody to advise us on our plan on an hourly or flat-fee basis instead of based on assets under management (as our current advisor is). How (and how much) does your 401K plan pay your advisor? What responsibilities does the advisor have? Are they a 3(21) or 3(38) fiduciary? Does anybody have any suggestions about how to go about finding an advisor who would work this way? Most references I’ve come across so far seem to expect a fee based on AUM.

I recommended a provider for, and selected the funds for, the 401K plan that my employer now has with Employee Fiduciary (EF). At a prior employer, I researched the issue and proposed moving our plan from a high-fee insurance company provider to EF, but the management refused to switch. When one group of employees left to form a new venture, two bonuses of the move occurred to me: (1) I could roll my 401K account balance into a low-fee IRA, and (2) I would make my feelings about the 401K plan at the new firm known before any provider had been selected.

You Might Not Need An Advisor
I searched for an advisor willing to take on an advisory role on an hourly basis, and couldn’t find one. As I recall, I contacted a nearby advisor listed with the Garrett Network. I believe that he offered hourly fees in general, but needed to research the issue of whether he could do so for an entire plan. In the end, we never heard back from him, and proceeded to adopt the plan without using an advisor at all. I have to assume that the fear of liability may drive many advisors away, and that the returns of providing a few hours of service a year to a small firm aren’t worth the risk of legal exposure. It’s also possible that hourly advice to an entire plan is not a task for which insurers have a ready-made coverage package for.

Minimizing Liability

I convinced our management to proceed without an advisor. The firm undertook various steps to minimize the likelihood of financial misadventure. First, the fund handling was set up so that funds were deposited by default into a low-risk money market fund. Thereafter, the funds are only moved into index funds, or target date funds (the only kinds of funds we have) if the employee himself/herself moves the funds there. To further reduce any potential liability claims, we selected a fund mix that mirrored the Federal Thrift Savings Plan (TSP) fund mix, using all Vanguard funds. As I recall, the single most volatile fund in our offering is the Vanguard S&P 500 index fund (VFINX). I believe that an employee at EF first relayed the logic of this approach to me. In brief, the reasoning is that since the plan parallels the TSP, it could only be considered a violation of fiduciary obligation, if it also found the defined contribution plan available to all federal employees (the TSP) in violation. Since this prospect seemed highly unlikely, it appeared safe to proceed in this manner.

For an employee to sue, he would have to tell the judge/jury that: (1) he or she moved funds from a safe money market fund
to the stock index fund on his own; (2) the entire U.S. stock market declined; and (3) the employer should be held responsible for the stock marked declining. The ridiculousness of this claim, coupled with the inability of any of us to find a single case (we’re lawyers) where anyone had sued, successfully or not, over this type of issue convinced the management to proceed without an advisor.

Fiduciary Liability May Be A Scare Tactic

I mention the liability issue because addressing it is paramount in avoiding the advisory fees. The large insurance firms offer warranties of coverage against any liability arising from an employee lawsuit (however unlikely). They tend to trumpet this risk as the reason to pay the fees required for the insurance company plans. The sound of this tends to scare most employers into falling in line with the large insurance company plans and their 2% annual AUM fees. The irony is that all the lawsuits I could find when searching on the Internet concerned grievances about high fees, not the performance of the underlying investments. [Such as this one mentioned by Litovsky last week-ed] The insurance companies also divide and conquer by imposing their high fees mostly on the plan participants while offering the plan decision makers (law firm partners, or managers in a corporation) far superior arrangements with higher contribution limits and limiting the fees paid directly by the employer.

In my experience, fear of lawsuits was the crux of the matter. It was comparatively easy to convince people of the benefit of passive investing with low fees over active management with high fees. However, convincing owners of small firms to ignore the disingenuous warnings about liability from high-fee providers proved to be much more difficult. One advisor specifically warned our management that they were proceeding dangerously. Luckily, in our case, we overcame his fear mongering. The advisor now hates my guts of course. But, I’m
ok with that. I regard the hatred of a financial advisor as a surefire indication that we did the right thing.

*What do you think? Would you implement a retirement plan without an adviser? What have you done to keep costs down in your practice retirement plan? Comment below!*

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**7 Financial Benefits of Going To War — Military Physician Series**

There are lots of financial benefits of being in the military. Very few of them are easy to understand, however. Unlike in the Vietnam era, our citizens and politicians are currently very keen on “supporting the troops.” This is manifested in a lot of little ways that can add up to serious money, especially when you deploy to a combat zone. Here is a list of just a few of them, a financial how-to guide to deploying, if you will.

1) **Lower your interest rate on your loans**

You should be very familiar with [The Servicemember’s Civil Relief Act](https://www anglia com), updated in 2007. It provides all kinds of opportunities for you. For example, it can keep you from getting sued while on active duty for all kinds of reasons. It keeps your family from being evicted even if you don’t pay your rent (of up to $1200) and can even prevent foreclosures. It gets you out of rental leases. It will keep your life insurance up to $250K in force even if you don’t pay the premiums. It can even lower your working spouse’s state
taxes.

But perhaps most significantly for military doctors, it can lower the interest rate of any loans you have prior to going onto active duty. Students loans, mortgages, consumer loans, credit card loans, peer to peer (P2P) loans, and car loans all have their interest rate permanently capped at 6%, as long as you entered into the loan before going on to active duty. Compared to most doctors, military docs don’t generally have a lot of loans, but if this situation applies to you, you might as well take advantage of it. (If you’re a P2P investor, be wary of loaning to military folks. Yes, they’ve got reliable income, but that 25% loan may suddenly drop to 6%)! The SCRA comes into play when you come on active duty, not necessarily when you deploy, but for reservist and guard physicians, that’s often the same thing.

2) Lower your expenses

In general, when you deploy, all your food, clothing, housing, health care, and transportation needs are 100% covered. You have literally no need to spend money, at all. In fact, if you’re single and renting, you could stick your stuff in storage and save nearly 100% of your income during the deployment. Even if you’re leaving a family behind, at least you get to save what you’d be spending.

3) Deployment allowances

When deployed, you may be entitled to Family Separate Allowance ($250 per month), Hardship Duty Pay ($100 per month), and Hostile Fire Pay ($250 per month.) Even a doctor stationed in Germany who flies into Afghanistan one day a month to pick up a patient qualifies for Hostile Fire Pay, since you only need to be there one day to get the entire allowance.

4) Tax-Free Pay
A significant portion of military physician pay is tax-free even without a deployment. The Basic Allowance for Subsistence ($2880 per year) and the Basic Allowance for Housing (typically $20-30K for a military doctor) are always tax-free. In addition, most military members have figured out that if their permanent residence is in a state without an income tax, they don’t pay any state tax. It is amazing how many license plates from Florida, Nevada, and Alaska are seen on a military base! You’d think there was a direct correlation with casinos and military service!

When you deploy, even more of your income becomes tax-free. In fact, for most military doctors, nearly ALL of your deployed income is tax-free. The limit is currently $7609.50 per month. Since the base pay for a typical doctor is generally in the $5-7K per month range, it becomes all of your base pay and much of your bonus pays. In fact, a lot of enlisted guys reenlist while deployed because it allows much of their reenlistment bonus to be tax-free.

5) Roth Roth Roth

So now that we’ve determined you’re going to have a lot more after-tax, after-living-expenses money while you’re deployed, what should you do with it? Since you’re going to have very little tax liability in a year you’re deployed, you should put as much as you can into after-tax retirement accounts such as Roth IRAs and the Roth Thrift Savings Plan (TSP). You can put $5K into your own Roth IRA, $5K into a spousal IRA, and $17K into the Roth TSP (new this year.) Not only will that money not get taxed when you make it, it won’t get taxed as it grows or as you withdraw it in retirement. Triple-Tax-Free! Can’t beat it. Oh wait, you can. If you can get your taxable income under $50K (easy to do with a long deployment) you may qualify for the retirement savings credit, and get up to another $1000 back on your taxes.

6) The Savings Deposit Program (SDP)
You can put up to $10K into the SDP. Actually, you can put in more, but the government will only pay interest on up to $10K of it. The money can go into the account the first month you’re deployed and stay there for up to 3 months after you return home. You can put it in there as a direct withdrawal from your paychecks, or simply write a check to finance your first month. (Hint: don’t take no for an answer and they’ll eventually take your check.) The best part of this is that the account pays a guaranteed return of 10%, approximately 1000 times more than money market accounts are currently paying. If you have a 9 month deployment, and leave that money in there for 12 months total, it’ll earn an extra $1K. It’s taxable, of course, but not at a very high rate since you have little taxable income that year.

7) Tax-exempt TSP Contributions

While the previous 6 suggestions have been “no-brainers”, this one requires a bit more thought. It turns out that while you’re deployed and making all that tax-exempt money, but have already maxed out your TSP (preferably Roth TSP), you can then contribute that tax-exempt money into the TSP, up to a total of $50K for the year (that includes your TSP, Roth TSP, and tax-exempt TSP contributions.) That isn’t always a good idea, since the earnings on those contributions (but not the contributions themselves) are fully-taxable in the year you withdraw them (or convert them to a Roth IRA.) It’s a bit like using a low-cost variable annuity instead of investing in a taxable account. But for many doctors, it can be a good idea.

If you’ve used the Roth TSP instead of the traditional, tax-deferred TSP, for your entire career (as many doctors should,
but there’ll be another post on that) it’s a no-brainer. Put the money in. Then when you separate/retire, you roll the money over to a Roth IRA and just pay to convert the earnings. (I don’t believe that even with the new Roth TSP coming out that those earnings will be tax-free.) Unless you stay for decades after that deployment, those earnings will be a relatively small percentage and paying tax on them will be a small price to pay to have a huge Roth IRA.

Even if you’ve used the tax-deferred TSP for most of your career, those tax-exempt contributions can still be a great idea, since there is a way to separate the tax-exempt money from the taxable money after separation, even without losing access to the TSP. The TSP doesn’t allow you to roll after-tax/tax-exempt money into it. So after separation, you roll almost all the money out of the TSP to a traditional IRA. You then roll all the taxable money back into the TSP and convert what’s left to a Roth IRA for a minimal tax bill. Of course, just like with a backdoor Roth IRA, you can’t have any other traditional or SEP-IRAs or you have to do the pro-rata calculation. You could always roll those into the TSP before the conversion though.

But if you’ve used the tax-deferred TSP for most of your career and plan to stay for decades, you may be better off just investing that tax-exempt money in a taxable account or using it to pay down your mortgage or other debt. Plus, then you don’t have to deal with Military Finance screwing it all up (which I assure you, they will.)
The G Fund, a Free Lunch – Military Physician Series

This will be the first in what is likely to be a long, but intermittent, series of posts designed specifically for the military physician. As a former military physician, I’m well-aware of the huge financial benefits of being in the military (primarily lower taxes) and the just as huge financial drawbacks (primarily lower pay.)

Military docs are basically limited to 4 retirement plans:

1. The military pension (stay 20 years, get 50% of your base pay indexed to inflation for life, plus Tricare)
2. Roth IRAs/Backdoor Roth IRAs
3. SEP-IRAs/Solo 401Ks for moonlighting money, and
4. The Thrift Savings Plan (TSP), the government’s version of the 401K.

The TSP is a wonderful, low-cost, index fund-based plan which will soon have both a traditional and a Roth 401K option. One of the funds available within it, the Government (G) Fund, deserves special recognition. It’s hard to get excited about it given our current low yield environment, but I’m confident that when you understand its benefits, you’ll include it in your retirement portfolio. Here are the benefits:

Very Low Cost
Like the other TSP funds, huge scale allows for an expense ratio less than 0.03%, or basically a quarter for every $1000 invested. That makes Vanguard’s ERs look downright expensive.

**No interest rate risk**

Like a savings account or a money market fund, there is no interest rate risk. You cannot lose (nominal) principal in this fund. It only goes up. The yield is the return. If rates go up, most bond funds lose principal. Not so with the G fund. Of course, when rates go down, you don’t gain principal, but you can’t have everything good and nothing bad in an investment.

**No credit risk (well, very little)**

The entire fund is composed of very short-term loans to the US Government. Despite recent events (include a credit downgrade), this is still the safest entity in the world to loan money to. Not only does the US have the world’s strongest economy and strongest military, but it also possesses the ability to raise taxes and even print money out of thin air, unlike corporations, state and local governments, and even many foreign countries. No, it isn’t FDIC insured, but it is insured by the full faith and credit of the US Government, which is what stands behind the FDIC anyway. Even a typical money market fund lends money to corporations and other less credit-worthy institutions.

**Outpaces inflation (traditionally)**

Investments with risk profiles similar to the G Fund, such as savings accounts, T-bills, and money market funds have traditionally kept pace with inflation. But due to its unique structure, the G fund has actually bested it. From the origin of the fund in April 1987 through December 2010, inflation has basically cut the value of a dollar in half. But a dollar invested in the TSP back in 1987 is now worth $4. It’s not Apple, but it is better than inflation.
The returns for the G Fund are determined by the average yield on US treasury bonds with a duration of longer than 4 years. But since there is no interest rate risk (which you would have if you held all these long-term treasuries directly), you’re getting a free lunch. Long-bond yields for money market risk. Given our current low-yield environment, even long-bond yields aren’t very impressive. In fact, this month the G Fund is only paying 1.625%, well less than inflation. But consider the alternatives with similar levels of risk:

1. Vanguard Prime MMF currently yields 0.03%. The Treasury MMF yields 0.01%. That’s right. 0.01%. If Adam (of Adam and Eve fame) had invested his money at 0.01%, he would not yet have doubled his money.
2. The average savings account in the US is paying 0.14%. Even the highest yielding accounts are only in the 0.8-0.9% range.
3. 5 year CDs are averaging 1.14%, although I did manage to find a few that have similar yields to the G Fund.

So, your options are to take the G Fund, which you can exchange tomorrow for something else without penalty, or you can lock your money up for 5 years for the same return. That 1.625% isn’t looking too bad now, is it. When interest rates return to “more normal” levels, that return will be quite a bit higher. The average return on the G Fund since inception
is 5.86%. I wouldn’t expect that going forward, but I would expect it to slightly outpace inflation over the long run. Non-military physicians may have access to similar funds in their 401Ks, called stable value funds, which generally have higher than money market yields, without risk of loss of principal. However, these are not quite as safe as the G Fund.

In short, the G fund is a great addition to the TSP. It offers a place for the cowardly to avoid any kind of market risk and yet still outpace inflation with their savings. It also deserves a place in a multi-asset class portfolio. My G Fund allocation provided “dry powder” for me to rebalance my asset allocation in Fall 2008, facilitating “buying low” in the riskier funds. The less risk you take on the fixed income side, the more you can take on the equity side. You can’t get much less risky than the G Fund, and its free lunch bonus return makes that deal even better.

My 401K Statement Makes Me Laugh
I’ve written before about my 401K. Every quarter or so I get this really detailed 401K statement from our 401K administrator which cracks me up because it is such good evidence of the folly of choosing actively managed funds and performance chasing. There’s a few other little quirks that just make me shake my head too.

Overall, it isn’t too bad as a 401K. The fees aren’t that much, the ERs are high, but not ridiculous, there’s at least one very low cost index fund I can build around, and there’s a brokerage option that allows me to buy anything (although there is a $200 annual fee for that option.) I’ve definitely seen much worse 401Ks. But it does make me miss the TSP I had in the military, where everything was ultra-low cost, there were no additional fees, screw-ups with contributions were unusual, and there were 4 great index funds and the free-lunch G fund.

So, change # 1 to my 401K this year is that they’re phasing out the stable value fund. This isn’t the 401K plan administrator’s fault, it’s just that Charles Schwab has decided to liquidate the fund. This is really too bad, because these funds are often great choices in a 401K. They’re kind of similar to the TSP G fund. It’s not exactly clear why Schwab is getting out of the stable value fund business, as it is seems more profitable than it was just a couple of years ago at the height of the financial crisis. Stable value funds are way better right now than a money market fund (which are paying basically 0% right now.) So my 401K is substituting the stable value fund for a money market fund. Thanks guys, way to hook us up. You couldn’t find another stable value fund outside of Schwab, or at least a decent bond index fund to exchange it for in the plan?

Change # 2 to my 401K is that the administrator has decided to fold the Growth Fund of America into the Schwab Total Stock Market Index Fund. The administrator’s philosophy is that he
can *choose the good mutual fund companies and avoid the bad ones*. He does this primarily through past performance data. So now that the Growth Fund of America has been doing relatively poorly, he decided to drop it. He apparently also just realized that the GFA has been a high-cost closet index fund for years. What a surprise.

I find it fascinating that the administrator continues to chase performance like this. The data that it doesn’t work is clearly right in front of him (since he sends it to me each quarter.) He ranks each fund in the plan against its peers. Of the ten funds in the plan last year, 5 did better than their peers on average, and 5 did worse. The 3 year and 5 year data looks exactly the same. My 401K money is entirely in the Schwab Total Stock Market Index Fund (which beat 72% of its peers in the last year, 85% in the last 3 years, and 80% in the last 5 years.) That’s better than all of the chosen actively managed funds have done. Obviously I have other retirement accounts (including that old TSP), so I haven’t had to use any of the other funds in the 401K yet. I probably won’t. Once the amount in the 401K is more than my allocation to TSM, I’ll probably avail myself of the brokerage option (or perhaps get on the 401K committee and try to make some real changes.)

The other interesting thing about this quarterly statement is that they compare all of the 401K participants (anonymously) to each other. The company is basically 100 emergency doctors and a few other employees. By doing nothing but put all my money into the only index fund in the plan, my investment returns are better than 72% of those at my company. Why the administrator feels this is a relevant fact to share is beyond me. I’m not sure trying to institute some competition is the best approach to running a 401K. Reporting that data probably does, however, encourage plan participants to performance chase and time the market. In fact, the paperwork
accompanying the statement encourages you to come meet with the advisor if you were in the bottom 40% of the company. Never mind that most of the doctors in this plan have other retirement assets, are different ages, have different risk profiles etc. In fact, it’s likely that the 28% of plan participants that had higher returns than I did last year were invested entirely in the now-discontinued stable value fund and/or the seriously-underperforming PIMCO Total Return Bond Fund.

The best part of the form however is this statement:

> How do you know your risk tolerance? If you always drive at or below the speed limit you are conservative. If you like driving 80 miles per hour (which, ironically, is the speed limit on the interstates around here), you are aggressive. If you’re somewhere in between, you’re moderate.

Seriously, if that’s how you decide on your asset allocation, you need some serious financial education.

Have you looked at your 401K statements and the paperwork accompanying them? You may be in for a shock to realize just how financially unsophisticated those running your 401K are.

Photo Credit: Charlie Cowins, CC-BY, Wikimedia