FERSGUIDE

for

Federal Agents

Dan Jamison

2014 Update (v8.1)

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I retired from the FBI after 21 years as a Special Agent on 12/4/13. In retirement, I plan to continue to publish the FERSGUIDE as a service to my fellow 1811s. I have joined forces with John Grobe at Federal Career Experts to become part of his cadre of experts that provide pre-retirement seminars to federal agencies. Should you wish to have me come to your agency to conduct pre-retirement seminars, please have the appropriate personnel at your agency contact John Grobe at 630-208-7233, johnfgrobe@comcast,net, or www.federalcareerexperts.com. In addition, I am providing expert divorce-valuation and review services on a *fee basis* as described later in the guide. I do not plan to offer any personal-financial planning services.

This year's guide has an ***all-new*** nine-page section devoted to Social Security matters. This section was written for FERGUIDE, LLC, by Robert White. Robert (Bob) White had a long career working at the Social Security Administration. He served in a variety of positions including Claims Representative, Operations Supervisor and Assistant District Manager. Bob retired in January 2013. In addition to his in-service Social Security training, he has a BA in psychology and a Masters Degree in public administration. He is available for *fee-based* consultation on Social Security matters. His email address for such consultations is SSABob@maine.rr.com. Even though you may not be old enough to draw upon Social Security, he can now provide valuable assistance with questions you may have about disability, death or a benefits strategy for your parents.

If you have a question that the FERSGUIDE does not address, feel free to send an email to dan@fersguide.com and I will answer it as soon as I can. Please be patient, as I receive a very large volume of email. Please keep in mind the footnote that appears on each and every page of this guide. My website, www.fersguide.com is now up-and-running and additional information can be found there as well. I will add more content to the site as time permits and you can now add and manage your email subscription online.

Lastly, I ***implore*** all of you who are not members of the Federal Law Enforcement Officers Association (FLEOA) to please join this fine association at www.fleoa.org or see your agency FLEOA representative. I had the pleasure of attending FLEOA's national conference recently and there's no finer group of folks you could have representing your interests in DC. You can also download a copy of the FERSGUIDE from www.fleoa.org. I also urge you to join your agency-specific agent association(s) as well.

Warm regards, Dan

[Unofficial] FERS Retirement & Benefits FAQ

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2014 Changes

Have any Changes Happened yet to my FERS Retirement?

The big change last year was the large increase in the FERS employee contribution rate from 1.3% to 3.6% for new hires brought on-board on or after 1/1/13. For an agent earning a starting GS 10-1 salary ($67,492 RUS rate), this increase amounts to an *additional* $1,552 per year, or $130 per month. As the salary of the newly-hired agent increases, so will the additional burden of the increased contribution. There has been no legislated change to the FERS employee-contribution rate for employees on-board *before* 1/1/13. These new employees hired on or after 1/1/13 are called Revised Annuity Employees (RAEs).

Our pay remains frozen (no January pay adjustments in 2011, 2012 and 2013 per the American Taxpayer Relief Act of 2012, also known as the "fiscal cliff" bill.) There is currently legislation that *allows* a 1% pay adjustment in 2014, but it remains to be seen if it will make it into law. The President's Pay Agent has tentatively approved the addition of 12 new locality-pay areas, such as Charlotte, Tucson and Austin, but unfortunately, the recommendation did not become law for 2014 (late update 12/27/13).

The maximum Healthcare Flexible Spending Account (FSA) amount dropped from $5,000 to $2,500 last year. Although the limits have dropped, that does not preclude each spouse in a dual-fed household from establishing their own $2,500 FSA, for a family-total FSA of $5,000. The dependent-care FSA remains at $5,000 per year.

Any other changes are simply ideas at this point. I think it's safe to say that we will see some benefits taken away or become more expensive. As I keep up on the latest news on these matters, it has become clear that, for the most part, lawmakers plan to either phase-in or grandfather-in proposed changes. Additionally, most of the changes being proposed have been proposed multiple times over the last 20 years. In these difficult times, some of the proposed changes are bound to be incorporated in the new budget plans. There have been many stories about the Special Retirement Supplement being eliminated as a budget-cutting measure. From all that I have read, this would not affect those who face mandatory retirement. **These proposed changes are just another reason to support FLEOA and your agency-specific associations so they can attack these measures on Capitol Hill.**

As an annuitant, however, there are fewer items that can be legislated that would affect your retirement. Certainly, we could see a change in the Consumer Price Index used for COLA calculations as well as less cost-sharing by the government on the FEHB premiums. Keep that in mind as you near retirement and see the effective dates of these changes, whether you'd be better off retiring a little earlier than planned in light of possible coming benefit changes.

What are the Federal Tax-Law Changes for the 2014 Tax Year?

There were the usual inflation-adjustment changes for the 2014 tax year and we are in the second year of the 39.6% tax bracket for taxable incomes over $457,600, compliments of the American Taxpayer Relief Act of 2012. Key among the 2014 changes are the following:

The personal exemption rises to $3,950 (up $50 from 2013)
The standard deduction for Married Filing Jointly (MFJ) is now $12,400 (up $200 from 2013)
The standard deduction for Single taxpayers is now $6,200 (up $100 from 2013)
The child tax credit remains at $1,000 per child
The annual exclusion for gifts remains at $14,000

The Roth IRA contribution limit remains at $5,500 ($6,500 if over age 50) and phases out at $181,000 - $191,000 for MFJ. No contribution is allowed if the MFJ taxable income exceeds $191,000. For single filers, the phase-out range is $114,000 - $129,000. (up from 2013)

The TSP annual-contribution limit remains at $17,500 and the TSP Catch-Up contribution limit remains at $5,500.

The 2014 tax rate brackets have been inflation-adjusted (thank you Ronald Reagan!) which is indicated in the following table for MFJ returns:

If Taxable Income is:	Rate:	The Tax is:
Not over $18,150	10%	10%
$18,150 < $73,800	15%	$1,815 + 15% of the amount over $18,150
$73,800 < $148,850	25%	$10,162.50 + 25% of the amount over $73,800
$148,850 < $226,850	28%	$28,925 + 28% of the amount over $148,850
$226,850 < $405,100	33%	$50,765 + 33% of the amount over $226,850
> $405,100 but not over $457,600	35%	$109,587.50 + 35% of the amount over $405,100
Over $457,600	39.6%	$127,962.50 + 39.6% of the amount over $457,600

For the full details on many 2014 tax-year tax-law changes, see IRS Revenue Procedure 2013-35 at http://www.irs.gov/pub/irs-drop/rp-13-35.pdf.

FERS Basic Annuity Benefits

What Benefits Can I Expect to Receive When I Retire?

The Federal Employee Retirement System (FERS) replaced the Civil Service Retirement System (CSRS) in 1984 as our defined-benefit retirement system. On its face, most employees prefer the CSRS over FERS. At the end of a career, the CSRS provides 50% for the first 20 years of service and 2% for each year thereafter. FERS provides 34% for the first 20 years of service and 1% for each year thereafter. The basic understanding was that CSRS annuitants would be ineligible for Social Security and FERS employees would be eligible for Social Security. The reality is that most CSRS employees eventually have enough non-federal employment to be eligible for Social Security and therefore most people consider the CSRS program to be called the **C**learly **S**uperior **R**etirement **S**ystem……here's more detail:

FERS is a three-tiered approach which relies upon 1) a defined-benefit annuity, 2) Social Security benefits and 3) employee savings (through the Thrift Savings Plan (TSP)) to provide retirement benefits; frequently referred to as the "benefit pyramid." Although CSRS allows non-matched TSP contributions, the CSRS defined-benefit annuity provided a very nice retirement without having to worry about Social Security or investing in the TSP and hoping that the market rewarded your investment decisions with your TSP account. The advent of FERS effectively transferred market risk from the government to the employee. For example, a 30-year CSRS agent walks away with 70% of their High-3. A 30-year FERS agent walks away with 44% of their High-3.

A law-enforcement/firefighter FERS retirement is comprised of four components:

1) **Basic Annuity** based upon years of service and High-3 wages
2) **Special Retirement Supplement (SRS)** payable until age 62
3) **Social Security**
4) **TSP Funds**

The purpose of this guide is to help you thoroughly understand each of these benefits and to help you make better-informed decisions *now* for a better retirement *later*.

What is the FERS Basic Annuity?

Under the FERS *special provisions* for law enforcement, fire fighters and air-traffic controllers, you will receive a 1.7% per-year service-credit benefit for the first 20 years of service and 1% for each year of service thereafter. For example, if you worked 26 years under FERS as an agent, you would receive (20 x 1.7%) + (6 x 1%) = 40% of your High-3. See the Unused Sick Leave section for an example of how your service credit time is calculated.

Your High-3 *includes* Administratively Uncontrollable Overtime (AUO), Availability Pay (AVP), Law Enforcement Availability Pay (LEAP) [all up to 25%] and "locality-based comparability payments" (i.e. locality pay).

Your High-3 *excludes* foreign-post and non-foreign-post differentials, night differential, holiday pay, scheduled overtime, bonus pay, all "allowances" such as the "Danger Pay Allowance" paid pursuant to 5 USC 5928; and just about everything else.

Your High-3 is a weighted-average calculation. If you were at your highest salary for only one month when you retired, that only counts 1/36th of the High-3. The High-3 does not have to be the last 36 months of service. It is a period of 36 *consecutive* months of service where your pay was the highest. Your High-3 is computed on the pay that you received where a FERS retirement deduction was taken. If you are hitting the pay cap, only the amount at the pay cap counts towards your High-3 calculation. If you are unsure what wages are being counted towards your High-3, simply look at your year-end total FERS contribution deduction and divide that by .013. That will show you the salary amount that a FERS deduction was taken from.

Take a look at your Earnings and Leave Statement (E&L)/Leave and Earnings Statement (LES). You will see that you are paying for the FERS basic annuity benefit with a 1.3% deduction from your pay (agents hired on or after 1/1/13 are paying 3.6% of their pay.) This is an "after tax" deduction with no tax benefit to you. If you are paid by the National Finance Center (NFC), take a look at the bottom portion of the non-PDF (web-based) E&L statement and you can see the contribution that your agency makes on your behalf. For example, I have $65.87 deducted from my pay each pay period for my FERS retirement and my agency contributes a whopping $1,332.67 *in each pay period* to fund my retirement. The FERS retirement benefit is fully-funded as you and your agency pay into it over the course of your career; in contrast to CSRS which is funded mostly as it is drawn upon by retirees. One of the big issues in FERS reform is getting the employee to pay a higher share; hence the RAE employees are now paying a larger share, which means their agencies pay a smaller share of the total cost of the annuity.

Former military time is creditable under FERS, but a deposit must be made to OPM to "buy" those years of service into FERS. This time counts at the 1% per-year-of-service rate. Buying back military-service time into FERS can be a complex task and should be done with the assistance of a human-resources specialist at your agency. There are two components to this deposit – a fee based upon the percentage of the total military base pay and an interest charge if the service deposit is made after the three-year grace period. The cost of buying back the service is 3% multiplied by your base pay earned from your military service. The applicable interest rates vary from year to year and interest charges continue to accrue until the payment is made. For example, if you earned $100,000 in pay from military service, the fee is $3,000 plus the compounded applicable annual interest charge for the years elapsed since the service was completed. If the service-credit deposit is made within two years and 364 days of employment under FERS, there is no interest charge. After retirement, you cannot buy this service credit into FERS – it is ***forever*** lost. Bottom line: Do it as soon as possible – it is a great return on a small investment if you have non-career military time.

It is also possible to buy back *active* military time and still receive credit for that time in the calculation of your military *reserve*-retirement annuity. If you expect to receive a military retirement that is based primarily upon your reserve-component time, then you may purchase your active duty time into FERS. For example, a person with 4 years of active-duty military service and 16 years of reserve service, would be able to purchase the 4 years of active-duty time into FERS. Generally, reserve time cannot be purchased into FERS, but you can purchase your active reserve time when you received orders, such as AT, deployments or other activations any time you have orders.

Here are two good links for more information on how military buy back works:

http://www.dfas.mil/civilianemployees/militaryservice/militaryservicedeposits.html
https://www.abc.army.mil/retirements/FERSPost56.htm

The value and benefit of buying your military time as quickly as possible cannot be emphasized enough. Here is an example of an actual employee: While in college, the employee was on a work-study program and was employed by the U.S. Department of Veterans Affairs (VA) for four years. Then he went to law school and joined the Marine Corps for ten years. He later joined federal service as a FERS employee in 1995 and bought in a total of four years from the VA and ten years from the Marine Corps for a total of $10,000 in 1997 while still inside the grace period. When this employee retires, his annuity will be about $77,000. Without those 14 years purchased with the $10,000 investment, his annuity would be $50,050, a reduction of $17,050 per year. He will make back his return on the principal in less than his first eight months of retirement. Of course, we have ignored the time-value of money, but clearly, one can see what a great investment the $10,000 was for him.

Several of my readers have taken the time to point out some significant pitfalls they experienced when purchasing military credit, especially if you bought your time back through the FBI before the transition to the National Finance Center (NFC) on 8/19/2006. I have been notified by the FBI's Human Resources Division (HRD) that they have discussed this issue with

OPM and OPM now accepts the FBI-provided Bureau Personnel Management System (BPMS) screen-prints showing the deposit payments that were made by the employee. Now that this solution is in place, please do not call the FBI's HRD and request an SF 3100 (Individual Retirement Record) or SF 3101 (Notice of Correction of Individual Retirement Record). It's no longer necessary and places an extra burden on their already-taxed staff. Those of you that are paid by the NFC should still retain a copy of the cancelled check or copies of your earnings statements that show your payments; although you are not likely to have any issues.

I have been told by several newly-retired agents that at the time OPM is adjudicating your claim, you *may* have the opportunity to purchase *civilian* service credit at the time they are calculating your annuity. This could be part-time service as a park ranger or seasonal fire fighter, for a work-study program, or while attending a military college. If you are purchasing part-time service back, your *cost* of your purchased service credit will be based on the ratio of hours worked to a 40-hour work week. For example, say you had a two-year stint with the Park Service where you worked 20 hours a week, six months out of the year, for each of the two years. That's 1,000 hours worked out of a possible 4,000. In this example you'd be buying back 1,000/4,000 (25%) of the two years; which is approximately six months. Your annuity would be calculated much the same way that a part-time annuity is calculated because you will pay only for the pay you received, but receive a service credit on a full-time basis.

What is the FERS Special Retirement Supplement (SRS)?

The Special Retirement Supplement (SRS) is unique to FERS. It is a payment from OPM ***in addition to*** the FERS basic-annuity payment. It is intended as a substitute for the Social Security portion of your complete FERS benefit package, from the date of retirement until the annuitant reaches age 62; the age when the annuitant becomes eligible for Social Security. The SRS stops at age 62 even if the annuitant elects to delay the receipt of Social Security benefits until a later age. The SRS benefit is paid by OPM and receiving this benefit has absolutely no effect on your future Social Security benefit payments. Receiving this benefit is *not* an election – if the annuitant is eligible to receive it, it will be paid to them by OPM.

Like Social Security benefits, the SRS is subject to an earnings test, which means that the SRS is reduced if your earned (non-passive) income from wages or self-employment is higher than an allowable amount. The earnings test does not kick in until your Minimum Retirement Age (MRA); typically 56 or 57. For example, if you retire at 50, you will collect the SRS *without* an earnings test until your MRA. Retire at 57, and the SRS is earnings-tested right away.

Technically, the SRS earnings-test can run up to a year behind because income is reported after it has been earned, so there's really no test until year two of retirement…..meaning that even if you retire at your MRA and get a big-money job, you *might* get the SRS for up to a year, because under OPM rules, the annual earnings reduction cannot exceed the total annuity supplement to which the individual was entitled to in the first year. After your first year, OPM will send you a Form RI 92-22 "Annuity Supplement Earnings Report." This is what the form looks like: Form RI 92-22. It's a simple one-page report with four questions on it. You report to OPM all of your earned (non-passive) income. OPM cross-matches your responses with Social Security's earnings file. Remember, only report income earned *after* you attained your MRA. If you were paid $50,000 in January on a contract, and your MRA birthday is in June, you don't report the $50,000 to OPM. As another example, assume your MRA occurs on December 15, and you make $120,000 a year, paid equally to you all year long. You would only report the portion paid to you after your MRA date, or $5,000. Of course, in the following year, you would have to report the entire $120,000; but at least this buys you another year of the SRS.

You will lose $1 of SRS benefit for every $2 you earn in wages (non-passive income) over $15,480 per year (for 2014; this amount is inflation-adjusted each year). In order to determine the level of income you will phase out of the SRS at, just double your annual SRS benefit and add it to the income-test amount of $15,480. For example, if your annual SRS is $12,000; add $24,000 to $15,480 for a total of $39,480. Once you make more than $39,480 in earned income, you will have phased out of SRS eligibility. Should you phase-out of the SRS, but later stop working before age 62, you will be eligible to start receiving the SRS again after you notify OPM. The table below illustrates this concept:

SRS = $12,000 Annually

Earned Income	SRS Payable	Percent Lost
$15,480	$12,000	0.00%
$20,000	$9,740	18.83%
$25,000	$7,240	39.67%
$30,000	$4,740	60.50%
$35,000	$2,240	81.33%
$39,480	$0	100.00%

Your SRS benefit can be ***estimated*** by dividing the number of whole years (rounded to the nearest whole year) of your creditable ***civilian*** (<u>purchased military time does **not** count</u>) FERS service by 40, and multiplying that by the benefit that the SSA calculates to be payable to you at age 62. OPM will calculate it with their own complicated method, but this estimate will get you very close. For many agents, the amount they receive ends up being around $11,000 - $13,000 annually, but you can perform your own calculation using your annual statement from the SSA. For example, if you retire under FERS with 25 years of service, your SRS would be approximately 25/40ths of your computed SSA benefit at age 62 as listed on your statement. As the SSA no longer mails participant statements out, you should consider applying for an online account at Social Security so you can print out a statement to determine your benefit. You can apply for a new online account HERE. After I created my account two years ago, I discovered that a Form W2 related to my government-paid move was not included in my credited Social Security wages, so you may also be able to correct these errors as well.

Even if you retire *before* age 50 because you have 25 years of service as an agent, the SRS starts right away along with your FERS basic annuity. There is no COLA payable on the SRS; however, there is a COLA on the survivor-benefit SRS.

I've substantially expanded this section of the guide because I still receive many questions about this benefit. Hopefully, running through an example will be helpful. Let's calculate my estimated SRS at my expected retirement date of 12/4/13. I will have 21 years and 3 months of service credit. Since OPM only uses whole years of service in the SRS calculation, my multiplier is 21/40 or 52.50%.

The next step is to log in to the Social Security Administration's website and print out a copy of your benefit statement. My current benefit statement shows my expected benefit at age 62 is about $1,837 a month. 52.50% of $1,837 is $965 per month. This is by no means intended to be a calculation tool; this is a tool for estimating your SRS benefit. Generally, this method will get you within $100 above or below your actual SRS.

The methodology that OPM uses to calculate the SRS is very cumbersome and detailed, but if you're curious, you can read all of the details here: http://www.opm.gov/retirement-services/publications-forms/csrsfers-handbook/c051.pdf. When OPM calculates your Special Retirement Supplement, there are a few quirky things about how it's done. There are two wage components that add up to the Average Total Wages (ATW) used in the calculation. The first are the ***actual*** civilian wages where a FERS deduction was taken. The second component is "***deemed wages***" for the years prior to the commencement of FERS service, starting at age 21 onward. Deemed wages are based on the wages in the first *full* year of FERS wages. The deemed wages example is on page 9 of Chapter 51 above.

Deemed wages could end up being higher than the actual wages earned by the annuitant, depending on their wage history. OPM also excludes your earnings in the year that you separate from your ATW. So basically, the ATW for the SRS calculation includes wages from age 21 until the year before retirement, even if you weren't in the workforce when you were 21. For example, I would have 8 years of "deemed" wages and 21 years of actual wages used in my calculation. This is very different than the 35 years that Social Security uses in computing their benefits, where years with no pay are counted as "zero years" in the ATW calculation.

When am I Eligible to Retire?

Agents and Firefighters are eligible to retire at:

1) any age with 25 years of service in a *special-provisions* position,
2) at age 50 with 20 years of service in a *special-provisions* position ,
3) and must retire at the end of the month in which they turn 57, unless an extension is granted, or upon accepting a *non-special-provisions-covered* position.

Keep in mind – I'm talking about "agent time" above. 5 years in a non-agent position and 15 years as an agent is not going to get you retired at age 50. You cannot "tack on" your unused annual leave to make you eligible for retirement, unless you are taking an "early out" under the Voluntary Early Retirement Authority (VERA) rules. Since many agencies are making VERAs available, here's a link to the rules which govern the application of VERAs OPM Chapter 43 - VERAs.

Retirement eligibility ages under the special provisions are different from your MRA. Find your MRA in the chart below: http://www.opm.gov/retire/pre/fers/eligibility.asp

Birth Year:	Your MRA is:
Before 1948	55
In 1948	55 and 2 months
In 1949	55 and 4 months
In 1950	55 and 6 months
In 1951	55 and 8 months
In 1952	55 and 10 months
In 1953-1964	56
In 1965	56 and 2 months
In 1966	56 and 4 months
In 1967	56 and 6 months
In 1968	56 and 8 months
In 1969	56 and 10 months
In 1970 and after	57

OPM will calculate your length of service in years and whole months. See the Unused Sick Leave section below to see how that works. For example, a service credit of 22 years, 5 months and 27 days counts as 22 years and 5 months. The 27 days will not count towards your annuity calculation.

Here's a tidbit for those of you who were born on the First of the month. If you want to retire on the day that you turn 50 with at least 20-years of service, you'd leave on the First of the month – but if you do that, then you don't get paid by your agency for the rest of the month, and your annuity won't be effective for a month either. Guess what? OPM considers you to be the age of the following day at the conclusion of work on the previous day. That means that if you turn 50 on June 1, you could retire on May 31 at close of business. An obscure factoid, but statistically, 1 in 30 of us are born on the First of the month.

What Happens if I Die Before I am Eligible for Retirement?

OPM "retires you" on the day that you die. Fortunately, after losing a string of court cases, on 7/7/2010, OPM issued Benefits Administration Letter (BAL) 10-105. This BAL instructed all federal agencies to compute death and disability retirements for special-provisions-covered employees (law-enforcement officers and firefighters) using the full 1.7% per-year service credit for years 1-20. Prior to this BAL, for example, if an agent died with ten years of service, those ten years were calculated at the 1%-per-year rate even though the deceased agent paid the higher 1.3% payroll deduction. Now, that same agent would have those ten years calculated at the higher 1.7%-per-year rate. Unused sick leave is also credited at the 1.7% accrual rate if death occurs before 20 years of service. See BAL 10-105.

The deceased employee must have had *at least ten years of creditable service* for a monthly spousal annuity to be paid upon death.

For example, if an agent has 15 years of agent time and were to die as an on-board employee, the following computation would apply, assuming a High-3 of $100,000:

15 years x 1.7% = 25.5%
25.5% x $100,000 = $25,500 earned annual annuity
$25,500 x 50% = $12,750 annual annuity paid to spouse at $1,062.50 monthly

As long as the deceased agent in this example had FEHB insurance as *Self-and-Family* on the date of death, the surviving spouse will have FEHB coverage. Even if the deceased was not employed the required ten years for a monthly spousal survivor annuity to be payable, the surviving spouse can elect to keep FEHB coverage as long as there is a benefit payable, such as the FERS Basic Employee Death Benefit which is payable as long as the deceased had at least 18 months of FERS employment. (discussed later)

If the deceased was carrying FEHB coverage as Self-Only at the time of death, the surviving spouse will ***not*** *have FEHB coverage*. Something to think about for you folks who are on your spouse's non-federal plan because he/she gets free or cheaper coverage from their employer. Also remember in non-death cases, FEHB must have been a purchased benefit for the five years preceding retirement or the annuitant will be ineligible for FEHB in retirement.

Do I Receive Any Credit For My Unused Sick Leave and How Is My Service Credit Calculated?

Yes! Congress passed a FERS sick-leave-reform bill that was signed into law on October 28, 2009. FERS retirees currently receive a 50% service credit for their unused sick leave. Beginning with retirements that occur on or after 1/1/2014, retirees will receive a 100% service credit for their unused sick leave. There are 2,087 hours in OPM's work year. That means if you retire with 2,087 hours of unused sick leave, you will receive an additional year of service credit. For example, if your High-3 was $140,000 and you worked 30 years under FERS, your FERS basic annuity will be (20 years x 1.7% per year) + (10 years x 1% per year) = 44%) x $140,000 = $61,600. Tacking on an additional year of service from the sick leave credit would add $700 annually to the calculation for retirements before 1/1/2014. After 1/1/2014, the sick leave in this example adds an additional $1,400 annually, or 1% of your High-3.

Approximately 5.8 hours of unused sick leave equates into one day of calendar-service credit, because service credit is calculated using calendar days, not work days. For example, if you have 174 hours of unused sick leave at retirement; that equates to one additional month of service. When performing this calculation, all months have 30 days. (174 hours of unused sick leave / 5.8 hours = 30 calendar days). You can also refer to OPM's sick-leave conversion chart to look up the credit you have earned at retirement: Sick Leave Chart

Remember, your service credit for unused sick leave is added to your service credit from employment to yield a combined total service credit. OPM only counts *whole* years and *whole* months in your final service credit retirement calculation. For example, if you had the following service credits:

	Years	Months	Days	Years	Months	Days
Service Credit	22	5	16	22	5	16
Military Purchase	3	2	2	3	2	2
Unused Sick Leave		2	6		2	12
Total Service Credit	25	9	24	25	9	30
Service Credit used for retirement calculation	25	9	0	25	10	0

In the first example, the credit for the 6 days of sick leave, 2 days of military buy-back and 16 days of service credit were lost due to OPM only giving credit for *whole* months. In the second example, the 12 days of unused sick leave give the employee 30 days in the "days" column, which will add another month to the service-credit length. In this example, with a High-3 of $140,000, each additional month of credit is worth $116 per year, or about $10 per month.

If you're sick – stay home – you'd likely end up with no credit for some portion of your unused sick leave anyway. I get a lot of emails from agents asking if they should use annual leave instead of sick leave when they are ill. My take on this issue remains the same – if you're on vacation, take annual leave. If you're sick, use sick leave. Don't try to manage it – just let the credit fall where it lands, until you are closer to retirement. As I stated above – some portion would probably end up being forfeited anyway.

In the above example, those 6 days of unused sick leave and 2 days of military buy-back are of no use to you in your retirement annuity calculation, and neither are the 16 days of service credit. That's 24 days that do not benefit your retirement annuity at all. Now, let's convert those 24 calendar days back to work days (24 x 5.8)/8=17 *or* 24 x .725 = 17.4. This means that in this example, you *could* take 17 additional days of sick leave and your annuity would be unchanged. That's something to consider as you close out your last few months of service. My sick leave balance on 12/4/13 at retirement was zero.zero hours.

A date calculator is available at http://www.timeanddate.com/date/duration.html that you can use to calculate your service credit with the result displayed in years, months and days. Be sure to check the box to "include the end-date in the calculation."

What if I Was Part-Time During My Career?

If you were a part-time employee for part of your career, generally speaking, your FERS basic annuity will be less, but it's not a big hit. Your High-3 is calculated the same way, on a full-time basis. Up to (6) six months of Leave Without Pay (LWOP) counts as service credit as well. You will receive a downward adjustment based on what your benefit would have been if you had been full-time for your entire career. For example, if you have a 20-year career and spend 5 years in part-time status working 30 hours per week, you would receive 75% credit (30/40) for the 25% of your career (5/20) when you were part-time. In this example, you'd receive 93.75% of what your benefit would have been if you were 100% full-time over your entire 20-year career.

Here's a real-life example of a part-time calculation: From 1988-1999 you were full-time. From 2000-2012 you worked 24hrs/week and in 2013 you worked 16hrs/week. In any given year, working full-time, there are 2,087 work hours per OPM. For simplicity, I will use

2,080 hours in this example. The percentage at the lower right of the table indicates the percentage of a full-time-calculated annuity that you are entitled to. When computing the annuity, you calculate it just like a full-time annuity; then multiply that amount by 39,936/52,000 or .7769 = 77.69%. This example was taken from a non-agent's real-life work history. Keep in mind that agents are limited to ten years of service in a part-time capacity.

Part-time service credit example:

Period	Years	Hours/Week	Annual Hours Possible	Annual Hours Worked
1988-1999	12	40	24,960	24,960
2000-2012	13	24	27,040	16,224
2013	1	16	2,080	832
			52,000	39,936
	Percentage of Full Annuity Payable -->			77.69%

Will I Receive a Cost-of-Living-Adjustment (COLA) on my FERS Basic Annuity?

Yes, it is based upon the Bureau of Labor Statistics' Consumer Price Index for Urban Workers and Clerical Workers (CPI-W). If the CPI-W increase is 2% or less, you receive the same increase as the CPI-W increase. If the CPI-W increase is more than 2% but less than 3%, you will receive a 2% COLA. If the CPI-W increase is more than 3%, you will receive the CPI increase minus 1%. COLA adjustments are effective December 1st and will appear on the January 2nd payment. The COLA is pro-rated until you have been an annuitant for a full year. For example, if you retired on May 30, you would receive one-half of the COLA adjustment the following year. In the following year, you'd receive the full COLA. From inception through 2013, the FERS COLA has averaged 2.19%. (1984-1987 COLAs are ignored in this computation because of the delay in implementing FERS. Only 1988-2013 COLAs were used in these calculations.) For the past ten years, the average COLA was 2.00%. The COLA can vary widely from year-to-year. There were no COLAs in 2009 and 2010. The 2011 COLA was 2.6%, the 2012 COLA was 1.7%, and the 2014 COLA is 1.5%.

The COLA begins at retirement for agents. This is a great benefit of being in a special-provisions-covered position, as all other FERS participants must wait until age 62 to start receiving a COLA. *There is no COLA applied to the FERS Special Retirement Supplement (SRS) for anyone*. I have seen a few places on the Internet where an "expert" states that federal law enforcement officers receive a COLA on the SRS – don't believe it.

Should I Select a Spousal Benefit Survivor Annuity (SBSA) When I Retire?

Generally, it's usually less expensive to purchase a term-life-insurance policy for the present value of the expected future cash flow of the retirement annuity stream, than it is to take the 10% hit on your monthly benefit, but the cost of the term-life insurance policy rises significantly later on in life as one ages. The Spousal Benefit Survivor Annuity (SBSA) refers to the reduction in your FERS annuity monthly benefit that provides for the continuation of a portion of your benefits that will be paid to your spouse upon your untimely demise. You have two options for the SBSA:

1) A 10% reduction in your annuity that provides the surviving spouse with an annuity equal to 50% of the retiree's unreduced annuity, or

2) A 5% reduction in your annuity that provides an annuity equal to 25% of the retiree's unreduced annuity to the surviving spouse.

Spousal Benefit Survivor Annuity (SBSA)	10% Premium/w 50% Benefit	5% Premium/w 25% Benefit
Calculated FERS Basic Annuity	$4,000	$4,000
Less SBSA Options	-400 (10%)	-200 (5%)
Net FERS Basic Annuity Paid to Retiree	$3,600	$3,800
Benefit Paid to Surviving Spouse	$2,000	$1,000

In order to skip the SBSA option under FERS, or to select the reduced-benefit 5%/25% option, you must obtain the notarized consent of your spouse on your retirement application for such an election. Good luck with this one..........put yourself in your spouse's shoes before you ask this question. Also remember that you must select the SBSA in order for your spouse to have FEHBP insurance after you die. In my opinion, **forget about it** - take the SBSA. If your spouse predeceases you, then your annuity will be restored to the full un-reduced amount and no more deductions will be made by OPM for this benefit.

Of course, households with dual federal retirees are generally not faced with the FEHB issue as each retiree would have access to FEHB in their own right, so many of these folks opt for the 5%/25% SBSA or to forego the SBSA. Some folks opt for the 5%/25% option and use the 5% savings to purchase life insurance.

Keep in mind that the cost of the SBSA is not as high as you think, because you pay the 10% or 5% premium with pre-tax dollars. If your annuity is $50,000 per year, and you elect the full SBSA, your 1099-R will only show your income as $45,000. If you were in a combined 30% state-and-federal tax bracket, then the $5,000 SBSA really only cost you $3,500. When making your comparison between the cost of the SBSA and the cost of the life insurance, be sure to use the after-tax dollar cost of the SBSA. Also remember that the SBSA will be paid to your surviving spouse for the rest of their life, which could be decades of guaranteed COLA-adjusted income for your loved one.

Thrift Savings Plan

What's the Latest News Regarding the TSP?

Beginning on 8/1/2010, all new federal employees started automatically having 3% of their pay withheld and invested in the TSP's "G" Fund. Employees have 90 days to back out of this if they wish and have their contributions returned. They will also receive immediate matching funds on their 3%, resulting in a starting contribution rate of 7% (1% agency-automatic + 3% employee contribution + 3% government match).

There is no longer a waiting period to begin receiving matching contributions. New employees receive matching contributions right away. For 2014, the maximum deferral remains at $17,500 for regular TSP contributions and remains at $5,500 for Catch-Up Contributions.

Don't forget that all TSP loans need to be re-paid before you retire or the outstanding amount will be considered a taxable distribution subject to a 10% penalty. Form TSP-70, Request for Full Withdrawal, has been automated on the TSP's website.

The TSP has eliminated the "U" forms for the uniformed services and has made their forms easier to complete by offering "wizards" to complete the form for you. There are new calculators to compare Roth vs. Traditional contributions and a paycheck estimator. There is a new tool at TSP Retirement Calculator which will help you compare buying an annuity with starting up a series of monthly payments. A list of the TSP's tools can be found at: TSP Tools.

The TSP has also changed the rules regarding transfers *into* the TSP by *annuitants*. In retirement, the TSP now allows you to make transfers from qualified retirement accounts (IRAs, SIMPLE IRAs and employer-sponsored plans) back into the Traditional TSP, *even if you have* *already started a stream of monthly payments in retirement*.

How Important is it for Me to Contribute to the TSP?

There is ***nothing*** more important to a successful FERS retirement than contributing the maximum to the TSP as soon as you can afford to. As mentioned earlier, the risk is now on the employee to produce income from the TSP to replace what was lost when CSRS went away.

In a www.govexec.com article (which all of you should be subscribed to), Tammy Flanagan pointed out some facts regarding the TSP, including that more than 10,000 TSP participants have account balances of at least $500,000. Tammy points out that a $500,000 account balance would provide a 55-year old retiree with:

1) The ability to withdraw $3,000 per month (*before taxes*) for 30 years *if* the remaining balance in the account continued to earn 6% interest, or

2) The ability to withdraw $2,500 per month for 27½ years (*before taxes*) *if* the remaining balance in the account continued to earn 4% interest.

**** The above-scenarios do not take into account inflation, state taxes or federal taxes. In reality, factoring in these three items drops the median result to twenty years in scenario one above; with a similar drop for scenario two. Thanks to one of my non-fed readers for calculating a "Monte Carlo" analysis for me and alerting me to these facts.**

We should all be shooting for a minimum $500,000 account balance at retirement to ensure a comfortable retirement. Look below at the difference between having that extra $2,500 a month from the TSP. (I realize that even if you didn't contribute at all, you'd still have the 1% Agency Automatic contribution.) Where do you want to be?

FERS Basic Annuity, 25 years (39%), High-3 $150,000	$4,875	$4,875
FERS SRS	1,000	1,000
Thrift Savings Plan	?	2,500
Replaced Monthly Income	$5,875	$8,375
Percentage of High-3 Salary	47.00%	67.00%

What Should My 2014 TSP Contribution be to Ensure the Maximum Contribution and Maximum Government Match?

The maximum TSP deferral remains at $17,500 for the 2014 tax year. The amount you should have withheld each pay date in 2014 to contribute the maximum is $17,500 / 26 = $**674**. This change should be made effective pay period 25 of 2013 as that “officially” pays on January 9, 2014, with EFT on January 6, 2014.

In **each** pay period, you must contribute 5% of your gross wages in order to get the full 4% matching from the Government, which is why it is important to adjust contributions annually. For example, if you hit the $17,500 deferral cap by November 1, you could lose out on two months’ worth of matching contributions from the Government. Like it or not – we are all wage-earning W-2 humps. I’ve explained this concept many times and each year I still counsel many who missed out on all possible matching by hitting the maximum deferral before the final pay period.

For example, let’s assume your salary is $110,000. That’s approximately $4,230 per pay period. Let’s also assume that you did not correct the “frontloading” of your TSP contributions and you hit the $17,500 contribution limit in pay period 22 of 2014. That means that you will receive no government matching funds for pay periods 23 and 24. (pay period 25 of 2014 counts for the TSP limit in 2015 since the pay date for pay period 25 is in 2015). In this example, our employee missed out on 4% of $4,230 for two pay periods, which totals $338.40.

Only use a percentage of your salary as a contribution selector if you just plan on making a 5% contribution and ensuring the full match. If you are contributing more than 5%, STOP USING PERCENTAGES and convert your contribution to a discrete dollar amount so that you can set goals for yourself and to make sure you don’t go over the maximum annual contribution before the last pay date of the year. If your goal is $674 per pay period, it’s easier to see what you need to do when you know you’re contributing $400 per pay period rather than “7% of my pay.”

Until you reach the maximum, consider increasing your contribution each year by funding it with your January pay increase (that’s good for a laugh) or your step increase (a step increase is approximately 3%) until you’re at the maximum. You’ll never notice it because your paycheck will not be going down at all and you “magically” lived all of last year without that raise. This is another good reason to stop using percentages. When you get a step increase (3%), consider splitting that with the TSP and increasing your contribution by an amount equal to 1.5% of your pay and keep the rest for you. Once you get to the maximum, the pain stops as increases beyond the current annual maximum are usually small, such as $500 annually, which is less than $20 a pay period. **If you take nothing else away from this guide, please remember that the TSP is the key to a good retirement and the earlier you get to the maximum, the better**

<u>your retirement will be</u>.

To make your changes to the TSP, go to the NFC website and make the changes in the "Self-Service" tab in the TSP line. If PP25 has already passed by and you'd like to compute the amount that you should have deducted henceforth to make the maximum $17,500 annual contribution, here's the formula:

($17,500 - (A x B)) / (26 - A)

A = number of deductions already made at your old contribution amount since (and including) PP25 of 2013 (which counts toward 2014)

B = amount of your current TSP contribution per pay period

Always round up to the next whole dollar when performing these calculations. If you exceed the maximum allowable annual contribution during the last pay period, the NFC will automatically lower your final contribution to make your annual total contribution equal to the maximum amount allowable. You will not miss any matching as a result of the lower contribution in the final pay period as a result of rounding. The $674 per pay period puts you at $17,524, but that's okay, as the NFC will automatically lower your final 2014 contribution to $650 to put you right at $17,500.

When Can I Start the $5,500 Catch-Up Contribution to the TSP?

You may contribute an additional $5,500 of pre-tax earnings into the TSP beginning in the year that you turn 50**, <u>not when you actually turn 50</u>**. You must already be contributing the maximum (currently $17,500 per year for 2014) before you may elect the Catch-Up contribution. There is no matching Government contribution on the Catch-Up contribution. You may start and stop this deduction at any time. In the year that you turn 50, the option to make the Catch-Up contribution will automatically appear on your NFC account. Other government pay systems are similar.

<u>Example</u>: If you were born in December 1964, you would be 49 in January 2014 and turn 50 in December 2014. You may start your $5,500 annual contribution in the first paycheck of 2014 since you will turn 50 that same year. Depending on when your birthday occurs, you can get up to an 11-month jump on your contributions. For years with 26 pay periods, the amount would be $5,500 / 26 = $212 per pay period. As with the TSP regular deduction, make this change to be effective on PP25 of 2013 so that it is reflected on the 1/9/14 payday. If you need to start this contribution during the year, just divide $5,500 by the number of paychecks remaining in the year to determine the amount of your deduction. The Catch-Up contribution election must be made ***EACH YEAR***. It does not automatically carry over like the standard TSP

contribution.

Keep in mind that for folks turning 50 in 2014, the option to contribute to the TSP Catch-Up contribution may not appear on your self-service tab in time to make the change on PP25, so you may have to start on PP26 or PP1, depending when the option appears and when the pay period closes. Just spread the $5,500 over 25 ($220) or 24 ($230) pay periods, respectively, if you want to spread your contributions out over the course of a year. For example, you could take $2,750 out of your first two or last two paychecks of the year or take $1,100 out of five paychecks. It is completely discretionary. Some people delay these contributions until the end of the year in case of unforeseen expenses, while others invest early to get the largest return over the course of every year.

What are the Details of the New Roth TSP Option?

Well, after years of waiting, the TSP Board implemented the promised Roth TSP option on May 7, 2012. Now that it's finally here, does that mean that it's right for everyone? Before we delve into whether it makes sound financial and tax sense to contribute to the Roth TSP, let's take a look at how the Roth TSP differs from a Roth IRA and how the Roth TSP operates. Congress implemented laws specific to the Roth TSP that make it different from a Roth IRA; specifically:

1) Unlike a Roth IRA, there is *no income restriction* on making Roth TSP contributions.
2) The maximum that you can contribute to a Roth IRA in 2013 is $5,500 ($6,500 if you are age 50 or older.) In contrast, you may contribute up to $17,500 to the Roth TSP and an additional $5,500 in Catch-Up Contributions if you are age 50 or older, for total of $23,000.
3) Roth TSP contributions do not count towards Roth IRA contribution limits; which means that you can contribute to a Roth IRA at the same time you contribute to the Roth TSP. Keep in mind that the monies you contribute to the Roth TSP (instead of the Traditional TSP) will raise your taxable income by that same amount, possibly limiting your Roth IRA contribution.

There are also some peculiarities in the way that the TSP Board treats a Roth TSP account, specifically:

1) You cannot roll a Roth IRA into your Roth TSP account; although you can roll a Roth 401(k), 403(b) and 457(b) account into a Roth TSP account.

2) Regardless of your contribution amount into the Roth TSP, the Agency Automatic Contribution, as well as *all matching contributions*, are deposited into your Traditional TSP account.
3) You may only specify one contribution allocation – it will be applied to both your Traditional and Roth TSP accounts. Similarly, if you take out a TSP loan, it will come out of both your Traditional and Roth balances ratably. Same treatment with inter-fund transfers – one transfer order will generate fund movement in both your Traditional and Roth TSP accounts.
4) Funds already in your Traditional TSP account cannot be converted into Roth TSP funds.
5) You can roll your Roth TSP into a Roth IRA (income restrictions would not apply; something to consider in retirement.)

Now that you understand the mechanics and rules regarding the Roth TSP……is it right for you? With the Traditional TSP, you make pre-tax contributions and all monies withdrawn from the account in retirement (contributions and earnings) are taxable. In other words, you receive a tax break now, but pay taxes on all Traditional TSP withdrawals during retirement. With a Roth TSP, you make post-tax contributions (no tax break), but you enjoy tax-free withdrawals of all Roth TSP monies (contributions and earnings) in retirement. By contributing to any type of Roth account (IRA or TSP), you are hoping that tax rates will be higher in retirement than when you were working. This may be a valid assumption for an agent that will be employed in retirement, has significant recognizable income from other investments and does not itemize deductions. There is a very real chance that in this example, the agent will be much better off utilizing a Roth characterization.

Now, let's suppose that this agent is not working in retirement, has no significant other income stream and still has a sizable mortgage-interest deduction allowing him/her to itemize. It's very possible that the marginal tax rate for the agent in this scenario is 15%. In this scenario, a Roth TSP may not make as much sense.

Another factor to consider is that you may not be able to afford to make Roth TSP contributions; I know I'd have a hard time losing over $210 in tax breaks from each paycheck if I converted to 100% Roth TSP from the Traditional TSP. That sure makes my decision easy!

To help you envision the way to approach this decision, imagine yourself standing on a timeline at the 57-year-of-age mark. Behind you is your career from age 40 to age 57 and in front of you is your retirement from age 57 until death. What we want to do is compare the future value of the tax savings that you enjoyed while making contributions as an employee (age 40-57) to the present value of the tax savings that you will enjoy as a retiree (age 57 onward). Let's run through a couple of examples to illustrate this point.

Let's assume our agent contributes $17,500 to the Traditional TSP each year, is in the 25% marginal tax bracket (ignore state taxes for simplicity,) is 40 years old and will retire at 57 (17 years remaining on the job). We will assume a 5% interest factor and we will keep the contribution the same for all 17 years for simplicity. This agent receives a $4,375 tax break ($17,500 x 25%) each year for the 17 years he contributes to the Traditional TSP. The future value of $4,375 in annual tax savings at 5% for 17 years from age 40 is $113,051 at age 57.

Now let's see what this would look like if the same agent chose the Roth TSP. Obviously, he receives no tax breaks for the contributions he made, but will pay no taxes on his withdrawals. Let's assume that this agent's Roth TSP balance is $600,000 at retirement and he decides to skim off $30,000 a year in withdrawals; and remains in the same 25% tax bracket. The 25% tax on $30,000 is $7,500. If this agent saves $7,500 a year in taxes in retirement, and we use the same 5% interest factor, it would take over 25 years for this agent in retirement to save $113,051 in taxes (in present value terms). In other words, at this withdrawal rate, the agent would be 82 years old before the Roth TSP's tax savings exceeded the tax breaks enjoyed by the agent with the Traditional TSP.

Where's the big Roth TSP advantage in this very simplistic example? It's simply not there. Increase the withdrawal amount or the tax rate in retirement; or decrease the tax rate during employment and this example could change *dramatically in favor* of the Roth TSP, especially if the agent wanted to exercise his/her one-time withdrawal option at retirement and pull out $100,000 tax-free for a new car or a vacation home. I chose these numbers to illustrate that the Roth TSP ***may or may not be a good choice***. You may want to consult a qualified financial or tax advisor to look at your specific situation and assumptions.

Here's my take: If you're late in your career, don't get sidetracked with the Roth TSP. Just keep on doing what you have been doing with the Traditional TSP and enjoy the tax break. If you're a youngster who's 20+ years from retirement, and you can afford to forego the earlier tax break, the Roth TSP *may* be a great option for you. You have a long time for those earnings to snowball and you'll never likely regret your decision to contribute to the Roth TSP. I also place a great deal of weight on the "sleep-at-night factor" in the Roth TSP decision. If having a Roth TSP makes you sleep better at night – DO IT. If you're contributing $17,500 of your salary each year, no matter which path you choose with the TSP, you will come out way ahead of the pack and will never regret whichever TSP path you choose. As you can see – it really may not matter.

Another Roth TSP Pitfall

Many of you are probably unaware of the *serious pitfall* you may encounter if you opt to contribute to the Roth TSP. For a federal law-enforcement officer or firefighter, the Roth TSP may be a poor choice. It wasn't until recently that a reader posed a question to me that caused me to realize **what a bad idea the Roth TSP may be for many of us**.

The idea behind the Roth TSP is that you contribute after-tax monies during your career and when you withdraw funds from the account in retirement, the earnings are tax-free. The trick here is that that the withdrawal must be a "**qualified withdrawal**" for the earnings to be tax-free. In order for the withdrawal to be considered a "qualified withdrawal" by the IRS, "*five years must have passed since January 1 of the calendar year when you made your first Roth TSP contribution AND you are at least 59½, permanently disabled (or deceased).*"

Here's the problem: As a law-enforcement officer or firefighter, you can retire as early as 50 years of age and are mandatorily-retired at age 57. If you decide to take post-retirement withdrawals from the TSP (under the life-expectancy option or the age-55 exemption) you will not meet the age test for the Roth TSP withdrawal to be considered "qualified." (You may also not meet the 5-year rule as the Roth TSP has only been an option since May 2012.) Since your withdrawal is not "qualified," you will be taxed on the portion of your withdrawal that represents the attributable earnings. **This eliminates the tax-advantaged nature of the Roth TSP**. You'd be just as well off having a regular post-tax investment account outside of the TSP. You're contributing after-tax dollars and paying taxes on the earnings generated by the post-tax investment.

The TSP will not allow you to specify that your post-retirement withdrawals come only from your Traditional TSP balance, nor will the TSP allow you to roll-over/transfer out only the Roth TSP portion of your account. When you make any withdrawal from theTSP, the withdrawn amount will be taken ratably from both your Traditional and Roth balances under TSP rules.

If you roll-over/transfer both your Traditional TSP and Roth TSP to another custodian, then you lose your eligibility under the age-55 exemption, as that requires the funds to be left in your employer-sponsored account. If you retire between age 50 and 59½, at retirement, you could roll-over/transfer your Traditional TSP and Roth TSP to another custodian and withdraw only the funds that came from the Traditional TSP account using a life-expectancy option or an IRS Section 72(t) withdrawal plan and wait until age 59½ to start to withdraw the portion that came from the Roth TSP funds.

Please consider these facts when deciding if the Roth TSP is right for you. If you already jumped into the Roth TSP, you can always stop and change your contributions to be 100% Traditional TSP and limit the tax damage.

Even folks who aren't covered under the special provisions get affected by these rules if they retire at their MRA.

How Much Can I Contribute to the TSP in the Year I Retire?

Since there are no more percentage limitations on TSP contributions, you can allocate essentially all of your net wages each pay period to the TSP, up to the annual limitation. The current maximum (2014) is $23,000 ($17,500 regular + $5,500 catch-up). For example, one could contribute $3,285 per pay period to the TSP and then retire after 7 pay periods, sheltering $23,000 from taxes without working the entire year. For those of you considering retirement on 1/11/14 to take advantage of the longer leave year, consider this strategy. Of course, if you are taking another job with a deferred compensation plan like a 401(k), this strategy will not help you out if you plan on contributing the maximum deferral through your new employer.

When Can I Withdraw TSP Funds Without the 10% Penalty?

If you continue your federal employment at least one day into the calendar year of your 55th birth year, you may make penalty-free withdrawals from your TSP account upon retirement. You *can't* rollover your TSP account and make penalty-free withdrawals at 55 from the rollover account. The funds must remain in the TSP for this rule to benefit you. Remember, you have to work until the *year* that you turn 55, not to the date on which you become 55. Using the same example as the Catch-Up contribution, you would have to work just one day in calendar year 2014 to qualify for the penalty-free TSP withdrawals if you turn 55 during 2014. In effect, you could be 54+ at retirement and enjoy the same benefits of being 55 at retirement in terms of TSP withdrawal options.

Remember, you always pay income taxes on the amount that you withdraw from your Traditional TSP, as it was funded with tax-free dollars. Either by working until your 55th year, or by attaining the age of 59½, you may make arrangements with the TSP to withdraw your money using equal monthly amounts or a lump sum. You should be aware of your marginal tax rate at this time and know how much "room" you have until you hit the next-higher tax bracket.

For example, if you were in the 15% federal tax bracket and were $20,000 away from the 25% bracket, it would make good financial sense to only withdraw $20,000 that year, unless you could find additional deductions with which to balance the remainder. Of course, if you need the money, take it out; these are just points to think about.

If you are disabled, qualified withdrawals from your Roth TSP will be penalty-free. If you transfer your Traditional TSP to an IRA after retirement, then IRA rules take over and you can access your IRA without penalty if you are disabled.

If I Retire Before 55, Can I Access My TSP Penalty-Free?

Yes. Generally speaking, there are three ways. The first is to purchase an annuity with all or a portion of your TSP account balance. You may purchase the annuity from the TSP through MetLife, or find your own annuity provider. A *very* small percentage of retirees elect to purchase an annuity.

The second way is called a Life-Expectancy Withdrawal. This is a series of substantially-equal monthly payments made to you by the TSP over the course of a year, based upon your age and account balance. This is not the same as an annuity. Using IRS-published tables, you may withdraw a portion of your TSP penalty-free each year, even though you did not work until your 55th year and are not 59½ years of age. This amount is recalculated each year using the updated balance in your account and a new percentage based upon your age. The withdrawal rates vary by age, but are about 3% initially. For example, if your TSP had a balance of $500,000 at age 50, at a 3% withdrawal rate, that would be $15,000; divided by 12 months equals $1,250 per month you can withdraw from the TSP ***penalty-free at age 50 and retired***. You pay regular income taxes on these monies, but no penalty. (Income taxes do not apply to Roth TSP withdrawals when Roth TSP requirements are met.)

If you elect a Life-Expectancy Withdrawal through the TSP, you will be locked into the withdrawals for the **<u>longer</u>** of five years or attaining the age of 59½. The TSP handles all of the calculations. Selecting this option can seem a bit confusing, as you are using Form TSP-70, “Request for Full Withdrawal,” even though you are *not* withdrawing all of your funds. When the revised Form TSP-70 arrived in April 2012, they made it a bit easier to figure out. Under “IV. Withdrawal Election,” you simply check the box labeled, “Compute my payments based on my life expectancy.”

Here are the annual withdrawal percentages by age (computed from IRS Pub 590, Appendix C):

Age 48	2.777%
Age 49	2.849%
Age 50	2.924%
Age 51	3.003%
Age 52	3.096%
Age 53	3.185%
Age 54	3.279%
Age 55	3.378%
Age 56	3.484%
Age 57	3.584%
Age 58	3.704%
Age 59	3.831%
Age 60	3.968%

The third way is to establish a "72(t)" withdrawal arrangement. Using this methodology requires you to rollover all or a portion of your TSP balance to another custodian and establish a self-directed IRA. Once established, you can use Internal Revenue Code Section 72(t) to structure withdrawals that are a series of substantially-equal monthly payments. Instead of using a percentage from an IRS single-life table, Section 72(t) allows you to use an interest rate for withdrawals that is 120% of the Applicable Federal Rate (AFR) for mid-term obligations.

As of November 2013, 120% of the mid-term AFR was 2.07%, far above the 1.04% it stood at in January 2013. A few years ago, when interest rates were higher, this methodology yielded substantially-larger monthly payouts than the TSP's methodology. In October 2008, the 120% mid-term AFR was 3.81% and in October 2007 the rate was 5.23%.

Bankrate.com's 72(t) Calculator is an easy-to-use tool where you input the account balance, your age, your beneficiary's age and the "reasonable" interest rate that you'd like to use. Both the amortization and annuitization methods will generally result in a higher initial payment than the TSP's life-expectancy method, but the 72(t) payment will stay the same over the life of the 72(t) payment stream. If you think that you want to pursue a 72(t) payout methodology, please consult a qualified tax-planning professional before you start.

If you withdraw more funds than allowed before the five+-year election has expired, you will be liable for the 10% penalty. See IRS Publication 590 for additional details at IRS Publication 590. This publication is 108 pages of pure fun and can be downloaded from the IRS website and covers all deferred-tax plans, such as IRAs and 401(k) plans. See www.retireearlyhomepage.com for a nicely-written guide on IRS Section 72(t) plans.

There *may* also be a fourth way to withdraw your funds from the TSP……read on! The Pension Protection Act of 2006 (PPA2006) contains a provision under Section 828 which allows *state and local* Public Safety Officers (PSOs) to withdraw funds from their defined-benefit plans without penalty when they retire at age 50.

Let's look at how the IRS appears to be currently interpreting this Section. Six of my readers have forwarded emails to me detailing their conversations with the IRS regarding this section of the PPA2006. In all of the emails, the readers advised that the IRS stated that they are interpreting Section 828 to *include* federal PSOs under the current statute. I also have an email from an IRS employee stating the same thing. If you decide to engage in this behavior, the TSP will honor your withdrawal request, but your Form 1099 will reflect a distribution code of "1"; "Early withdrawal – no known exception." When you file Form 5329 with your Form 1040, in Part 1, Line 2, you then state reason code "01" that you are a PSO. Remember, the TSP only withholds taxes; not penalties. It's your responsibility to report and pay the penalty on your tax return. ***I am not advocating this approach, nor do I make any representation or guarantee that this approach will be successful in all cases. I am merely explaining to you how this might work.***

If I Retire at 50, When I Turn 55, Can I Access My TSP Penalty-Free?

No. You must *work* for the Government until the year you turn 55 to receive penalty-free access to your TSP funds, other than the Life-Expectancy Withdrawals and IRS Section 72(t) plans as previously discussed. If you don't, you must wait until you are 59½ years old just like everyone else. You may elect the Life-Expectancy Withdrawal at any time after retirement – you do not have to make this decision immediately – but once you opt to do it, you're stuck with it for the longer of 5 years or attaining the age of 59½.

What Are My TSP Withdrawal Options When I Retire?

Upon retirement, you have five options with your TSP:

1) **Do nothing**. If you choose this path, at age 70½, you will be required by the IRS to take required minimum monthly withdrawals.
2) **Transfer the account balance out of the TSP to an IRA**. If you select this, you can invest in a wider array of investment options and either manage your own money or hire a professional. (Most of us think of this as a "rollover," but TSP nomenclature calls it a "transfer.")

3) **Use your account balance to purchase an annuity through the TSP**. Last I read, less than one percent of TSP participants choose this option.
4) **Request an amount to be paid to you monthly**. If you worked until your 55th year, you choose the monthly amount. If you retired before your 55th year, the TSP computes your payments for you on a life-expectancy basis, which you are then locked into for the longer of five years or attaining the age of 59½. To have the TSP compute your life-expectancy payments, check the box in Section IV of Form TSP-70, "Compute my payments based on my life expectancy."
5) **Request a one-time partial disbursement** (can be done in conjunction with any of the above). Note that this option must be exercised *before* you elect to begin your monthly payments.

The TSP has a well-written 25-page booklet at Withdrawing Your TSP Account which further describes your withdrawal options.

Where Can I Get Help Managing my TSP Account?

The TSP's Lifecycle Funds help you maximize your return with a portfolio that is diversified between the five TSP funds. You can read more about the TSP's Lifecycle Funds here: TSP Lifecycle Fund Performance.

As you may know, the TSP now limits its participants to two Inter-Fund Transfers (IFTs) per calendar month. I learned from one of my readers that there's a little more to that story. After the two allowed IFTs, a participant may make additional IFTs in excess of the two allowable IFTs, as long as the IFT is moving money into the "G" fund. Here's the text straight from the TSP website:

- *The first two IFTs of any calendar month may redistribute money in your account among any or all of the TSP funds, including moving your entire balance into the Government Securities Investment (G) Fund.*
- *Subsequent IFTs in the same calendar month can only move money into the Government Securities Investment (G) Fund.*

If you have both a civilian and a uniformed services account, these rules apply to each account separately.

Your IFT counts in the calendar month we process it, not in the month you submit it.

There are a number of fee-based companies that make recommendations as to which TSP funds you should be invested in. You may want to ask around your office to see who has experienced success and failure before you put down any money. I have been told by some of my readers that certain programs like these have yielded a much higher return for them compared to what they would have likely done without seeking any guidance.

I'd also like to point out a couple of free resources for managing your TSP. Both of these sites are run by FERSGUIDE readers who are also fellow on-board 1811s. The first site is www.thefedtrader.com and the other is www.tspallocation.com. At these websites, you can sign up (as I have); to receive an email whenever the blog is updated or a change in the TSP fund allocation is suggested. Both sites are kind enough to host my FERSGUIDE.

I Can't Afford to Contribute the Maximum to the TSP!

You can't afford **not** to! **You can't retire comfortably on the FERS annuity alone!**

"*Watch your pennies and the dollars take care of themselves*" Did you know that $6 per day for lunch or Starbucks is about $130 per month? $130 per month, invested at 7% for 25 years will be worth $105,924 at the end of the 25-year period. That's a very expensive latte! Lay off the Starbucks and bring your lunch - you'd be amazed at what that's costing you over the long run. There are plenty of other ways to wring a few dollars out of your earnings, and everyone must make their own choices. Remember, "financial maturity" is your willingness to forego short-term pleasure for long-term gain. However you accomplish it, for starters, you simply must carve out 5% of your earnings as a TSP contribution. As mentioned earlier, when you receive a step or grade increase, consider allocating that to a larger TSP contribution, or perhaps allocating the annual January pay adjustment to the TSP. You don't have to get there overnight, but you must have a plan to get there. The nice part is when you get to the maximum, you no longer have to worry about coming up with additional contributions each year.

There is a tax break for contributing to the Traditional TSP - it's not dollar-for-dollar, but it certainly takes the edge off. For example, if you are in the 25% federal tax bracket and the 5% state tax bracket, your combined marginal tax rate (the tax levied on the last dollar you earned) is 30%. This means that each dollar contributed to the Traditional TSP above your current contribution only costs you 70 cents. If you contribute an additional $5,000, it only costs you $3,500 to do so. You can then adjust your withholding so that you have $1,500 less in taxes deducted from your paychecks to help make up the out-of-pocket difference immediately.

You can live paycheck-to-paycheck when you know there's another paycheck. Don't be afraid to live without a financial "cushion." Should adversity strike, you can always borrow those same dollars back from your TSP account.

Now that there is no open season for TSP contribution changes, you can make a change to your TSP contribution amount every pay period. With that in mind, for those who say that they can't afford to contribute more, try making a change to your TSP contribution every pay period. Do something very small – start by adding $5 a pay period to what you are already contributing. That's $2.50 a week; an amount that you will not miss. Two weeks later, go to the NFC's website and add another $5 to your contribution amount. Continue this $5 pattern for the entire year and you will have raised your annual TSP contribution amount by $130. If things get tight, wait a pay period or two before making your next increase. If things get really bad, you can always decrease your contribution back some until get to the point where you can start increasing them again. Follow this strategy and you will have your TSP contribution up in no time.

General Retirement Issues

I'm Getting a Divorce – What Happens to my Retirement?

FERS Annuity in Divorce

Our FERS annuity is governed solely by Title V, USC, which makes it very different from a pension plan at a private company or a state/municipal government plan. The major difference is that under Title V, no monies can be ordered paid to your former spouse until you *actually* retire, unless you leave federal service and request a refund of contributions. If you were in a private plan, which is governed by ERISA (Employment Retirement Income Security Act), monies can be ordered paid to your former spouse when you are *eligible* to retire, not when you *actually* retire.

If you never retire from federal service, no monies will be paid to your spouse while you are alive. Talk about a game of *Survivor*! If you die while still working at 80 years old, you will never pay; but the real odds are that you will retire and if you do then your FERS annuity is subject to a divorce court decree dividing the annuity.

Your FERS annuity is paid to you after retirement by OPM, and it's OPM that will process any court order that administers your annuity as a result of divorce. Court orders received and accepted by OPM are referred to as Court Orders Acceptable for Processing, or COAPs. An ERISA-governed plan uses Qualified Domestic Relations Orders (QDROs) to divide marital property. OPM will not accept a QDRO, as these are related to ERISA-governed plans. It is crucial that when and if you hire an attorney to handle your whole divorce or just to have them file the uncontested paperwork for you in the court; ensure they are fully qualified to write a COAP and understand COAPs. An improperly drafted COAP will not be recognized by OPM and can be a basis to re-open the divorce to reapportion the assets.

OPM is very flexible about how a COAP can pay out monies to your former spouse. As long as the information needed to determine the amount payable can be determined within the four corners of the COAP, OPM is generally able to follow the COAP.

For example, your COAP could direct OPM to pay your former spouse based upon a:

1) simple pro-rata share based upon the length of the marriage, a
2) discrete dollar amount per month, a
3) percentage of the total annuity payable, or a
4) formula that is clearly explained within the COAP.

For example, in a pro-rata award, OPM will pay out a portion of your FERS annuity to your former spouse that is based upon the percentage that the marriage overlapped with your federal career. Normally, the maximum spousal share will not exceed 50% of the total annuity. For a *simple* example, suppose you were married for 20 years of your 30-year federal career. Your marriage length can be turned into a ratio of 20/30 or 66.66%; the part of your federal career that overlapped with the marriage. In this example, your former spouse would be entitled to 50% of 66.66% of your calculated annuity, or 33.33%.

Thrift Savings Plan

The TSP is a much simpler matter to deal with than the FERS annuity. Your TSP balance has a determinable value on a certain date. Court orders that deal with the TSP simply instruct the TSP to withdraw a specific amount from your account and process a payment to your former spouse. After the TSP receives an acceptable court order, there is a waiting period while the parties are noticed. The former spouse may not leave these funds at the TSP, unless the former spouse is also a federal employee; in that case, he/she could transfer the funds into his/her TSP account. The important thing to remember about the TSP is that the settlement happens at the time of divorce and no further interaction is generally needed. Please be aware that even in a friendly divorce, retirement payments cannot be made between retirement accounts (TSP, 401(k), IRA, ROTHs) without a completed divorce decree listing the transfer of the funds between the parties. The biggest challenge in dealing with the TSP in divorce is the valuation date of the former spouse's share. Some states "stop the clock" when the parties separate, some when the divorce petition is filed by the plaintiff and others at the date the decree is issued or the dividing-order was signed.

My Analysis of Divorce Matters

Over the last few years, I have reviewed well over 100 settlement agreements, COAPs, TSP Retirement Benefits Court Orders and pension valuations performed by numerous actuarial and valuation firms. I have seen many horribly-prepared valuations that contained numerous errors and assumptions; most with errors that over-valued the present value of the former spouse's share. One of those overvalued the former spouse's share by over $200,000.

Many attorneys do not fully understand our retirement benefits and make incorrect assumptions about what each party is due. Most of the pension valuations that I have reviewed contained serious errors; usually caused by the preparer not understanding the federal system, especially when it comes to law-enforcement officers and other 6c-covered persons. My expertise includes an in-depth understanding of annuity calculations, the Spousal Benefit Survivor Annuity (SBSA), SBSA cost and implementation, present value calculations, the time-value of money and life-expectancy determinations. I tend to see myself as an impartial fact-finding expert that can crunch the numbers and provide a monetary range for annuity buy-outs, value determinations, etc. I provide the numbers that a couple or their attorneys can use to open discussions and negotiations.

If you find yourself in this situation and would like me to look over your paperwork or answer any questions related to these matters, just send the materials to me at dan@fersguide.com or call me at 804-364-7175 (this number is only for fee-based divorce work.) In addition to having a CPA license (currently inactive), I have been writing this guide for over ten years and have an excellent understanding of our retirement system and I've also been through divorce as a federal agent; so who better to hire if you are going through divorce. I have been retained by experienced legal counsel to provide an expert opinion and calculations in the past and can provide those references upon request.

Is There a Best Day to Retire Under FERS?

Yes, but be careful to coordinate your retirement date in concert with the end of the leave year if you are carrying over unused annual leave that you expect to be paid out. Regardless of which date you pick, the annuity starts on the first day of the following month. For example:

Retirement Date	Annuity Starts
12/31	1/1
1/1	2/1
1/15	2/1

By retiring on 12/31, you will accomplish two things:

1) Your annuity will start 1/1 and you will not be out of pay status for a single day, and
2) You will be able to cash out your annual leave, including leave accrued in excess of 240 hours.

But, if you would be turning 55 in the year which starts after 12/31, you may want to work at least a day in the year that you turn 55 if you *need* complete penalty-free access to your TSP. Taking a look at the Leave-Year Ending Dates chart below, you can see that the leave year can end as late as 1/11: OPM Leave Year Dates

Calendar Year		Leave Year ends on:
2013		January 11, 2014
2014		January 10, 2015
2015		January 9, 2016
2016		January 7, 2017
2017		January 6, 2018
2018		January 5, 2019
2019		January 4, 2020
2020		January 2, 2021
2021+		Not released by OPM yet

By working at least a day into the following year, but staying within the leave year, you will accomplish three things:

1) You will be able to cash out your annual leave, including leave accrued in excess of 240 hours,
2) You will have satisfied the IRS that you were in your 55^{th} year at retirement, thus making you eligible for penalty-free TSP access, and
3) Your annuity will not start until 2/1. You will not receive pay from the day you retire until 2/1.

In the example above, the question becomes, "what is it costing me in regards to my missed annuity to get access to my TSP at 55?" In this example, assume that you retired 1/5. In rough terms, you'd get 5 days' regular pay and no FERS annuity pay for January. That works out to about a $3,500 cost for penalty-free TSP access.

Another scenario could be that you don't have a lot of leave in excess of 240 hours, so you smartly retire on 1/31. By retiring on 1/31, you accomplish the following:

1) You will still be able to cash out your annual leave, just not the hours in excess of 240 hours (lost when leave-year ended),
2) You will have satisfied the IRS that you were in your 55^{th} year at retirement, thus making you eligible for penalty-free TSP access, and

3) Your annuity starts on 2/1, so you are never out of pay status.

"Terminal Leave"

"Terminal Leave" is a term borrowed from the military. It refers to the practice of taking your accrued unused annual leave after your last day in the office. For example, suppose you wanted 12/4/13 to be your last day in the office – your retirement date; but instead of processing out that day, you take annual leave until 1/31/14. That makes 1/31/14 your actual retirement date for purposes of calculating your annuity.

OPM has delegated to the respective federal agencies, the right to allow or disallow the use of terminal leave. There is no OPM rule which states that you have to be present in the office on your last day you are in pay status. Your agency can certainly dictate that you be present, as it's an agency decision, not an OPM rule.

Many agencies have written policy that disallows the practice of using terminal leave. Some agencies, however, do allow this practice, so make inquiry to your respective Human Resources departments to determine if the practice is allowed at your agency.

There are many benefits to terminal leave: 1) It extends your retirement-service credit, 2) it allows additional contributions and matching into the TSP, 3) you will earn additional AL as you use AL, so you will still receive a small payout of unused AL upon retirement, and 4) you will earn additional SL which will possibly increase your annuity. There are some disadvantages as well. There will be no "unused-AL check" to tide you over until your start receiving regular OPM annuity payments and you are still an employee of the agency until that last day of AL, which means that you are subject to recall in an emergency and if your agency prohibits outside employment – you'd be in violation of that rule if you start another job while still on terminal leave at your agency.

Since this is a new section this year, I'd appreciate any feedback I can get as to which agencies allow this practice and if I have left any important details out.

How Can I Cash Out the Most Unused Annual Leave When I Retire?

At the end of the leave year, federal employees are allowed to carryover 240 hours of annual leave from one leave year into the next (LEGAT assignments and SES members have higher limits). At the 8-hours-per-pay-period accrual rate, a senior employee earns 208 hours of annual leave per year. If you play it right, you could add the 208 earned hours (theoretical maximum, but less in practice due to end-of-year timing, so plan on 200) onto the 240 hours you carried over from the previous year, giving you a potential leave balance of 440 hours by the end of the leave year. As long as you retire before the end of the leave year (dates vary each year), you will be paid for all 440 hours - that's more than 11 weeks' pay - not a bad way to start retirement. If you retire at year-end, and there is a pay adjustment in January, your annual leave will be paid out at the higher-adjusted rate as OPM rules require annual leave to be paid out at the rate you would have received on those hours had you stayed in service and taken the leave, including the January pay adjustment. Social Security and Medicare taxes are withheld from your AL payout. Most pay systems also withhold taxes at the same rate as an award, 25%.

When Will I Get Paid After I Retire and What's the Timeline?

Considerable thought usually precedes a decision to retire; but did you ever wonder exactly what happens with your money after you retire?

Before we start in with OPM, keep in mind that your access to the NFC will expire about 60 days after you retire. I highly advise that **immediately upon retirement**, you log into the NFC and download information that you should keep, such as your final E&L/LES statements and Form W2s.

The first thing that you are going to see is the payout for your unused annual leave, or UAL. This payment is processed by your payroll center and will be deposited into your bank account in the same manner your pay was. This deposit generally occurs 3-8 weeks after retirement, with a few folks waiting a bit longer for theirs as it varies by agency. Examine your UAL gross-pay amount very carefully, as a detailed statement is not always provided to you regarding the calculated-UAL payment amount. If you are paid by the NFC, you will receive a separate earnings statement for this deposit which will clearly state the number of hours and the rate at which you were paid. Between the mandatory withholding and taxes, figure on clearing no more than 2/3 of the gross payment due. You should be paid for your UAL as well as *restored* UAL. The UAL hours are paid to you at your ***AVP/LEAP/AUO***-hourly rate; 125% of your GS grade and step. This rate can be calculated by dividing your annual salary (be sure to include AVP) by 2,087 hours. To verify, multiply your total UAL hours by your calculated rate and you should match the agency-calculated amount. Social Security and Medicare taxes are deducted from these payments, but there is no TSP deduction. The UAL amount is generally taxed as an award at a flat rate.

When your agency calculates your annual leave payout, they are supposed to project out the value of your leave as if you had taken it. Check your annual leave calculation very carefully and look at the official OPM policy here: OPM Lump-Sum AL Payment Rules

 The foregoing is not to be considered legal or financial advice. It is intended for entertainment value only and to motivate you to seek out this information on your own and verify that it is correct and suits your needs. Since you didn't have to pay for this, you can't sue me!

About 3-4 weeks after retirement, OPM will send you a credit-card sized "Retirement Services Reference Card" with your name and your Civil Service Annuitant (CSA) 8-digit claim number. Soon thereafter, you will receive a PIN number to access the OPM website once your claim has been adjudicated.

A couple of months later, you should receive a booklet entitled, "Your Federal Retirement Benefits" which is personalized to your federal career. This booklet will include information on your monthly benefits, monthly-benefit computations, survivor benefits, FEHBP benefits and retroactive benefit-payment explanations. It's a good idea to keep this where your spouse can readily find it.

As many of you have heard, OPM has a significant backlog of retirement applications to process. CSRS retirements are processed by a separate group and those applications are processed much more rapidly than FERS applications. Right now, most newly-retired FERS annuitants are reporting to me that it took about five (down from about eight last year) months before their annuity was finalized (adjudicated). There are horror stories, so I encourage you to contact OPM's "Escalation Team" if you have not been adjudicated after eight months of interim payments. OPM has made terrific strides in lowering the backlog of retirement claims, but they are estimating about 22,000 federal employees will retire in January 2014.

The government pays your annuity to you in arrears. If you retire on 12/31, you begin earning your annuity right away on 1/1, but the January payment is not payable to you until 2/1. In this example, your first annuity payment would likely arrive by about 2/15 and subsequent payments would occur on the first of each successive month.

The annuity initially paid to you is called an interim payment. Interim payments can vary and are generally about 66%-75% of what your final annuity will be. To make things easier on you financially while you are in interim status, no health-insurance premiums are taken out of your interim payment. *An amount for the Special Retirement Supplement, or SRS, is also **not** included in the interim payment calculation*.

When your retirement application is adjudicated, you will receive a back-pay adjustment which includes deductions for the FEHBP health-insurance-premium payments that were previously not deducted. A back-pay adjustment for the SRS will also be calculated and paid to you. OPM is very accurate in their calculations and you will eventually be paid all monies that are due and owing to you. Once the back-pay adjustments are paid to you, your finalized annuity payment will be comprised of your regular annuity component and your SRS component. There are no Social Security or Medicare taxes taken out of your annuity. Your FEHB premium will now appear as a monthly amount, but it is exactly the same cost to you as when you were an on-board employee making bi-weekly premium payments. In retirement, the U.S. Government continues to pay up to 75% of the cost of your health insurance.

Your FEHBP and FEGLI insurance will automatically follow you into retirement. While in "interim" status, you will be billed for any FEDVIP insurance you carry into retirement (i.e. dental and vision coverage.) You will have to make your own arrangements to pay LTCFEDS premiums until you are adjudicated. After you are adjudicated, the FEDVIP and LTCFEDS premiums can be deducted from your FERS annuity just like FEHBP and FEGLI. Don't forget to make sure beneficiary statements are up to date as well. If you have SAMBA Dental/Vision coverage, call SAMBA 30-days before you retire and they will set you up for a quarterly billing or a monthly debit to your checking account. These premiums will not be deducted from your annuity payment.

If you have professional liability insurance through Wright and Company, several readers have advised me that you should write to the company just before you retire, they will note your retirement in their records and provide 36-months of "tail coverage" for any event that occurred while you were on-the-job.

Other readers have advised me that OPM will deduct premiums for BENEFEDS-sponsored coverage, but not until your annuity had been finalized/adjudicated, which will put you into delinquency with the carrier. If you receive a bill from your BENEFEDS carrier while on interim status, it's best to pay it. You can also reach out ahead of retirement and see how to best make sure your premiums are not late.

If you live in a state which levies income taxes on your FERS annuity (most do,) you will need to initiate state income-tax withholding with OPM; as this is *not* automatically done for you. A *small* portion of your FERS annuity is non-taxable (about 6% or so), since your FERS retirement contributions were made on an after-tax basis. This excludable amount is calculated automatically for you by OPM and will appear on the 1099-R that OPM prepares annually.

Also keep in mind that federal withholding on your FERS annuity may not be sufficient if you obtain a high-paying job after retirement and/or have a spouse with a high-paying job. It is easy to make changes to your withholding at https://www.servicesonline.opm.gov after you get your logon information from OPM.

Keep in mind that you will be unable to make withdrawals from the TSP until your agency or payroll office notifies the TSP that you have retired. After the TSP has been notified, they have an additional statutory 31-day waiting period before they can disburse funds, because if you were to re-start federal employment with another agency within 31 days, you are not allowed to withdraw funds from your TSP. You can still submit your paperwork to the TSP as soon as you retire; they will just sit on the request until the 31-day clock runs out and then disburse to you.

What are My Options if Things Really Go Badly for Me?

I get a number of calls from folks who by some means find themselves in a position where they may have to separate from the federal government before they are eligible for retirement.

First of all, I'm not advocating separation over retirement, but sometimes folks don't have a choice due to a disciplinary action, or feel that they may not have a choice and I want to make sure everyone is aware of their options.

If you feel that separation is your only avenue, think about the following options:

1) Would six months of LWOP help you? If your agency head approves, your health insurance continues and the six months count as service credit.
2) Would going part-time for a period of time help out? That's a good way to stay involved at work, while freeing up some time.
3) Can your annual and sick leave get you to 20 years before you separate?

If separation is still the way you need to proceed – your options are influenced by how much "agent time" you have and whether you plan to continue working in some sort of federal job.

Let's look at some examples of separation for agents:

1) Larry is 46 and has 14 years as an agent. He is not eligible to retire because he is not yet 50 years old with 20-years of service.

    a. If Larry resigns and never works for the federal government again, he will be eligible to receive a FERS Basic Annuity at age 62 and he will lose his FEHBP coverage forever. Any military time purchased before separation will still be paid in his annuity. At 62, Larry will receive 14% of his High-3. If Larry elects to draw his retirement earlier, OPM would apply the 5%-per-year penalty; meaning that if Larry decided to draw upon his benefits at age 57 (5 years early), he would receive 75% of his computed benefit (14% of his High-3). No refund is ever made for extra .5% that Larry paid as an agent into FERS as he was properly classified as an agent at that time.

    b. If Larry finds a **non-agent** federal-government job after resigning, he can retire anytime after reaching his MRA as long as he has the proper service credit. Larry is again eligible for FEHB coverage when he is hired-on by the

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other agency and will have FEHB insurance in retirement assuming that he works at the new agency until he is eligible to retire at his MRA (an MRA+10 retirement). The break in service between the two federal jobs will have no effect on the 5-year rule for FEHB coverage before retirement. Keep in mind that this is still an MRA+10 retirement, unless Larry works for the federal government until he is 60 years old, or has worked 30 years. He can retire at 60 with no age penalty. All of Larry's years of service will be computed at the 1%-per-year rate since he did not have 20 years as an agent.

c. If Larry finds an **agent** federal-government job after resigning, he can still qualify for a law-enforcement special-provisions-retirement by working six more years at the second agency, giving Larry 20 years of service at age 52. He can retire at 52 just like he never left his old agency.

2) Joe is 48 years old and has 22 years of service as an agent. He is not eligible to retire because he has not met the age requirement – he's two years too young. Since Joe "has his twenty," he is treated a little better. Here are some of Joe's options:

a. Take a GS-4 job at the local air base working at the golf course. At age 50, even though he is not currently in a special-provisions position, Joe can retire. He won't be increasing his High-3, but all he needed to do was get to age 50. Joe will receive 38% of his High-3 as well as all of the other benefits that go along with a law-enforcement special-provisions retirement and retain FEHB coverage forever.

b. Joe decides that he's done working and has no further federal service. Joe will lose his FEHPB health insurance benefits forever. Joe's retirement benefit will be calculated using the standard 1% per year and no refund will be made for the extra half-percent he paid in as an agent, as he was properly classified at the time. At his MRA, Joe would collect 22% of his High-3 without an age penalty. Any military time purchased before separation will still be paid in his annuity.

3) Sally is almost 57 years old and is facing mandatory retirement, but does not want to leave federal service and her extension request was denied.

a. Nothing prevents Sally from applying for a non-covered position at her agency or at another federal agency. She can retire anytime she wants to under the special provisions. There is no maximum retirement age under FERS.

Can I Afford to Retire Early?   YES!

First, let's review what you will receive from the federal government should you choose to retire. Here are the assumptions for the calculation. You may have to adjust these accordingly, but this example should provide a reasonable view of the point I am trying to make.

Assumptions:	
Age at Retirement	51
Years of Service	23
High-3 Salary	$140,000
SSA Benefits at 62	$1,900
TSP Balance	$500,000
Spousal Annuity	Yes, 50%

Retirement Components	
FERS Annuity	$51,800
Less Survivor Annuity	5,180
Net FERS Annual Annuity	46,620
Net FERS Month Annuity	3,885
FERS SRS (until 62)	
23/40 x $1,900	1,093
TSP Life Expectancy	1,251
Gross Monthly Benefit	6,229
Gross Annual Benefit	$74,745

But wait, I was making $140,000 and you want me to live on $74,745? Yes, but first we need to add back to the $74,745 the items that will no longer be deducted from your paycheck to give us a comparative number as an equivalent "cash-in-hand" analysis:

Cash-in-hand Analysis	
Start with FERS gross annual benefit	$74,745
Costs from your E&L statement that lowered your net pay, but will not be deducted from your retirement check:	
Social Security (limit reached at $7,254)	7,254
Medicare Tax at 1.45%	2,030
No contribution to the TSP & Catch Up	23,000
No longer paying 1.3% for FERS	1,820
Adjusted "Feels Like" Total	108,849
State and Federal taxes on difference (est.)	3,800
Your retirement income "Feels Like"	$112,649
Percentage of Pre-Retirement Pay	80.46%

Remember, at age 59½, you can pull as much out of your TSP as you wish.

College Savings Accounts

Not directly related to retirement, but a well-funded college-savings account will make your retirement less stressful. The number-one reason cited to me when I ask my readers why they aren't retiring at age 50 is…… " I can't retire, I have to pay for my kids' college education(s)." USAA is a wonderful resource for Coverdell Education Savings Accounts (ESA). USAA does not charge a custodian fee and you can open an account with as little as a $50 per-month contribution. Even $50 per-month, invested for 18 years at a return of 7% will amount to $21,500. Increase that to $100 per-month and you're up to $43,072. Consider the maximum-allowable contribution of $166 per-month, and after 18 years at 7%, you'd have $71,500 available. Should one child receive a scholarship, the funds in their Coverdell ESA can be used for siblings. Coverdell ESAs allow contributions of up to $2,000 per-year per-child, but contribution limits begin to phase-in at $190,000 of Modified Adjusted Gross Income (MAGI) for married taxpayers, and the contribution is completely phased out by $220,000 of MAGI. For single taxpayers, use half of the married amounts. USAA also sells 529 plans and UGMA accounts, depending on your financial situation, but for most, the Coverdell ESAs are the way to go. You can read descriptions of all of the various college-savings plans at USAA's website.

Don't let some slick salesman tell you that Coverdell ESAs are no good and that you should be in a 529 plan (believe me, they will). As long as your income doesn't cause you to phase out and the most you're investing is $2,000 or less per year, you can't beat a Coverdell ESA. 529 accounts typically have higher fees, including fees for the state that sponsored the plan. Even USAA charges a custodian fee on 529s but not on Coverdell ESAs. Also note that USAA has recently expanded its membership rules to now include *all* who served our country honorably. That means your family members who served and received honorable discharges may join USAA. As a result of the passage of the American Taxpayer Relief Act of 2012 (P.L. 112-240), the Coverdell ESA has been made permanent.

Pension Protection Act of 2006 (PPA)

2007 was the first tax year that Section 845 of the PPA was effective. Section 845 allows a retired federal law enforcement officer, fire fighter, and members of certain other small groups to ***exclude*** up to $3,000 of their FERS or CSRS benefits from federal income taxes for amounts paid for health insurance or long-term-care premiums. A covered retiree may exclude **only** premiums paid directly by OPM out of your annuity to your FEHBP and LTCFEDS carriers. This provides the same benefit as "premium conversion" that active federal employees enjoy.

If both spouses work for the federal government and the agent spouse is retiring first, you have to do a little bit of math. If your premiums are $3,000 per year or less, then either spouse can carry the FEHB. If the premiums exceed $3,000 per year, consider keeping the FEHB with the on-board employee so you take full advantage of premium conversion (using pre-tax dollars to pay premiums.)

If both spouses work for the federal government and the non-agent spouse is retiring first, it would make better sense financially to have the FEHB carried by the on-board spouse so that you can still utilize premium conversion.

The most current OPM ruling on this matter is dated June 2007 (Benefits Administration Letter (BAL) 07-201) OPM BAL 07-201 . Do not be confused by earlier OPM memos which were incorrect. This benefit absolutely applies to retired series 1811 agents. This is a "self-identify" and "self-report" item. On Line 16a of Form 1040, you merely subtract up to an additional $3,000 from the taxable portion shown on the 1099 and write "PSO" next to line 16. "PSO" stands for Public Safety Officer.

Retirement Plan Codes

I commonly encounter folks who aren't quite sure what retirement system or plan they are in. If you take a look at your annual benefit statement, there is a retirement plan code listed. Here's what the codes mean: (most of you will find yourself under code "M")

1	Civil Service Retirement System (CSRS)
2	Straight Social Security System (no CSRS or FERS deduction)
6	CSRS - Special (law enforcement & firefighters)
C	CSRS - Offset - Regular
E	CSRS - Offset for law enforcement and firefighters
K	FERS - Regular
L	FERS - Air Traffic Controllers
M	FERS - Special (law enforcement and firefighters)
N	FERS - Military Reserve Technicians

Insurance Issues

What About my FEHBP Insurance in Retirement?

As long as you were enrolled in the Federal Employees Health Benefits Plan (FEHBP) for five continuous years prior to retirement, you may stay enrolled in the FEHBP into retirement and until you die. You and your spouse may continue enrollment in the FEHBP beyond 65 and benefits are automatically coordinated with Medicare Option "A". ***If you did not elect the FERS survivor annuity, your spouse will not have FEHBP insurance after you die. You must also have been enrolled as "self and family" at time of death*.**

If you were covered under another person's FEHBP "self-and-family" plan for five years, you are deemed by OPM to be qualified as participating in the FEHBP for purposes of the five-year test. Generally speaking, the same rule applies if you were covered by a DOD-sponsored "self-and-family" plan.

For employees married to other federally-employed spouses, some extra thought should be given to this matter. If you no longer have to provide health insurance for a child at the time the first spouse retires, consider changing each spouse to "self only" as this is usually less expensive than carrying the other spouse under a "self and family" option and it will avoid any insurance issues when one spouse pre-deceases the other. If you don't trust OPM to grant you FEHBP benefits at a later date, consider completing OPM Form RI 79-9. Complete block "A" and include a copy of your spouse's SF 2809. This documents your right to FEHBP coverage as long as you meet the five-year test and you are continuously covered by your spouse's self-and-family FEHB plan. ***The most valuable retirement benefit we receive, in my opinion, is our FEHBP health insurance***. Take great care to preserve that benefit.

If you fail to meet the five-year test, you may petition OPM for a waiver, but waivers are almost impossible to get for a person retiring on a voluntary basis. The earliest that you can request a waiver is four months prior to retirement. Waiver petitions should be sent to:

U.S. Office of Personnel Management
Retirement Benefits Branch
1900 E Street, NW
Washington, DC 20415-3532

In retirement, the federal government continues to pay up to 75% of the cost of your FEHB insurance. The only difference is that you pay your share on a monthly basis in retirement instead of a bi-weekly basis like an on-board employee. That's why the OPM health-insurance-plan guides list both a monthly and bi-weekly premium. Open season dates are the same for retirees and on-board employees and the rules for changing coverage outside of open season are also the same.

If you are five years out from retirement and not currently participating in the FEHBP because you get free or less-expensive coverage through your spouse's plan, please consider starting FEHB coverage as a secondary insurer so that you will have FEHB in retirement. The least-expensive way to do this is to subscribe to the Aetna Health Fund, plan 224 under the FEHB. This plan is a High Deductible Health Plan. Each month, Aetna will deposit a portion of your premium into a Health Reimbursement Account. You can use that money to pay for medical expenses that are not covered by your spouse's plan. Here's the link to the referenced Aetna plan: Aetna Healthfund Plan 224.

I'm frequently asked to expound on the variety of health plans available to federal employees (fee for service, HMO, HDHP and CDHPs). There are so many variables to consider for each person's specific needs, goals, medical history, geographic coverage and past experiences that such an undertaking is impossible for me. I suggest you visit http://www.opm.gov/insure/health/ and use their new plan-comparison tool. Thanks for understanding.

Should I Open a Flexible Spending Account (FSA)?

Yes! As long as you have at least $250 of out-of-pocket medical expenses in a tax year. Using the same example as the TSP above, assuming you are in the 30% combined (state and federal) tax bracket, $500 for medical expenses would only end up actually "costing you" $350 because you are using your pre-tax dollars to fund these expenditures. A $150 savings may not sound like much, but after a few years it adds up. If the same model iPod was selling for $300 at one store and for $150 at another store, which store would you buy it from? Would you buy it from the $300 store because "it's only $150 more?"

FSA accounts can be used for prescription eyeglasses, contact lenses, prescription medications, doctor visits, co-payments for medications and doctor visits, certain non-prescription medicines, and even acupuncture! FSAFEDS will provide reimbursement for claims regardless if sufficient funds have been withheld yet from your pay to cover your claim.

Submitting claims by fax is easy and there's even a grace period now so you have 2 1/2 months in the following year to use up the prior year's balance, so there's less risk of forfeiting monies like in the past. Reimbursement by EFT usually happens within a week of faxing in your simple claim form. Many of the larger fee-for-service plans are linked into FSAFEDS electronically and have paperless reimbursement. I have SAMBA health insurance and have been subscribed to the paperless system for the past three years and I can tell you first-hand that it is fabulous. I never sent in a single pharmacy, lab or doctor's bill to SAMBA – all of it was handled automatically.

Click here to go to the FSAFEDS site to set up your new account during the next open season.

There is a $250 annual minimum and a $2,500 annual maximum per eligible employee. This means that a two-earner family, even if both are federal employees, could each establish a $2,500 account, giving a $5,000 annual total for the family should a severe medical need present itself. You may also set up a dependent-care account at the same site. Over-the-counter (OTC) medications are no longer reimbursable unless prescribed by a doctor.

The healthcare FSA does not have a "pay-as-you-go" requirement. Example: You plan on a $2,000 corrective eye surgery in 2014. Set up a $2,500 FSA for 2014 and $96.15 will be deducted from each of your 26 paychecks in 2014. This is an annual election - you must set up a new FSA account each open season. You can have your eye surgery in January 2014 and submit the receipt for reimbursement immediately. The FSA custodian will pay you the $2,000, even though they've only collected $96.15 from you. It's like getting free one-year financing for your eye surgery. The same is not true for dependent-care accounts - they are “pay-as-you-go” accounts.

The FSAFEDS Dependant Care Account still retains a $5,000 per year ceiling.

Here’s another quirk of the FSAFEDS medical account. Let’s say you set up a $2,500 FSA for 2014 and you plan on retiring on 12/31/14. You incur $2,500 of medical expenses in the first quarter of 2014 and are fully reimbursed for them. You then decide to retire on 6/30/14 instead of 12/31/14. At this point, you’ve paid in $1,250 and been reimbursed for $2,500. There is no mechanism for FSAFEDS to collect on the $1,250 they have paid out but not collected from you when you retire on 6/30/14.

Long-Term Care Insurance

According to the *National Underwriter's 2006 Field Guide*, "there is a 43% chance that after you reach the age of 65, you will spend some time in a nursing home. Two-thirds of single people and one-third of married couples exhaust their funds after just 13 weeks in a nursing home. Within two years, 90% will be bankrupt."

Long-term care insurance can be obtained from many carriers. The insurance offered by LTCFEDS is sponsored by OPM and is competitively priced and offers a wide array of coverage levels and options. The longer you wait to purchase this insurance, the higher the premium. The website is http://www.ltcfeds.com/. Be sure to select the Automatic Compound Interest Option (ACIO) for an automatic 4% or 5% increase in the daily benefit payment each year to cover for inflation. A $100-a-day benefit twenty years from now won't go far, but with the 5% ACIO option, in twenty years your $100-a-day benefit becomes $265 a day. Premiums for long-term care insurance that is obtained through LTCFEDS qualifies under the Pension Protection Act of 2006 for exclusion from income.

There’s been a bit of controversy over OPM’s recent selection of a new plan provider and the resulting determination that premiums collected were not sufficient to cover the expected benefits that would likely be paid out under the 5% ACIO option. This action raised many premiums by 25% at a time when many of us thought we were locked in for life at our initial premium. I too was irritated by this; but after checking around, I found that the OPM-sponsored LTC plan is still competitively priced. You will also find competitive LTC plans out there from Mutual of Omaha (as United of Omaha Life Insurance Company), Prudential, MedAmerica, John Hancock and many others. If you are not using LTCFEDS, I suggest you use a broker who represents more than one carrier for your best options.

Let me save you some time here. I have spoken to dozens and dozens of folks who have spent countless hours researching plans from various providers. All of the folks I talked to went with the LTCFEDS plan. I'm not giving advice – just telling you that after folks do their diligence, they end up at LTCFEDS.

Recently, there have been multiple news articles indicating that the insurance companies are collecting premiums for years from folks and then when they get older, they are increasing the premiums significantly to the point where folks are forced to drop the coverage and the insurance companies are walking away with a windfall, having never paid out any benefits under the policy. Many financial planners now wonder whether many would be better off just putting their "premiums" into a separate savings account for future use. This is certainly an issue that you may want to discuss with your financial planner.

Life Insurance

In my opinion, the primary purpose of life insurance is to provide for others in the event of your untimely demise. For many people, life insurance is not necessary, because they have no child, spouse, parent, sibling or other relation that relies on them for support. For others, it is a very-real need. Those folks with children to provide for must have life insurance to provide for the expenses associated with raising the child and supporting the homestead expenses, and possibly, secondary education. If you have children and do not have life insurance CALL TODAY and get the process started. Your insurance salesperson can assist you with determining the proper level of insurance needed to provide for those who depend on you. Consider the need to insure your spouse, especially if they are the primary care giver to the children, as you would likely need to hire a care provider if your spouse were to die.

I like term life-insurance policies. Once you get your children into or through college, the value of your TSP, investment accounts and home equity will likely rise to a high enough level to support your spouse if you die. Consider 20-year or 25-year term insurance at the time your children are born. I like to keep my insurance separate from my investments. There are variations of life insurance, such as "Whole Life" and "Universal Life" that combine the insurance and investment components.

Many of you have FEGLI policies paid through payroll deduction. In my opinion, FEGLI is terribly-overpriced insurance for the young and healthy, and accepts everyone with no medical check and allows pre-existing conditions, which is why it is so expensive. If you are young and in reasonably-good health, you might be able to obtain about twice the amount of coverage for the same price through SelectQuote at www.selectquote.com , USAA, WAEPA at http://waepa.org or another reputable company. Never cancel an existing insurance policy until you have obtained replacement coverage. I've received numerous emails from those who replaced their FEGLI coverage and obtained the same level of coverage for up to half of the amount they were previously paying for FEGLI, or doubled their benefit for the same premium. **You will be shocked when you see how much your life insurance is really costing you through FEGLI.**

Another downfall of FEGLI are the changes that occur when you retire. FEGLI forces you to make changes and coverage decisions at that time. It would take pages and pages of text here just to lay out the changes that FEGLI requires when you retire. Real term-life insurance never changes its benefit amount. It pays the stated benefit to you at anytime during the benefit period with no change in premium.

Disability

Short-Term Disability Insurance

Short-term disability insurance is designed to replace your income when you are sick or hurt in a non-work-related incident. After a designated waiting period (typically 90 days or about 522 hours of sick leave), your short-term disability insurance will kick in and replace your income until you get better and can return to work. They key concept here is that you are *going to get better and return to work*. If you didn't have short-term disability insurance and became unable to work, what would you do when your sick leave and annual leave run out? Your choices are simply to go onto Leave Without Pay (LWOP) or get on the Voluntary Leave Transfer Program (VLTP) as a recipient and become dependent on the kindness of others. Bad stuff happens to people all of time – trust me – I get the phone calls. Let's say you're up on a 28-foot ladder painting your soffits and you fall off of the ladder and get a compound fracture in your pelvis. The doctor tells you that you will make a full recovery, but you will not be able to return to work for a year. Assume this happens to you mid-career and you have 522 hours of sick leave, which will carry you for about three months. What then? LWOP? Beg for leave on the VLTP? If you had short-term disability insurance, you'd burn 522 hours of sick leave and then for the next nine months, you sit at home watching sports and QVC with full-income replacement.

Short-term disability insurance generally provides a stream of tax-free income in the amount of two-thirds of your salary. Because the benefit is free from income taxes, this amount comes close to replacing your income. The hardest part of maintaining this insurance is remembering to keep your coverage level up to your current salary. Many times I encounter employees who have disability insurance, but they're making $80,000 a year and their insurance is at a salary level of $52,000 because they did not keep up with it. Once you get behind, you will need to pass a medical examination to increase coverage, which can be problematic as you age. Be sure to take advantage of periodic "open seasons" where insurers sometimes allow increases in coverage without a medical checkup.

There are some aspects of disability insurance you should be aware of. If an employee has been out sick for awhile collecting disability-insurance payments, and then end up taking a disability/medical retirement from OPM, the first thing the employee will have to do with their lump-sum OPM payment is pay back all the disability payments they have received from the insurance company (less the minimum payment allowed). The retired disabled employee will continue to get the minimum payment from the insurance company, but will have to regularly provide documentation to the insurance company to prove he is still disabled.

If you are out on disability, not drawing a salary, you still have to make payments to your FEHBP insurance carrier.

I get many questions on whether you can continue disability insurance into retirement. Disability insurance is only available to you when you are an active employee, because if you retire and get injured, you still get paid because you receive your annuity. As you near retirement and have enough accrued sick leave hours to get you through to retirement, you could drop your disability insurance and utilize sick leave in the event that you become disabled.

Disability Retirement (Long-Term Disability)

OPM offers a FERS disability-retirement option which will retire you from service and requires annual medical exams. In contrast to short-term disability insurance, a disability retirement is used when you are *not going to get better and are not going to return to work*. Under FERS, a federal employee who becomes disabled during their career, and who has at least 18 months of service, is eligible to receive a disability-retirement annuity. OPM can grant a disability retirement regardless of whether the Social Security Administration (SSA) approves you as disabled. The only difference is that if you receive a SSA disability payment, a portion of that payment is netted out against the amount OPM pays you. If the SSA deems you disabled, you will net a little more; as explained later.

If OPM approves your case for a disability retirement, your disability-retirement annuity will be calculated in the following manner:

Let’s assume the agent is 49 years old and has 15 years of agent time and a High-3 of $119,000.

OPM is pretty generous in **Year 1**, and awards 60% of the High-3 as the disability-retirement annuity for the first year. In this case, this is approximately $71,400, or $5,950 per month.

For **Year 2 onward**, the OPM disability-retirement annuity is calculated after determining the earned annuity, which would be (1.7% x 15) or 25.5% x $119,000 = $30,345, and comparing it to 40% of the High-3, or $47,600. Since the “earned annuity” is less than 40% of the High-3, the disabled agent would receive 40% of their High-3 from Year 2 (age 50) until age 62, or $47,600, or $3,966 per month.

At age 62, the disability-retirement annuity is recalculated by OPM as if the agent had worked from age 49 until 62 (in our example) while receiving the disability-retirement annuity. The computation is simply the standard FERS formula; it simply includes the time you were on disability retirement as service credit.

Age 62 Re-computation:

(12 years elapse from age 49 until 62. The first 5 count as 1.7% and the last 7 count as 1%)

15 Years at 1.7% (25.5%) x High-3 = $30,345 (15 years that the agent was employed)

5 of 12 years at 1.7% (8.5%) x High-3 = $10,115 (the years while on disability retirement)

7 of 12 years at 1% (7%) x High-3 = $8,330 (the years while on disability retirement)

Re-computed basic annuity = $48,790 because the recomputed benefit of $48,790 exceeds the 40%-benefit of $47,600.

Workers’ Compensation (WC) – I wasn’t sure where to stick this tidbit and figured this was a good spot. Keep in mind that once an injury is “work related” and covered by WC, you own medical insurance will cover not cover medical expenses related to the injury. Therefore, each medical appointment and procedure requires the approval of someone at the Department of Labor (DOL). Probably not a big deal if you need some low-risk knee surgery; but be careful about complex conditions. One of my readers shared a case with me where it took six months for DOL to approve an MRI. Also, many of the “good” doctors won’t accept WC patients because they don’t want to deal with the bureaucracy at the DOL. I’m not saying that you shouldn’t take advantage of WC, just know what you are getting into and make an informed decision.

Government/Agency Death Benefits Payable to Your Survivors

Certain death benefits are payable to your surviving spouse, or to your next of kin, under the federal order of precedence: stated beneficiary, widow/widower, child, parent, and executor; in that order.

FERS Basic Employee Death Benefit (BEDB): OPM will pay a lump-sum benefit to an eligible *spouse* upon the death of an employee who had completed at least *18 months* of creditable service. For deaths after 12/1/2013, the fixed amount of the FERS BEDB was $31,786.21 (indexed for inflation). The surviving *spouse* will receive:

1) one-half of the deceased's annual pay or high-3, whichever is higher,
2) a check for your accrued annual leave, and
3) the deceased's final paycheck.

If the deceased employee had ***ten years*** of creditable service under FERS, OPM will pay a monthly annuity to an eligible surviving *spouse* upon the death of the employee. The annuity is calculated as 50% of the deceased employee's calculated accrued annuity. The surviving *spouse* will receive annual COLAs. For example, if the deceased had ten years of service and a High-3 salary of $100,000, the annuity is calculated at (10 x 1.7%) x $100,000 = $17,000 x 50% = $8,500 annually or $708 monthly to the surviving *spouse*. To learn more about FERS employee death benefits, visit OPM Employee Death Benefits - FERS. Also see the earlier section for more details on the annuity portion.

Notice that the word "spouse" is in *italics* throughout the BEDB section. This is because the BEDB is payable *only to a surviving spouse*. There is no annuity benefit payable to a parent of the deceased or to the children of the deceased – only a surviving *spouse*.

Separate from the BEDB, there *may* be an amount payable to dependent children of the deceased, but that amount is generally reduced to zero by applicable Social Security benefits paid or payable to the children. Until the surviving child is 16, the surviving spouse will receive an amount from Social Security to care for the child. From age 16 to age 18, Social Security pays the survivor benefit to the child. At age 18, the Social Security benefit payable to the child stops. At that point, if the surviving child is in school, the FERS survivor benefit kicks back in from age 18 to age 22. This amount can typically range from $5,000 to $6,000 per year, From the OPM website: *If the deceased retired under the Federal Employees Retirement System (FERS) or was an employee covered under FERS at the time of death, the combined benefit of all the children is reduced by the total amount of child's benefits that are payable (or would, upon proper application, be payable) under Title II of the Social Security Act for the same month to all* *children of the deceased based on the total earnings of the deceased. In many cases, the FERS children's benefit is reduced to $0.*

Thrift Savings Plan: Should death occur before the account balance has been distributed, the account balance will be paid out according to the Designation of Beneficiary Form TSP-3 on file with the TSP. If no beneficiary form is on-file, the federal order of precedence will be followed. Make sure that the account balance is transferred into an IRA (new Beneficiary IRA or surviving spouse's IRA) and not paid out as a distribution. If it is paid out as a distribution, the taxes due are immense and can be avoided by rolling the account balance into an IRA. The Tobacco Bill, passed in June 2009, allows surviving spouses to leave their deceased spouse's account at the TSP. Generally speaking, the best decision for the surviving spouse is to leave the money invested in the TSP for as long as possible. Remember, no other investment option has the low expense ratio that the TSP enjoys. These changes have been implemented and the new TSP Death Benefit booklet is at TSP Death Benefit Booklet. To report a participant's death, go to TSP Death Notification Page.

Employee Benevolent Fund: This benefit is available to all FBI employees at a cost of $1 per pay period, or $26 annually. It pays a $17,500 benefit upon death. A second option is available for $2 per pay period for $35,000 in coverage. The plan is administered by SAMBA.

Should you be killed *on duty*, certain death benefits are payable to your surviving spouse, or to your next of kin, under the federal order of precedence:

Special Agent Insurance Fund (SAIF): The SAIF is an FBI-sponsored program that pays a benefit of $30,000 within one day to your survivors. This is funded by periodic $20 assessments when needed to replenish the fund. The SAIF pays this benefit for suicides, as long as the deceased had been a member for two years. The plan is administered by SAMBA.

Charles S. Ross Fund: The Charles S. Ross Fund was established as a memorial to an agent killed in the line of duty. The benefit, recently increased to $18,000, is payable only upon a death that occurred in the line of duty, generally as a direct adversarial contact. By way of a history lesson….Charles S. Ross was kidnapped from Franklin Park, Cook County, Illinois, on 9/25/1937 by John Henry Seadlund and James Atwood Gray. The victim was taken to Emily, Minnesota. Seadlund returned to Chicago to negotiate for the $50,000 ransom. On October 8, 1937, $50,000 was paid to Seadlund outside of Rockford, Illinois. On October 10, 1937, the kidnappers arrived at the second hideout northwest of Spooner, Wisconsin. At about 3:00pm, Seadlund killed his partner, Gray, and the victim, Ross. On January 10, 1938, Seadlund was apprehended by FBI Agents of the Los Angeles Field office. Of the $50,000 ransom, $47,166 was recovered. The widow provided theses funds to the FBI for the fund. On March 18, 1938, Seadlund was sentenced to death.

Public Safety Officers' Benefit (PSOB): The PSOB is administered by the U.S. Department of Justice's Bureau of Justice Assistance and pays a benefit when an agent loses their life in the line of duty and is survived by a spouse, child or parent. The current benefit is $333,604.68 for deaths occurring after 10/1/2013 and is adjusted annually for inflation. To learn more about the PSOB, visit https://www.psob.gov/index.html.

Public Safety Officers' Educational Assistance Program (PSOEA): The PSOEA is administered by the U.S. Department of Justice's Bureau of Justice Assistance and provides educational assistance to eligible survivors of public safety officers who die or are totally disabled as a result of an adversarial action or traumatic injury in the line of duty. This benefit includes allowances for room, board, tuition, books and supplies. To learn more about the PSOEA, visit PSOEA Application Form.

Special Agent Samuel Hicks Families of Fallen Heroes Act: Pays the transportation and moving expenses attributable to a change of residence within the United States of the immediate family of a deceased federal law-enforcement officer who dies as a result of personal injury sustained in the performance of duties, as well as expenses of preparing and transporting the remains of the deceased to where the family will reside.

FBIAA Members: There is a $25,000 accidental death and dismemberment benefit available to FBIAA members. For this policy to be in effect, the member needs to complete and return an "insurance data form" available on the FBIAA website, http://www.fbiaa.org/.

Social Security

Am I Eligible for Social Security?

As a FERS participant, you are paying Social Security taxes (OASDI) of 6.2% on your pay, up to the annual limitation (also known as the benefit base), which for 2013 was $113, 700 and in 2014 rises to $117,000 (this amount is adjusted annually for inflation). In 2011, there was a law change that provided for a reduction in the OASDI tax rate to 4.2% just for 2011, limited by the benefit base. This was extended for 2012 and it returned to the statutory 6.2% effective 1/1/2013. CSRS participants do not pay Social Security taxes on their government earnings, but may be entitled to benefits if they paid Social Security taxes on other sufficient lifetime earnings such as before becoming a CSRS participant, part-time work, or paid into the Social Security system after leaving federal service.

To be eligible for a Social Security retirement benefit, a person needs 40 Quarters of Coverage (QC) or 10 years of work covered by Social Security. This is called “vested” in many other retirement systems. The 40 QC requirement is easy to meet. Prior to 1978, a person acquired one QC each time tax was paid on $50.00 of earnings in each calendar quarter. Starting in 1978, the amount was based upon total annual earnings and increased with wage inflation. In 2014, a QC is received for each $1,200 of covered earnings, wages or self-employment, up to a maximum of 4 QCs per year. For example, a person works only in the Summer, earning $4,800, Social Security would credit them 4 QCs or one year of covered work. If your earnings are $72,000 in 2014, you would also be credited with 4 QCs or one year of work. The 40 QCs may be earned at any time in your life, earnings count for coverage equally at age 16 to 66. Once you meet the 40 QC-requirement, you are eligible for Social Security retirement benefits. The amount of those benefits is computed is based upon your lifetime earnings.

When Will I Receive Social Security Under FERS?

Once you turn 62, you are eligible for benefits to be paid to you by the Social Security Administration (SSA) based upon your "lifetime wages". Social Security defines a working lifetime as 40 working years, as from age 22 to age 62. Social Security then drops the lowest 5 years from the benefit computation. The highest 35 years of pay where Social Security taxes were paid are used to determine your full 100% benefit. This is the benefit you are due at full retirement age. Social Security also calls this your normal retirement age. Full retirement age was age 65 until in 1983 when Congress passed a law gradually increasing the full retirement age. Although the law was passed in 1983, it did not start to change the full retirement age until 2000, when those applying for benefits at age 62 who were born in 1938 saw a very small reduction, 0.8%, in their benefits. The reduction grew over the next years to 5% at age 62. A person turning 62 in 2005 through 2016 is eligible at age 62 for a Social Security retirement benefit that is 75% of their full benefit, whereas those who drew benefits at age 62 in 1999 or anytime before received 80% of their full benefit.

The reduction is growing again for those born in 1955 or after, culminating for those born in 1960 and after with the benefit reduction at age 62 increasing from 25% to 30%. The person born in 1960 who applies for reduced retirement benefits at age 62 will receive 70% of their full 100% benefit which is now payable at age 67.

The following chart from Social Security shows the increase in full retirement age:

Year of Birth	Full Retirement Age
1937 or earlier	65
1938	65 and 2 months
1939	65 and 4 months
1940	65 and 6 months
1941	65 and 8 months
1942	65 and 10 months
1943--1954	66
1955	66 and 2 months
1956	66 and 4 months
1957	66 and 6 months
1958	66 and 8 months
1959	66 and 10 months
1960 and later	67

Chart from SSA online at: www.socialsecurity.gov/retire2/retirechart.htm

What Percentage Of My Pre-Retirement Earnings Will Social Security Replace?

The social part of Social Security is that a person earning lower-wages receives a better deal from Social Security than a person earning higher-wages. The higher-wage earner receives a higher benefit but a lower replacement percentage. The reason for this is to provide a dignified retirement for the low wage earner who is less likely to have other retirement income.

A wage earner with high earnings, one who has paid the maximum Social Security taxable earnings each of their 35 highest working years will receive a Social Security benefit that replaces 28% to 34% of their pre-retirement earnings. This chart from Social Security, www.socialsecurity.gov/planners/maxtax.htm, shows the maximum taxable earnings since the start of Social Security.

Maximum Taxable Earnings Each Year							
1937 - 50	$3,000	**1982**	$32,400	**1998**	$68,400	**2014**	$117,000
1951 - 54	3,600	**1983**	35,700	**1999**	72,600		
1955 - 58	4,200	**1984**	37,800	**2000**	76,200		
1959 - 65	4,800	**1985**	39,600	**2001**	80,400		
1966 - 67	6,600	**1986**	42,000	**2002**	84,900		
1968 - 71	7,800	**1987**	43,800	**2003**	87,000		
1972	9,000	**1988**	45,000	**2004**	87,900		
1973	10,800	**1989**	48,000	**2005**	90,000		
1974	13,200	**1990**	51,300	**2006**	94,200		
1975	14,100	**1991**	53,400	**2007**	97,500		
1976	15,300	**1992**	55,500	**2008**	102,000		
1977	16,500	**1993**	57,600	**2009**	106,800		
1978	17,700	**1994**	60,600	**2010**	106,800		
1979	22,900	**1995**	61,200	**2011**	106,800		
1980	25,900	**1996**	62,700	**2012**	110,100		
1981	29,700	**1997**	65,400	**2013**	113,700		

Wage earners who earn average wages receive a Social Security benefits that replaces between 40% to 44% of their pre-retirement earnings. This is a better deal than that of high-wage earners but not as good as the deal received by low-wage earners. What are average earnings? The yearly average wage is determined by taking the total of all W-2 reported, income-taxable wages, tips, and compensation, excluding a few special payments, and dividing by the number of workers (W-2s). The following chart from Social Security, Average Wages Chart, reflects the average wages through 2012.

National average wage indexing series, 1951-2012

National average wage indexing series, 1951-2012

Year	Index	Year	Index	Year	Index
1951	2,799.16	1976	9,226.48	2001	32,921.92
1952	2,973.32	1977	9,779.44	2002	33,252.09
1953	3,139.44	1978	10,556.03	2003	34,064.95
1954	3,155.64	1979	11,479.46	2004	35,648.55
1955	3,301.44	1980	12,513.46	2005	36,952.94
1956	3,532.36	1981	13,773.10	2006	38,651.41
1957	3,641.72	1982	14,531.34	2007	40,405.48
1958	3,673.80	1983	15,239.24	2008	41,334.97
1959	3,855.80	1984	16,135.07	2009	40,711.61
1960	4,007.12	1985	16,822.51	2010	41,673.83
1961	4,086.76	1986	17,321.82	2011	42,979.61
1962	4,291.40	1987	18,426.51	2012	44,321.67
1963	4,396.64	1988	19,334.04		
1964	4,576.32	1989	20,099.55		
1965	4,658.72	1990	21,027.98		
1966	4,938.36	1991	21,811.60		
1967	5,213.44	1992	22,935.42		
1968	5,571.76	1993	23,132.67		
1969	5,893.76	1994	23,753.53		
1970	6,186.24	1995	24,705.66		
1971	6,497.08	1996	25,913.90		
1972	7,133.80	1997	27,426.00		
1973	7,580.16	1998	28,861.44		
1974	8,030.76	1999	30,469.84		
1975	8,630.92	2000	32,154.82		

Wage earners who work for minimum wages throughout their lives receive a Social Security benefit at retirement that replaces about 60% to 66% of their pre-retirement earnings.

Please note that these Social Security replacement percentages are for career or lifetime earnings whereas the replacement percentage for your FERS pension is based upon your high three years of earnings.

How Much Will My Social Security Benefit Be Each Month?

The average monthly Social Security benefit in 2013 was $1,275 which is expected to increase to $1,294 in 2014. The maximum retirement benefit in 2013 for a person who had maximum Social Security taxable earnings throughout their life and retires in 2013 at age 66 is $2,533 per month. Adding another year of maximum earnings and the change in the benefit formula due to inflation, the 2014 maximum will increase to $2,642 per month.

A few years ago, Social Security introduced a great online retirement benefit estimator. This tool uses your Social Security earnings record to give you an estimate of your future retirement benefits. The closer you are to age 62, the more accurate the estimate. You can plug-in various future earnings projections and retirement ages to answer many "what if" questions. The estimator is found at www.socialsecurity.gov/estimator/.

Retirement Earnings Test

If you receive Social Security benefits prior to your full retirement age, there is a limit on the amount you may earn from wages and self-employment and still receive 100% of your Social Security benefits in the year. This retirement test ends the month you turn full retirement age, currently age 66. You are already familiar with this earnings limit as Social Security's retirement test was used in the FERS Special Retirement Supplement earnings test. There are three parts to the earnings test. The first and main part is that if you are receiving benefits in the year or years prior to your full retirement age, you are subject to a $1.00 reduction in your benefits for every $2.00 you earn over the yearly limit. The yearly limit is also called the exempt amount.

The yearly limit in 2013 is $15,120. The limit increases in 2014 to $15,480. The increase in the yearly exempt amount is based upon the corresponding increase in national wages. As an example of this part of the retirement test, let's assume you retire at age 62 and receive a Social Security benefit of $1,300 per month. In the January following your retirement, you start a part-time job which will pay you $17,000 for the year. If the retirement test is $15,480.00, your $17,000 exceeds the limit by $1,520. The reduction in your Social Security benefits is $1.00 for every $2.00 over the limit so the $1,520 excess is divided by 2, resulting in a benefit reduction of $760 for the year. In other words, for one month, your $1,300 benefit is reduced to $540.

The second part of the retirement test is that a special, higher earnings test applies in the year that you turn full retirement age. This higher amount is $40,080 in 2013 and $41,400 in 2014. In addition, if you exceed this higher amount, the reduction in benefits is $1.00 for every $3.00 over the limit. So now you have been working part-time and now your job or business is taking off. You are turning full retirement age, 66, in September 2014. The exempt amount for January through August is $41, 400. If you earned $45,000 in the months from January through August, and another $20,000 in September through December, your yearly earnings would be $65,000. Social Security subtracts the exempt amount, $41,400 from your earnings through August, $45,000, resulting in an excess of $3,600. Applying the $1.00 for every $3.00 test, $1,200 must be withheld from your payable yearly benefits. In other words, for one month your hypothetical $1,300 benefit is reduced to $100.

The third part of the retirement test is that it ends effective with the month prior to the month in which you turn full retirement age. If you were born on the first of the month, you are considered to have attained your age on the day before so your retirement test would end the prior month. Continuing our example from above, you turn age 66 on September 29th, the retirement test ends August 31st. In other words, you can earn any amount of wages or self-employment starting in September and still receive your full Social Security benefits. In the example above, Social Security does not care about the $20,000 you earned in September through December and for retirement test purposes, will not care about your future earnings as these earnings are after your full-retirement age.

How Are Social Security Benefits are Calculated?

Social Security's benefit formula uses your lifetime earnings. Social Security does not and has never computed retirement benefits using your high-3 years or high-5 years of earnings. Your lifetime earnings are first adjusted for inflation. Specifically, this inflation adjustment turns all your wages prior to age 60 into what they would be worth as of the year in which you turn 60. Social Security calls this “indexing your earnings.” Earnings starting with age 60 and beyond are indexed with an inflation factor of 1 which results in no inflation adjustment. For example, a person turning 62 in 2014 who earned $7,000 in 1974 would have that year turned into an index earnings year of $38,633. Assuming that person also earned $15,000 in 2014 (after age 60), the actual earnings of $15,000 would be considered and the $38, 633 of 1974 indexed earnings are considered. Social Security then selects the 35 highest-earnings years. If this case, both 1974 and 2014 were high years, both the $15,000 and the $38,633 would be counted. The 35 highest years of earnings, indexed for inflation until age 60, are totaled and divided by the number of months in 35 years, 420, to arrive at your Average Indexed Monthly Earnings or AIME. If you have a work career where you worked fewer than 35 years where Social Security taxes were withheld, all your years will be used but the results are still divided by 420 resulting in a lower AIME. The AIME is then multiplied by up to three “bend points” to determine your Primary Insurance Amount (PIA) or your 100% benefit. The PIA is the benefit you would receive at full (normal) retirement age. The bend points are adjusted annually based upon national wages.

For those attaining age 62 in 2014, the “bend points” are:

90% of the first $816 of your AIME
32% of the next $4,101of your AIME (the earnings over $816 through $4,917), and
15% of the amount in excess of $4,917

Will my Family Receive Social Security Benefits When I Retire?

Your immediate family could possibly be entitled to benefits. Once you establish your entitlement to benefits, then benefits may be payable from your account to your spouse and children. Your Primary Insurance Amount (PIA) or the benefit you would receive at full retirement age, establishes the amount your family could receive from your account. This family amount is 50% of your full benefit. If your benefit at age 66 is $2,000 per month, then the maximum benefit payable to you and your family is $3,000 per month. Social Security calls this the family maximum. In this example, $2,000 is the worker's or retired person's portion and $1,000 is available to the family. If you file for benefits at age 62, you would receive $1,500 per month but your decision does not mean that the additional $500 would go to your family. The maximum payable to all your family members is set by formula based upon your benefit at full retirement age. The family maximum amount can be thought of as a pie. In this example, the pie is $1,000. If one member of your family receives benefits, their maximum monthly benefit would be $1,000. If two members receive benefits, the family maximum is still $1,000, so their individual benefit would be $500 each, and so on.

When you file for benefits, your spouse at age 66, or full-retirement age, is eligible for 50% of your full benefit. At age 62, the 50% is reduced for filing early. The spouse benefit is only payable as a reduced benefit if the spouse's own full retirement benefit, his or her 100%, is less than the 50% from your record. If the spouse has a smaller benefit, then the spouse would receive their benefit plus the extra spouse benefit which would bring their total payment to a maximum of 50% of your full retirement benefit. The spouse does not receive their 100% and an additional 50% as a spouse. For example, your full retirement benefit at age 66 is $2,000. Your spouse at age 66 is eligible for 50% of your benefit, which is $1,000. Your spouse has also worked and is eligible for a retirement benefit at age 66 of $750. If the spouse filed for benefits at age 66, the spouse would receive a Social Security benefit of $1,000 per month. This benefit would have two parts. The first part is their retirement benefit of $750 per month. The second part would be their benefit as a spouse which is $250 per month. The benefits are combined into one monthly payment.

Children are also eligible for 50% of your benefit if the children are under age 18 and unmarried. Children over age 18 years, but under 19 years, 2 months of age, are eligible for benefits as long as they are attending a secondary school. The high-school attendance must be full-time. These student benefits are not available for college of other post-secondary school attendance. The application you file to receive Social Security retirement benefits elicits your family information so Social Security will pursue paying these family benefits. The benefits payable to your children are limited by your family maximum. As above, if your benefit at age 66 is $2,000, then the maximum payable to your family is $1,000. When you start receiving your Social Security benefits, and if you have two minor children, aged 16 and 17 years of age, each will be paid $500; so the maximum of $1,000 is split equally between the two children. When the 17-year-old turns 18, having already graduated high school, their $500 benefit stops. There is now one child still eligible and that child's benefit would increase to $1,000 per month. When the younger child attains age 18, having also already graduated from high school, the benefit simply stops.

When Should I Apply For Social Security Benefits?

In the past this was not a difficult question to answer. Once a person turned age 62, their earnings would dictate whether Social Security benefits were payable. The more the earnings the less the benefits, until none were payable. The decision of when to file for Social Security retirement benefits was clear. It was when you retired or reduced your earnings.

Today, the answer to the question of when to apply for Social Security retirement benefits seems more complicated. There are numerous companies and web sites that will sell you the answer based upon your individual circumstance and desires. There are multiple reasons for today's complexity to the question, "When Should I Apply For Social Security?" One reason is that when the retirement age was raised to 66 and eventually to age 67, the law also contained an incentive for individuals to voluntarily delay starting their benefits. This provision is the Delayed Retirement Credit provision which provides for an 8% benefit increase for each year, from age 66-70, for a person who elects to not receive their Social Security benefits. By delaying the start of benefits until age 70, the individual receives a benefit that equals 132% of their full or normal retirement benefit; their full 100% benefit plus an additional 32%. If at age

66, your benefit was $2,000, then by delaying receipt of the benefit until age 70, your monthly benefit is now $2,640. An 8% per year increase looks quite appealing to some especially when interest rates are so low.

A second reason is the decline in defined-benefit pension plans which would pay retired workers a guaranteed amount each month for the rest of their lives. These plans have largely been replaced by defined-contribution plans, 401(k)s, which do not provide any guarantees. It is up the individual to save and then at retirement determine their withdrawal timing and amounts, subject (of course) to IRS regulations. This change and the availability of investment options such as mutual funds helped create a need for financial planners. The proliferation of financial planners means that the decision of when to take Social Security and the amount of the benefit is often now part of an overall financial plan. Since Social Security benefits are now taxable, the decision may also impact your tax bill which is another important component of financial plans.

Our increased longevity also significantly changed how we look at retirement and the decision as to when to start our Social Security benefits. As you may know, in 1937, when Social Security started, the average person did not live to age 65. Over the years, our longevity has increased significantly so today's financial planners look out to age 90 or nearly 30 years after retirement. This means that the anticipated Social Security benefits received over a lifetime are substantial. The straightforward calculation of breakeven points will tell you that it takes at least 12 years to recover any foregone Social Security benefits. This means the person who delays taking benefits that are otherwise payable must live an additional 12 years before that decision starts to become a good one. Social Security has given individuals the ability to increase their monthly benefit by 57% (the 25% reduction for age and the 32% delayed retirement credit) and our average longevity has now provided a potential to reach or surpass most breakeven points.

The best answer to the question, **"**When Should I Apply For Social Security?" is "Whenever you determine is right for you based upon your individual circumstances." To make the best decision, you must know all your options. At least a few months before turning age 62, find out the benefits due you. Review the information on the Social Security website. Use the benefit estimator, http://www.ssa.gov/retire2/index.htm**.** Still have questions? Make an appointment to discuss your retirement options with a claims representative at your local Social Security office. The interview can be face-to-face or by telephone. It is a valuable service. Still have questions? Engage me, Bob White, for a fee-based consultation at SSABob@maine.rr.com.

Medicare

Medicare is major-medical health insurance that you have been paying for in addition to Social Security, with a 1.2% payroll deduction. All of your earnings are subject to Medicare taxes, as the “wage base” only applies to OASDI. Medicare eligibility remains at age 65. To date, that age has not increased, although there have been discussions about increasing the Medicare eligibility age. Medicare has two parts. Part A is Hospital Insurance, which is fully paid for by your previously-paid taxes. There is no premium for Part A, which primarily covers room and board in the hospital. There is a deductible for inpatient hospital stays and also co-insurance payment for stays over 60 days in a hospital. Part A of Medicare also provides coverage for skilled-nursing care, home-health care and hospice care.

Part B, the Supplemental Medical Insurance, is the part of Medicare that covers your doctor visits, ambulance services, emergency-room visits, and preventative services such as flu shots. You elect or decline Part B. The cost for Part B in 2013 is $104.90 per month. The Part B premium, amazingly, did not increase in 2014. It remains $104.90 per month.

If you are receiving Social Security benefits prior to age 65, you will automatically be enrolled in Medicare Parts A and B effective with the first day of the month in which you turn age 65. You will receive your Medicare card in the mail about 4 to 6 weeks prior to your 65th birthday. If you do not want Medicare Part B, you are instructed in the material with the card to return the Medicare card in the envelope provided. This signifies your decline of Medicare Part B and you will be issued a new Medicare card with just Part A coverage.

If you have not filed for Social Security benefits, then you must file a Medicare-only application to receive your Medicare at age 65. You may file up to three months in advance of your 65th birthday and should file no later than the month you turn age 65. Waiting too long to file for Medicare can result in significant issues such as a delay in Medicare eligibility and higher premiums for life.

How Can I Become More Informed About Federal Retirement and How to Manage my Investments?

NARFE State Tax Roundup Summary - This is the best all-around guide to each state’s tax treatment of federal pensions. It’s 4 pages long and filled with hard-to-find information. If you like what you see, consider joining NARFE. They do a lot of great lobbying and clearly support leaving our pensions intact.

http://www.retireearlyhomepage.com – By far the best retirement information state-by-state. Site also has a focus on early retirement.

http://www.bankrate.com/calculators/savings/savings-withdrawal-calculator-tool.aspx - This is a nice tool that will let you see how long a sum of money will last you given certain withdrawal parameters. Lots of great calculators and interest-rate tools at this site.

http://lenpenzo.com – Self described as the "off-beat personal finance blog for responsible people."

http://www.zerohedge.com – If you're unhappy about the current state of our nation's markets, then this site is for you.

http://www.mrmoneymustache.com – Don't be thrown off by the website name. Although I'm not nearly as extreme as MMM, he does have some great ideas in support of mild frugality and the talent of living cheaply. He also writes in a humorous style, which makes reading his material very easy.

http://www.bogleheads.org – Again, don't be thrown off by the name. Straight from Wikipedia, "***Bogleheads****, a term intended to honor Vanguard founder and investor advocate John Bogle, are investing enthusiasts who participate in the Bogleheads Forum. The forum's regular posters discuss financial news and theory, while also helping less experienced investors develop their portfolios. There are nearly 26,000 registered Bogleheads Forum users who normally make between 500 and 1,000 posts each day. Some members also participate in national or local chapter get-togethers*." You can learn about everything from how to manage your money to the best time of day to mow your lawn. These experts cover almost every topic.

http://www.govexec.com/newsletters - Subscribe to the automatic email service to receive Tammy Flanagan's retirement columns, which appear on Fridays. Look under "Government Career – Retirement Planning" in the second column. She is an expert on federal retirement benefits and writes very useful weekly columns regarding federal-employee benefits. Her columns are specifically directed at federal employees and federal retirees. She recently wrote a column which provided links to every column she's written, which covers about every federal retirement topic imaginable. She was recently honored by Money magazine for her service to federal employees.

http://www.doi.gov/flert/index.cfm - The Department of the Interior has a great site devoted to their *Firefighter Law Enforcement Retirement Team*, or FLERT. The website is
The site is particularly useful if you are entering into a "covered" position from a "non-covered"

position or want to leave a covered position.

OPM developed the *Federal Ballpark Estimate*: a savings goal worksheet. You can use the *Federal Ballpark Estimate* to automatically calculate estimates of future Civil Service Retirement System (CSRS) or Federal Employees Retirement System (FERS) retirement benefits and Thrift Savings Plan account balances. It will also let you know how well you are doing in meeting your savings goal. The *Federal Ballpark Estimate* was developed in partnership with the American Savings Education Council (ASEC) of the Employee Benefits Research Institute. (text taken from OPM "Retirement Readiness Now" email).

Visit the following sites for additional retirement and benefit information:

www.thefedtrader.com	TSP Allocation site run by a FERSGUIDE reader
www.tspallocation.com	TSP Allocation site run by a FERSGUIDE reader
www.opm.gov	Office of Personnel Management
www.ssa.gov	Social Security Administration
www.tsp.gov	Thrift Savings Plan
http://nasapeople.nasa.gov	NASA has a great HR resource page
www.retirementliving.com	General retirement
www.community.federalsoup.com	Forums on federal retirement
www.fedsmith.com	News site devoted to feds
www.federalnewsradio.com	News site devoted to feds

What are Dan's Favorites?

I do not receive any compensation from any of these companies or individuals that I discuss in this section. I'm just trying to help you out with some shortcuts to great services which I have already vetted out.

For financial services, you just can't beat USAA. I have been a member for over twenty years and have yet to be disappointed. They now provide membership to anyone who has served our country honorably. I was able to convince my father-in-law to join USAA, as he had served in the U.S. Army. After he joined, that gave my brother-in-law access to USAA. If you don't qualify, see if a parent qualifies and get in that way. To me, there is no finer financial services company in the world. Several readers advised me that Pentagon Federal Credit Union is another fed-friendly financial institution that offers mortgages and car loans at competitive rates.

I've refinanced my current home five times in the past three years and my previous home 17 times in 11 years! Don't be afraid to get out there and lower your note rate. My last two refinances have been with GSF Mortgage and I highly recommend them. I could not find better terms for my particular situation. GSF currently loans in AZ, OR, WA, MI, TN, CT, FL, NH, MA, PA, MD, DE, VA, NC, IN, IL, WI, IA, MN, NJ, SD, CO, TX and CA. Their website is: http://www.gogsf.com. My GSF loan officer is Eileen Million, and she is licensed in CA, DE, IL, NH, NJ, MD, PA, TX, CT, MA, FL and VA. You can reach her at emillion@gogsf.com and at (262) 957-8916. GSF also performs 100% cash-out conversion loans from conventional to VA as well as 100% VA financing. A dynamic listing of the states at the website will direct you to a loan officer that handles your area. GSF can do VA, FHA and USDA loans and they can do purchase loans as well as refinances. I have no compensation agreement with GSF Mortgage for referring customers. GSF is a Zillow 5-Star-rated lender and has an A+ grade from the Better Business Bureau.

For you folks based in Virginia, www.capcenter.com is another avenue for mortgage loans. I've found GSF to have better terms than CapCenter, but they are another good source for mortgage loans. CapCenter charges zero closing and origination costs. Their rates are posted daily and there's no need to provide any information to check rates. Before I moved to GSF, I refinanced twice with CapCenter.

As mentioned earlier, I am a member of SAMBA and have found it to be the best fee-for-service FEHBP plan that I've utilized. They also have a great vision and dental plan alongside the health plan. SAMBA also has short-term disability insurance, which they call "DIP" or Disability Income Protection. It's a bit confusing, but just think of SAMBA as "re-branded" Cigna Open Access Plus with outstanding service. They just changed their prescription drug management to CVS/Caremark, making that part of the benefit plan even better. If you ever wondered where Walt Wilson ended up, he's SAMBA's Executive Director.

Common Retirement Pitfalls

1) **<u>Have a plan</u>**

Even if your plan is to sit in bed and watch television all day; make that your plan. Six months before you retire, you should already know what you're going to do upon retirement, even if it's nothing.

2) **<u>Pre-retirement purchase of military time and former service</u>**

This is a very common mistake. Before you retire, make sure that you have purchased your military time and/or prior government service where your contributions were refunded. I can't tell you how many folks I've met who've waited until the last minute to take care of this.

3) **<u>Make sure that you are qualified to receive FEHBP health insurance</u>**

4) **<u>Be prepared to wait for your money</u>**

5) **<u>Understand any claims against your annuity</u>** Understand the monetary impact of any claims that can or will be made against your retirement annuity, such as property settlements stemming from divorce, liens and other court orders and claims.