



Pre-Retirement Checklist for Federal Employees

Tammy Flanagan details the many financial factors to evaluate when considering the optimal time to retire.

0221



Pre-Retirement Checklist for Federal Employees

By Tammy Flanagan

How do you know when it's the right time to retire? Puzzling out the pieces of your post-work future requires both planning and some adaptability. Recently, retirement may have been prompted by a COVID-19 furlough or other issues related to the pandemic. For some, it simply boils down to having enough income to cover expenses. Others may want to spend more time with family members or begin something new. There are countless reasons to move into the next chapter of life that we call retirement. Retirement can be an emotional decision as well as a financial one.

Not everyone needs to replace their pre-retirement income. Early retiree Steve Adcock wrote in Market Watch, he and his wife "spend in the neighborhood of \$30,000 to \$35,000 a year." They sold their home and bought an Airstream trailer, and they make a little extra money producing YouTube videos of their travel adventures. Steve feels that early retirement is "a remarkable feeling of control, each and every day." But the key to his happiness in retirement was having a plan in place prior to him and his wife leaving their jobs.

Whatever your plans for life are after retirement, it is important to do your pre-retirement planning to be sure there are no hidden surprises. Knowing that you've done your best to prepare for retirement financially and mentally should help you feel more confident when you make the decision to file your retirement application. The following are tips for assessing your financial readiness for retirement.

Financial Planning.

This involves knowledge of how money works and understanding the rules of investing and money management. Finding the best strategies may require professional help. Consider working with a trusted financial advisor to help you design a plan for retirement spending and investing. To be sure that you find someone who is looking out for your best interests, use the tools available at www.Investor.gov, a website created by the Securities and Exchange Commission to help the public make sound investment decisions and avoid fraud.





Pre-Retirement Checklist for Federal Employees

Debt.

Eliminate your debt and create an emergency fund. In other words, live within your means. This might be a maxim that you've lived by throughout your career, but if not, now is the time to get serious about it.

- Pay down debts with the smallest balance or eliminate debts with the highest interest rates. Credit card debt, followed by personal loans and car loans, generally have the highest interest rates. If you have a low interest rate on your mortgage balance, you may be able to continue to make payments in retirement as long as you don't deplete your retirement savings too fast.
- Put away as much as you can in an emergency savings account. Six to twelve months of living expenses should be sufficient.

Retirement income.

Take an inventory of your retirement income. Sources of retirement income include pensions (e.g., military retirement, CSRS or FERS benefits), Social Security and retirement savings (e.g., Thrift Savings Plan, IRAs, 401(k) plans).

Whether you're CSRS or FERS, you will need an accurate estimate of your benefit. Ideally this estimate will be calculated for the specific date you have chosen to retire by a retirement specialist in your HR office who can review your history of federal employment.

Reductions to CSRS and FERS retirement benefits include:

- Survivor elections.
- Unpaid service credit deposits or redeposits.
- Service that has not been verified or is not creditable.
- Part-time work schedule or intermittent work schedule
- Reduction (offset) at age 62 or at retirement, if later, for those who are CSRS Offset.
- Court ordered benefits to a former spouse.

FERS employees who retire with an immediate, unreduced retirement and are under age 62 are entitled to a special retirement supplement that will bridge the years between retirement and age 62, when Social Security retirement eligibility is reached. The supplement is subject to an earnings test which may reduce or eliminate this benefit due to post-retirement earned income. If eligible, the supplement amount will be included with your FERS retirement estimate.

The withholdings from CSRS and FERS retirement benefits include taxes (federal and possibly state income tax) and insurance (FEHB, FEGLI, FEDVIP and FLTCIP).

Note: The government contribution to your FEHB premium continues in retirement; however, your premium will be paid with after-tax dollars. Premiums for FEGLI will depend on how much coverage you wish to maintain after you're 65 and retired.





Pre-Retirement Checklist for Federal Employees

Social Security.

Be sure to set up a *My Social Security* account at www.ssa.gov to access your benefits online. You may apply for Social Security retirement benefits as early as age 62 or as late as age 70. File on the website or by calling 1-800-772-1213. Once you determine when to claim Social Security, remember that it may be partially taxable on the federal level, but only a handful of states tax Social Security benefits. Medicare Part B premiums will be withheld from this benefit if you are age 65 or older and enrolled.

Consider the following questions when determining the best time to file:

Are you old enough to file?

Widows' benefits and disability retirement benefits may be payable before age 62, but for retirement benefits, you must be at least age 62.

Are you going to work?

If you are under the full retirement age (between 65 and 67, depending on your year of birth), there is an earnings limit that will cause your benefit to be reduced if you have wages higher than a certain limit (\$18,240 in 2020).

Do you need the money?

According to the Social Security Administration, among elderly Social Security beneficiaries, 21 percent of married couples and about 45 percent of unmarried persons rely on Social Security for 90 percent or more of their income. If you have enough other income, then you may be able to delay your application for Social Security benefits beyond your full retirement age and earn delayed retirement credits.

How long are you going to live?

Whether you file at age 62 or wait until 70, you will receive about the same amount of income if you live to around age 81. You will either receive a smaller check for more years or a bigger check for fewer years as the calculation of the benefit is actuarially equal. If you live a long time, delaying your application to receive a larger Social Security benefit may provide the income needed to cover your household and healthcare expenses later in life when you may have spent down your retirement savings. Consider that in 2016, there were 82,000 centenarians in the United States. This figure is expected to increase to 589,000 in the year 2060. Federal retirees tend to live longer. In 2018, there were 2,120 federal employee annuitants who were age 100 or higher and 3,358 survivor annuitants who were age 100 plus. According to Ken Zawodny, associate director for retirement services at the Office of Personnel Management (OPM), approximately 250 federal retirees reach age 100 every month.

Is anyone else depending on your income?

If you are married and can rely on two annuities or savings accounts, finances may be great. But when there is one of you, how solid will you be financially? Delaying your Social Security to receive delayed retirement credits can provide larger widows benefits.





Pre-Retirement Checklist for Federal Employees

Medicare.

If you or your spouse will be age 65 or older at your retirement, contact Social Security to enroll in Medicare Parts A and B. Your initial enrollment period begins three months before you turn 65 and lasts three months after your 65th birthday. During your initial enrollment period, you may enroll in Medicare online at Social Security's website. If you (or your spouse) are still working and covered under current employment health insurance at age 65, then there is a special eight-month enrollment period after your retirement in which you can enroll in Medicare Part B without a late enrollment penalty. It is important to have your agency or OPM complete form CMS L564 – Request for Employment Information to show that you were covered under current employment health insurance. You will also need to complete form CMS 40B – Application for Enrollment in Medicare - Part B and mail it to Social Security.

Create a withdrawal plan for your retirement savings.

Decide how to use the retirement nest egg you've accumulated to create a stream of income to supplement your pension and Social Security.

Thrift Savings Plan.

The final piece of the financial puzzle is your retirement savings. You will need to wait about 30 days after you retire to make a post-separation withdrawal from the TSP. To request a withdrawal, log into My Account on the TSP website, www.tsp.gov, and click on the "Withdrawals and Changes to Installment Payments" link on the menu. From there you'll have access to an online tool with which to start your withdrawal.

Use the *TSP Payment and Annuity Calculator* on the TSP webpage to estimate the income your savings can provide. As a separated employee, you may:

- Elect monthly, quarterly or annual installment payments.
- Elect monthly payments based on life expectancy.
- Purchase a life annuity. If you purchase a life annuity with some or all of your retirement savings, then your account (or the portion used to purchase the annuity) will be transferred to the annuity provider.
- Transfer your savings to an Individual Retirement Account.

A word of caution: If you are thinking about closing your TSP account, you will no longer have access to the TSP once your account is closed.

Before moving your money outside of the TSP, keep in mind:

- The average net expense you pay for every \$1,000 invested in the TSP is \$0.42.
- The TSP has a fiduciary obligation to put your interests ahead of its own.
- Your retirement funds are protected from creditors' claims.
- You may schedule income payments from the TSP without giving up control of your account.
- You can change your investments and take withdrawals without being subject to surrender fees or backend charges.





Pre-Retirement Checklist for Federal Employees

Net income vs. net retirement income.

Think about how you will spend your days in retirement and how much more or less money you will spend doing those activities compared with the amount you spend when you are at work 40-50 hours per week.

Consider these questions when figuring out how much of your income you will need to replace in retirement:

- How much of the income in your current paycheck do you spend?
- Will you spend less in retirement?
- Will your housing costs stay the same or go down? Could they increase since you will be spending more time at home? Will you be downsizing? Will your mortgage balance be paid?
- Do you plan to take expensive trips in retirement? Will you start a new hobby that may require training, equipment or materials?
- Will you be providing care for a family member? If so, what will the impact be on your finances? An AARP study, "Researchers surveyed nearly 2,000 family caregivers representing a variety of races and ethnicities in July and August 2016 and asked them to keep a diary of their expenditures. The study found that family caregivers spent an average of nearly \$7,000 a year of their own money — more than \$7,400 in 2019 dollars."
- Mental Preparation. Don't overlook the changes in your life that will occur when you leave your federal career behind and begin a new, and sometimes uncertain, chapter.



FEDERAL ANNUITANTS

You might wonder about the federal employees who have gone into retirement before you. Here are some of the stats:

- The average length of federal service of all current retirees on the retirement roll of the Office of Personnel Management (OPM) is 31.4 years for CSRS and 20.6 years for FERS.
- The average length of federal service for new employees added to the retirement roll in 2018 was 37.5 years for CSRS and 24 years for FERS. It appears that federal employees are working a little longer today than previously.
- The average age at the time of retirement is 62.9 years old for CSRS and 61.2 years old for FERS.
- There are more than 500,000 retirees on the roll (both CSRS and FERS) who have monthly retirement benefits greater than \$4,000. However, there are almost 900,000 retirees on the roll with less than \$2,000 in CSRS or FERS monthly retirement benefits.





Pre-Retirement Checklist for Federal Employees

- Try to visualize what your days in retirement will look like.
- Make a schedule of a typical day in retirement.
- Allow for time to adjust. It is natural to be a little (or a lot) worried about life after retirement.
- Talk to other retirees to find out what retirement is like for them. Your family and friends can provide support as you transition to a new lifestyle.
- Consider starting a hobby or learning a new skill while you are still employed, one that can move with you into retirement.
- Research places you would like to travel to so that you can consider the costs of such trips.

Here are some resources that can get you in the right mindset for retirement:

- *How to Retire Happy, Wild and Free: Retirement Wisdom That You Won't Get from Your Financial Advisor* and *The Joy of Not Working* by Ernie J. Zelinski. Both books put a humorous spin on being happy where you are and making the most of what you have. The focus is on enjoying the retirement years!
- *Transitions: Making Sense of Life's Changes*, by William Bridges. Whether you choose change or it is thrust upon you, change brings both opportunities and turmoil. This book takes readers step-by-step through the three stages of any transition: The Ending, The Neutral Zone, and, eventually, The New Beginning.
- *Retire Smart, Retire Happy: Finding Your True Path in Life*, by Nancy K. Schlossberg. Retirement can sometimes bring up unexpected challenges that force us to confront who we are and what we can reasonably expect to accomplish in the remaining years of our lives. This book provides guidance on the psychological and emotional adjustments we make in retirement.
- Next Avenue, www.nextavenue.org, is a website designed for America's booming older population. Daily content delivers vital ideas, context and perspectives on the issues that matter most as we age.
- Growing Bolder is among the world leaders in health, wellbeing and active lifestyle content. It is a website, www.growingbolder.com, as well as a TV show and a book.



Retirement may last a long time, maybe even longer than your federal career! Retire too late and you may miss out on some of the opportunities to pursue new hobbies, travel or spend time with loved ones. But what if you retire too early and aren't financially ready for a comfortable life after retirement?

To learn more about planning for retirement and life after retirement, watch the online webinars available from the NARFE Federal Benefits Institute, www.narfe.org/federalbenefitsinstitute/, which are free to all NARFE members.

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106

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