

# The G Fund Vs.The F Fund

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Many federal employees now more than ever, are wondering whether they should reallocate their TSP money into the G Fund or F Fund. Here are our thoughts.

The G Fund is the safest of the TSP Funds because you can't lose money, but the returns are barely keeping up with inflation. During the past 12 months, the G Fund has earned about 2.00%, and Congress wants to lower the G Fund yield to well under 1.5%, so then what?

The next safest Fund in our opinion is the F Fund, but you can and probably will lose money there, at least during the next few years.

Very much like the C Fund, S Fund and I Fund, the F Fund is not managed to maximize gains or minimize losses. The entire objective of the fund manager, BlackRock Institutional Trust Company, N.A. (who gets 29 cents per \$1000 invested off the top) is to match the performance of the Barclays Capital U.S. Aggregate Bond Index.

Now maybe you didn't know this but contrary to what would appear to be "common sense", Bond Funds like the F Fund go down when interest rates go up. Here's an easy to follow example:

Suppose you buy a new \$1000 bond tomorrow that pays a 3% rate and in one year interest rates in general go up to 6%. New bonds will then be issued at 6% (your 3% bond is stuck at that 3%). If you want to sell your 3% bond, a buyer won't pay you \$1000 because they can get an 6% return now, so in order for you to sell it, you are going to have to sell it at a loss of \$500.00. This gets your \$1000 3% bond up to the 6% yield they can get elsewhere because they bought it at a 50% discount.

If it were our money, we would avoid the C,S, I, G and L Funds for a while. Too risky if you are retiring within 10 years!

## **Federal employee question of the day**

From a Homeland Security Federal Employee in Washington, D.C: I'm a federal employee and I'm thinking of retiring this year. I'm 68 years old and will only have 13 years of federal service. I have a managed account with Merrill Lynch (stocks), a traditional IRA and a Roth IRA (all at Merrill Lynch). I met with a Merrill Lynch representative recently and he talked about my moving my TSP account to Merrill Lynch when I retire. He was talking about a 1.4% fee to manage all of my accounts at Merrill Lynch with the objective of generating income when I retire. Is this a smart move? Is this an astronomical fee? I'm confused and really don't know what to do. Can you help?

## **Have you ever had any questions like this?**

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