Government Executive

Advice From a TSP Millionaire

By Tammy Flanagan

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As we continue to celebrate Financial Literacy Month, I've been thinking about a column I wrote in February about one of the Thrift Savings Plan's newest millionaires, Jim, who had just achieved a seven-figure balance in his TSP account and was getting ready to retire from his federal job. Now that he's retired and has a little more time on his hands, Jim recently wrote to me to offer some insights on his method of achieving financial security. I have a feeling some of you may have additional tips to add to his list.

Here are his words of wisdom and my two cents:

I generally spend two to four hours on managing our investments most weeks. When I am making changes to or buying new stocks, mutual funds, Exchange Traded Funds or other investments, I can go on for four to eight hours for that week. In addition, for entertainment I do watch CNBC and other investment programs.

I think it's interesting that Jim listed the time he dedicates to managing his investments as his first tip. It appears to be an enjoyable activity for him and he devotes substantial time to it. I know of at least one website, The Mint, that tries to make learning about money management fun. Also, you can try the TSP's YouTube channel.

Decide what you need to allocate to cash, bonds and stocks. Then set limits on how much they should move before rebalancing. Even if nothing changes, look at them two times a year to see if it is still the percentage you want allocated to each area.

Diversification of your investments is very important. If you don't want to invest too much time and into diversifying your TSP funds, then the life cycle (L) funds may be for you. They allocate and diversify your TSP account for you between the C, F, G, S, and I Funds according to your target date closest to when you plan to start spending the money in your TSP. These funds are rebalanced on a daily basis and reallocated on a quarterly schedule as the fund moves closer to the target date. You can choose target dates for years 2020, 2030, 2040 and 2050. Here's more information about the L funds.

I do not think that my diligent savings habits affected my family very much. First, in hindsight I think I gave my children too much. They got most of the things they wanted and had the same things their friends had. We did not have boats, sport cars or a motor home, and I would keep my cars for a long time and kept them in good condition.

Jim clearly made an effort to live within his means by not being extravagant in spending and keeping his long-term goals in mind. One piece of advice my husband has given me over the years of our marriage has been that once all the bills have been paid (including the money earmarked for savings), then we can spend what is left on the things that we want. He reminds me a lot of Jim in his focus on using basic principles of money management to achieve long- and short-term financial goals.

In his message to me, Jim also related that his mother and father had lived through the Great Depression. They earned very little, but always put a small amount each week into a savings account. He learned to save from them. After Jim graduated with a degree in electrical engineering, he worked at Hughes Aircraft and became very interested in learning about investing. He found older engineers that did a lot of investing and learned from them. He also got books and took a short course on technical trading. He traded a lot based on technical indicators. After working for a year, Jim went back to school to get his master's degree in electrical engineering and reinvested all of his profits when his investments did well. He stayed very busy furthering his education during those years and eventually earned his doctorate degree. There was little time or money to invest, but these years were the foundation for his future success.

Jim recommends a couple of books: *Security Analysis*, by Benjamin Graham and David Dodd; and *The Millionaire Next Door*, by Thomas J. Stanley.

Here are some final words of wisdom from Jim:

- Make saving a habit by putting money away before spending on anything else. Then figure how to live on the rest.
- Get only the things you really need and work on getting them at the lowest price. Almost make a game of it.
- Do the things you really like but find ways to do them for less.
- Pay off credit cards monthly. If you can't do that, don't use credit cards.
- Only buy the things you can afford. You'd be surprised at the things you don't really need.

I've found over the years of teaching retirement planning to federal employees that most are better prepared for retirement than they think they are. Many are very diligent about saving for the future. Those who have earned federal retirement benefits over the course of their careers do not need to have as much saved as the average American to provide adequate replacement income for their retirement. But it's always good to make sure you can enjoy a feeling of financial security in the years after the pay raises and promotions have ended.

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