

[Unofficial]

FERS Retirement & Benefits FAQ

for

Federal Agents

SA Dan Jamison, FBI, Richmond Division
2012 Update (v6)

What Changes are Envisioned for FERS in the Budget Battle?

As of November 2011, the only changes to our pay and benefits that have become law are our pay freeze (no January COLA raises in 2011 and 2012) and the drop in the maximum FSA amount from \$5,000 to \$2,500 that is effective in 2013.

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 these changes.

As an annuitant, however, there's really nothing that can be done to you other than legislation that would limit your annual COLA. Keep that in mind as you near retirement, and see the effective dates of these changes, think about whether you'd be better off retiring a little earlier than planned in light of the planned benefit changes.

I will send periodic updates out via fersguide@gmail.com as the picture becomes more clear as to what is going to happen to our benefits.

The Guide is now arranged in a more logical order and has grown to 37 pages as well as clickable links:

Tax Law Changes p2

FERS p3

TSP p10

General Retirement Issues p17

Insurance p24

Disability p28

Death Benefits p31

Social Security p33

Moving On p35

AGENT v6 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!

What are the Federal Tax-Law Changes for 2012?

There were many inflation-adjustment changes for the 2012 tax year. Key among these changes are the following:

The personal exemption rises to \$3,800 (up \$100)

The standard deduction for MFJ taxpayers is now \$11,900 (up \$300)

The standard deduction for Single taxpayers is now \$5,950 (up \$150)

The child tax credit is still in place at \$1,000 (expires with Bush tax law)

Roth contribution limit remains \$5,000 (under age 50, \$6,000 if over 50) and phases out at \$173,000 - \$183,000. No contribution allowed if income exceeds \$183,000.

The tax rate brackets have all increased and are now:

If Taxable Income is:	Rate	The Tax is:
Not over \$17,400	10	10%
\$17,400 < \$70,700	15	\$1,740 + 15% of the amount over \$17,400
\$70,700 < \$142,700	25	\$9,735 + 25% of the amount over \$70,700
\$142,700 < \$217,450	28	\$27,735 + 28% of the amount over \$142,700
\$217,450 < \$388,350	33	\$48,665 + 33% of the amount over \$217,450
> \$388,350	35	\$105,062 + 35% of the amount over \$388,350

This means that if you had the exact same taxable income in 2012 as you had in 2011, your tax bill would be lower in 2012.

For the full details on every 2012 tax-law change, see IRS Revenue Procedure 2011-52 at <http://www.irs.gov/pub/irs-drop/rp-11-52.pdf>

AGENT v6 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!

FERS Benefits

What Benefits Can I Expect to Receive When I Retire?

FERS replaced CSRS in 1984 as our defined-benefit retirement system and there's a reason that CSRS is called the **C**learly **S**uperior **R**etirement **S**ystem.....here's why.

FERS is a three-tiered approach which relies upon a defined-benefit annuity, Social Security benefits and employee savings (through the TSP) to provide retirement benefits; frequently referred to as a "benefit pyramid." Although CSRS allows some unmatched TSP contributions, the defined-benefit annuity alone under CSRS provided a very nice retirement without having to worry about Social Security or investing in the TSP and hoping that the market was kind to you with the choices you made with your TSP funds. The advent of FERS effectively transferred the risk of gain or loss to the employee from the government. 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 FERS retirement is comprised of four components:

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

3

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 benefit for the first 20 years of service in a covered position and 1% for each year thereafter. For example, if you worked 26 years under FERS as an agent, you would receive $(20 * 1.7\%) + (6 * 1\%) = 40\%$ of your High-3 average pay. See the Unused Sick Leave section below for how your service credit is calculated.

Your High-3 includes AUO/AVP/LEAP pay, but excludes night differential, holiday pay and just about everything else. The High-3 is a weighted-average calculation. If you were at your highest salary for only a month when you retired, that only counts 1/36th of the High-3.

AGENT v6 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!

The High-3 does not have to be the last 36 months of service, but it is a period of 36 consecutive months of service. 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.

Take a look at your Earnings and Leave statement at the NFC. You will see that you are paying for the FERS basic annuity benefit with a 1.3% deduction from your pay. This is an "after tax" deduction with no tax benefit to you. This is not a "free ride" for federal employees as many in the general public may think. Most municipalities and state governments offer better retirement benefits than the federal government.

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 is credited 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.

Employees must make a military-service deposit to OPM in order to receive credit for their active-duty service. There are two components to this deposit – a fee based upon the percentage of the total salary and an interest charge if the service deposit is made after the grace period. The cost of buying back the service is 3% multiplied by your total earnings 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 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.

4

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 part of your total FERS benefit until age 62, when most people become eligible for Social Security. The SRS stops at age 62, even if you elect to receive Social Security benefits at a later date. This benefit is paid by OPM. Receiving this benefit has absolutely no effect on your future Social Security benefit payments.

Like Social Security benefits, the SRS is subject to an earnings test, which means the SRS is reduced if your income from wages or self-employment is higher than an allowable

AGENT v6 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!

amount. The earnings test does not kick in until your 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 needs-tested right away. (Technically, the SRS needs-test runs a year behind, so there's really no test until year two of retirement.) You will lose \$1 of SRS benefit for every \$2 you earn in wages (non-passive income) over \$14,640 per year (for 2012; this amount is inflation-adjusted each year). Some quick math ($\$14,640 \times 3$) tells us that when your earned income reaches \$43,920, you will have phased out of this benefit.

The FERS SRS is calculated by dividing the number of whole years of your creditable *civilian* (purchased military time does not factor in here) FERS service by 40, and multiplying that by the benefit that SSA calculates to be payable at age 62. For many agents, the amount they receive ends up being around \$12,000 annually, but you can perform the 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.

You will start to receive the FERS SRS as soon as you retire and it will be paid to you until age 62; subject to the earnings test once you reach your MRA (see MRA section that follows to find your MRA). Even if you retire before 50 because you have your 25 years in as an agent, the SRS starts right away along with your FERS basic annuity.

When am I Eligible to Retire?

Agents are eligible to retire at:

- 1) any age with 25 years of service in a covered position (i.e. agent),
- 2) at age 50 with 20 years of credit in a covered position ,
- 3) and must retire at the end of the month in which they turn 57, unless an extension is granted, or you accept a non-covered position.

Keep in mind – I'm talking about "agent time" above. 5 years support and 15 years as an agent is not going to get you retired at age 50.

AGENT v6 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!

These ages are different from your MRA. Find your MRA in the chart below:
<http://www.opm.gov/retire/pre/fers/eligibility.asp>

<u>If you were born in:</u>	<u>Your MRA is:</u>
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.

6

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 law-enforcement officers and firefighters using the full 1.7% per-year service credit for all years below 20 years. Formerly, if an agent died with ten years of service, those ten years were calculated at 1% per year even though the deceased agent paid the higher 1.3% deduction. Now, that same agent would have those ten years calculated at 1.7% per year. Unused sick leave is also credited at the 1.7% accrual rate.

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

AGENT v6 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!

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

If the agent in this example had maintained FEHB coverage for five years before death as Self-and-Family, the surviving spouse will have FEHB coverage.

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 now 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 * 1.7% per year + 10 years * 1% per year = 4%) * \$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 nets an additional \$1,400 annually, or 1% of your High-3.

7

Each 5.8 hours of unused sick leave equates into one day of service credit, because service credit is calculated using whole months, not just work days. For example, if you have 174 hours of unused sick leave at retirement; that equates to one additional month of service.

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

	Years	Months	Days
Service Credit	22	5	18
Unused SL		2	6
Total Service Credit	22	7	24
Service Credit used for retirement calculation	22	7	

AGENT v6 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!

The credit for the 6 days of sick leave and 18 days of service credit were lost due to OPM only giving credit for whole months. In this example, with a High-3 of \$140,000, each additional month of credit is worth \$116 per year. 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 lands. As I stated above – some portion would probably end up being forfeited anyway.

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. LWOP (up to six months) counts as service. You will receive a small 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.

8

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 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 prorated until you have been an annuitant for a full year. For example, if you retired on June 30, you would receive one-half of the COLA adjustment the following year. In the following year, you'd receive the full COLA.

The COLA begins the year after retirement for agents. This is a great benefit of being in a 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 for anyone.* I

AGENT v6 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!

have seen a few places on the Internet where an expert states that federal law enforcement officers get a COLA on the SRS – don't believe it.

Should I Select a Spousal Benefit Survivor Annuity When I Retire Under FERS?

Generally, it would be initially 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 insurance rises significantly later on in life as one ages. The Spousal Benefit Survivor Annuity refers to the 10% reduction in your FERS annuity monthly benefit that provides for the continuation of a portion of your benefits (50%) that will be paid to your spouse upon your untimely demise. There is also an option available for a 25% benefit that costs 5%, as well as an "insurable interest" option, if a former spouse is entitled to the Spousal Benefit Survivor Annuity. By selecting the "50% Option," you receive 90% of your computed annuity benefit, and by selecting the "25% Option," you receive 95% of your computed annuity benefit.

<u>Spousal Benefit Survivor Annuity (SBSA)</u>	
Calculated FERS Basic Annuity	\$4,000
Less 50% SBSA Option	<u>-400</u>
Net FERS Basic Annuity Paid to Retiree	<u>\$3,600</u>
Benefit Paid to Surviving Spouse	<u>\$2,000</u>

9

In order to skip the Spousal Benefit Survivor Annuity option under FERS, you must obtain the notarized consent of your spouse 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 Spousal Benefit Survivor Annuity in order for your spouse to have FEHBP insurance after you die. In my opinion, **forget about it** - take the Spousal Benefit Survivor Annuity.

AGENT v6 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!

Thrift Savings Plan

What's the Latest News Regarding the TSP?

Beginning on 8/1/2010, all new federal employees started having 3% of their pay withheld and invested in the TSP in the "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 starting contribution rate of 7% (1% basic + 3% employee + 3% government match).

The Roth IRA TSP fund will likely not be rolled out until 2013 according to articles that I found where the TSP External Affairs Director was interviewed. There is very little information out there on this new option's arrival.

There is no longer a waiting period to begin receiving matching contributions. New employees receive matching contributions right away. The maximum deferral rises to \$17,000 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.

10

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

There is *nothing* more important to a successful FERS retirement than contributing the maximum to the TSP. 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 recent 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 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 if the remaining balance in the account continued to earn 4% interest.

AGENT v6 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!

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%), Hi-3 \$150,000	\$4,875	\$4,875
FERS Supplemental Annuity	1,000	1,000
Thrift Savings Plan	?	2,500
Replaced Monthly Income	<u>\$5,875</u>	<u>\$8,375</u>
Percentage of Hi-3 Salary	47.00%	67.00%

What Should My 2012 TSP Contribution be to Ensure the Maximum Contribution and Maximum Government Match?

The maximum TSP deferral increased to \$17,000 for the 2012 tax year. The amount you should have withheld each pay date in 2012 to contribute the maximum is $\$17,000 / 26 = \underline{\$654}$. If you weren't already at the maximum, this change should be made effective PP26 of 2011.

11

In **each** pay period, you must contribute 5% of your gross wages in order to get the 4% matching from the Government, which is why it is important to adjust contributions annually. For example, if you hit the \$17,000 cap by November 1, you will 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'll bet I've explained this concept hundreds of times and each year I counsel many who missed out on all possible matching my hitting the maximum before the last pay period.

Only use a percentage of your salary as a contribution selector if you just plan on making the 5% 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 \$654/PP, it's easier to see what you need to do when you know you're contributing \$400/PP 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

AGENT v6 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!

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 maximum are usually small, such as \$500, 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 your retirement will be.**

To make your changes to the TSP, go to the NFC website and make the changes in the “Self-Service” tab. If PP26 has already passed by and you'd like to compute the amount that you should have deducted henceforth to make the maximum \$17,000 contribution, here's the formula:

$$(\$17,000 - (A * B)) / (26 - A)$$

A = number of deductions already made at your old contribution amount since (and including) PP26 of 2011 (which counts towards 2012 as it pays on 1/12/12)

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 last 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. Do not get confused that there are 27 PP on the NFC calendar for 2012. There are 26 paydays (Thursday is the *official* payday) in 2012 and this computation is based on paydays.

12

When Can I Start Making 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, not when you actually turn 50. You must already be contributing the maximum (currently \$17,000 per year for 2011) before you may elect the Catch-Up contribution. There is no matching 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 should automatically appear on your NFC account.

AGENT v6 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!

Example: If you were born in December 1962, you would be 49 in January 2012 and turn 50 in December 2012. You may start your \$5,500 annual contribution in the first paycheck of 2012 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 PP. As with the TSP regular deduction, make this change to be effective on PP26 of 2011 so that it is reflected on the 1/12/12 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.

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 (2012) is \$22,500 (\$17,000 regular + \$5,500 catch-up). For example, one could contribute \$3,214 per pay period to the TSP and then retire after 7 pay periods, sheltering \$22,500 from taxes without working the entire year! More and more of the retirees I speak with are opting to shelter this additional income from taxes and take advantage of investing in the TSP when share prices are low due to the recession. You can get around the \$999 limitation at NFC by using a percentage of your pay instead.

13

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

If you continue your Bureau employment at least one day into the calendar year of your 55th birthday, you may make unabated penalty-free withdrawals **from your TSP account** upon retirement. You cannot rollover your TSP and make penalty-free withdrawals at 55 from the rollover account. 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 2011 to qualify for the penalty-free TSP withdrawals if you turn 55 during 2011. 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 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.

AGENT v6 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!

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

Yes. Generally speaking, there are two 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 amounts paid out 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 usually about 3%. 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.

If you elect a Life-Expectancy Withdrawal, you will be locked into the withdrawals for the **longer** of five years or attaining the age of 59½. The TSP handles all of the calculations.

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

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%

AGENT v6 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!

After retirement, you may also transfer your entire TSP balance to another custodian, such as USAA, TD Waterhouse, Charles Schwab, E*trade, etc. You then can use more aggressive percentages allowed by the IRS in IRC Section 72(t), which allow you to withdraw larger monthly payments than the more-conservative TSP amount. 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 www.irs.gov/pub/irs-pdf/p590.pdf. 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.

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

No. You must *work* for the Bureau until the year you turn 55 to receive unabated 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.

15

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 minimum monthly withdrawals.
- 2) **Roll the account balance out of the TSP and over 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.
- 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 life-expectancy schedule that you are 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, number 23(C) "Compute my Payments."
- 5) **Request a one-time disbursement** (can be done in conjunction with any of the above).

AGENT v6 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!

The TSP has a 25-page booklet at <https://www.tsp.gov/PDF/formspubs/tspbk02.pdf> which further describes your withdrawal options.

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 COLA (ha ha) to the TSP. You don't have to get there overnight, but 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 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 TSP above your current contribution only costs you 70 cents on the dollar. 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 PP. With that in mind, for those who say that they can't afford to contribute more, try making a change to your TSP contribution on every PP. Do something very small – start by adding \$5 a PP 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, <https://www.nfc.usda.gov/personal/index.aspx>, and add another \$5 to your contribution amount.

AGENT v6 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!

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 PP 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

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 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:

<u>Retirement Date</u>	<u>Annuity Starts</u>
12/31	1/1
1/1	2/1
1/15	2/1

17

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 above, you can see that the leave year can end as early as 12/31 (like in 2011) or as late as 1/12 (like in 2012).

By working at least a day into the following year, but staying within the leave year (not possible in 2011), 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 55th year at retirement,

AGENT v6 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!

- 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. More-or-less, that works about to about a \$3,500 cost for 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 55th 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.

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

18

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 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 (there usually is) 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.

Leave-Year Ending Dates - www.opm.gov/oca/leave/html/leaveyeardates.asp

2011 - 12/31/2011 (not a good year to work a day in your 55th year in 2012.....)
2012 - 01/12/2013
2013 - 01/11/2014
2014 - 01/10/2015

AGENT v6 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!

2015 - 01/09/2016
2016 - 01/07/2017
2017 - 01/06/2018
2018 - 01/05/2019
2019 - 01/04/2020
2020 - 01/02/2021

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

Believe it or not, I get a lot of calls from folks who by some means, find themselves in a position where they may have to separate from the Bureau before they are eligible for retirement.

First of all, I'm not advocating separation over retirement, but sometimes folks don't have a choice (OPR), 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 option, think about the following options:

- 1) Would six months of LWOP help you? If your SAC 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 in some sort of federal employment.

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. 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

AGENT v6 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!

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-covered** 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 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.
 - c. If Larry finds a **covered** 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 the Bureau.
- 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 and service requirements – 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 **covered** 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 (1.3% - .8%) 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.
- 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 the FBI or at another federal agency. She can retire anytime she wants to under the special provisions. There is no maximum age you can work to outside of the special provisions.

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
Hi-3 Salary	\$140,000
SSA Benefits at 62	\$1,900
TSP Balance	\$500,000
Spousal Annuity	Yes, 50%

21

Retirement Components

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

AGENT v6 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!

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	6,622
Medicare Tax at 1.45%	1,711
No contribution to the TSP/Catch Up	22,000
No longer paying 1.3% for FERS	1,820
Adjusted "Feels Like" Total	106,898
State and Federal taxes on difference (est)	3,800
Your retirement income "Feels Like"	<u>\$110,698</u>
Percentage of Pre-Retirement Pay	<u>79.07%</u>

Remember, this just has to get you through until you are 59½, after that, you can pull as much out of your TSP as you wish. If you need an extra \$12,000 a year more before that time, consider rolling your TSP to an IRA and using IRS Section 72(t) to withdraw a more aggressive percentage than the life expectancy tables, just remember you're locked into that plan for five years.

College Savings Accounts

Not directly related to retirement, but a well-funded college savings account will make your retirement less stressful. 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

AGENT v6 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!

\$71,500 available. Should one child receive a scholarship, the funds in their Coverdell ESA can be used for siblings. These accounts also score well in financial aid applications. 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 you're investing \$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 it stands right now, the Bush Tax Cuts have been extended through 2012, so the Coverdell will live until 12/31/12 as it stands now. Should the legislation not be enacted to extend the Coverdells past 12/31/12, most of you will likely choose to roll your Coverdell into a 529 plan. My best guess is that the Coverdell will be made permanent at some point.

23

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 by OPM out of your benefit directly to your FEHBP carrier and premiums paid to LTCFEDS. This provides the same benefit as "premium conversion" that active federal employees may choose.

The most current OPM ruling on this matter is dated June 2007 (Benefits Administration Letter 07-201) <http://www.opm.gov/retire/pubs/bals/2007/07-201.pdf>. 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 16 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.

AGENT v6 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!

Insurance Issues

What About FEHBP Insurance in Retirement?

As long as you were enrolled in a 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. 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, which will preserve your right to FEHBP coverage as long as you meet the five-year test. ***The most valuable retirement benefit we receive, in my opinion, is our FEHBP health insurance.***

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. 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 approximately 2/3 of the cost of your insurance. The only difference is that you pay your share on a monthly basis in retirement

AGENT v6 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!

instead of a bi-weekly basis like an on-board employee. That's why the OPM health insurance plan guides give 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.

I get asked a lot to expand 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 iPad was selling for \$300 at one store and for \$150 at another store, which store would you buy it from? Would you buy 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 as 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 was subscribed to the paperless system this year 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.

Go to <https://www.fsafeds.com/fsafeds/index.asp> to set up your new account.

There is a \$250 annual minimum and a \$5,000 annual maximum per eligible employee.

AGENT v6 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!

This means that a two-earner family, even if both are federal employees, could each establish a \$5,000 account, giving a \$10,000 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. *Beginning on 1/1/2013, the maximum amount for a healthcare FSA will drop to \$2,500 from \$5,000, so plan your elective eye surgeries and orthodontia accordingly.* In addition, over-the-counter (OTC) medications will no longer be reimbursable unless prescribed by a doctor.

The healthcare FSA does not have a “pay-as-you-go” requirement. Example: You plan on a \$5,000 corrective eye surgery in 2012. Set up a \$5,000 FSA for 2012 and \$192.31 will be deducted from each of your 26 paychecks in 2012. This is an annual election - you must set up a new FSA account each open season. You can have your eye surgery in January 2012 and submit the receipt for reimbursement immediately. The FSA custodian will pay you the \$5,000, even though they’ve only collected \$192.31 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.

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 the federal government 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. This coverage can be expensive, but try to get this insurance by the time you hit your early 40s at the latest. 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. 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 this year over OPM's 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

AGENT v6 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!

LTC plan is still competitively priced. In addition, your spouses and siblings are eligible for coverage under this plan. 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 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.

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 employees 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 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. Please do not call me and ask me about these types of policies.

Many of you have FEGLI policies through payroll deduction. In my opinion, FEGLI is terribly overpriced insurance for the young and healthy, and accepts anyone 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 could obtain about twice the amount of coverage for the same price through SelectQuote at www.selectquote.com, USAA, 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

AGENT v6 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!

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 is the change that occurs when you pass into retirement. 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. It pays the stated benefit to you at anytime during the benefit period with no change in premium.

Disability

This is a new section in the guide for 2012. I get a lot of questions about short-term disability insurance and about disability retirements from OPM, so I thought it would be a good choice for a new section. This section is comprised of two subsections, Short-term Disability Insurance and Disability Retirements.

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. The 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 will not be able to return to work for a year. Assume this happens to you late-career and you have 1,000 hours of sick leave, which will carry you for about six 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 will full income replacement.

I am a 13-9 in Richmond and I have short-term disability insurance through SAMBA. My premium is right at \$40 per PP. You can only insure yourself at your actual salary level, so when you get a step or grade increase, don't forget to increase your short-term disability

AGENT v6 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!

insurance when you get your raise.

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 completely. 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 (ask me how I know...). 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 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

OPM offers a FERS disability retirement which will retire you from service and requires annual medical exams. 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 annuity. OPM can grant a disability retirement regardless of whether Social Security approves you as disabled. The only difference is that if you receive a Social Security disability payment, a portion of that payment is netted out against the amount OPM pays you. If Social Security deems you disabled, you will net a little more as explained later.

AGENT v6 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!

If OPM approves your case for a disability retirement, your disability 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 annuity for the first year. In this case, this is approximately \$71,400.

For **Year 2 onward**, the OPM disability retirement annuity is calculated after determining the earned annuity, which would be $(1.7\% \times 15)$ or $25.5\% \times \$119,000 = \$30,345$, 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 \$47,000.

At age 62, the disability annuity is recalculated by OPM which re-computes the annuity as if the agent had worked from age 49 until 62 while receiving the disability annuity.

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

Since the re-computed annuity is higher than \$47,000 (40% of the High-3), at age 62, the agent will begin receiving the higher of the two, or \$48,790, in perpetuity.

Government/Bureau 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 finally executor.)

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. As of 2011, the fixed amount of the FERS BEDB was \$29,722 (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) your 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 accrued annuity and the surviving *spouse* will receive annual COLAs. For example, if the deceased had ten years of service and a high-3 salary of \$75,000, the annuity is calculated at $(10 \times 1\%) \times \$75,000 = \$7,500 \times 50\% = \$3,750$ annually or \$312.50 monthly to the surviving *spouse*. To learn more about FERS employee death benefits, visit http://www.opm.gov/retire/post/survivor/deceased_employee.asp#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 benefit payable to a parent of the deceased or to the children of the deceased – only a surviving *spouse*.

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 rolled over 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, provides for allowing surviving spouses to be able to leave their deceased spouse's account at the TSP. These changes have been implemented and the new TSP Death Benefit booklet is at <https://www.tsp.gov/PDF/formspubs/tspb31.pdf>.

AGENT v6 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!

To report a participant's death go to <https://www.tsp.gov/lifeevents/death/notifying.shtml#report>

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 \$15,000 benefit upon death.

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.

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.

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 \$323,035 for deaths occurring after 10/1/2011 and is adjusted annually for inflation. To learn more about the PSOB, visit http://www.ojp.usdoj.gov/BJA/grant/psob/psob_main.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 <http://www.ojp.usdoj.gov/BJA/grant/psob/PSOEA%20Fact%20Sheet.pdf>.

32

AGENT v6 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!

Social Security

Will I Receive Social Security Under FERS?

Yes. 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;" the highest 35 years of pay where Social Security taxes were paid. At age 62, you are eligible for a reduced Social Security benefit, and at age 67 (generally speaking - varies from 65-67 based on year of birth) you are eligible for the unreduced Social Security benefit.

Keep in mind, though, that if you elect to receive the reduced benefit at age 62, that benefit payment will be subject to the same earnings test that your FERS Special Retirement Supplement was subject to - meaning you will lose \$1 of benefit for every \$2 you earn in wages (non-passive income) over \$14,640 per year (for 2012; this amount is inflation-adjusted each year). When your earned income reaches \$43,920, you will have phased out of this benefit payment. At your Full Retirement Age (FRA), the earnings test is removed and you can earn as much non-passive income as desired and your Social Security benefit will not be reduced.

Base your decision on your own situation, but I usually alert people to take it as soon as you're eligible at 62. The break-even point is generally about 76 years of age. A person who started receiving benefits at 62, and a person who waited until 67, will have generally received the same amount paid to each by age 76. After age 76, the person who waited until 67 will receive substantially more from Social Security for the remainder of their life.

<http://www.ssa.gov/retire2/index.htm> provides links to calculators for this benefit.

As a FERS participant, you are paying Social Security taxes (OASDI) of 6.2% on your pay, up to the annual limitation (known as the benefit base), which for 2012 rises to \$110,100 (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 has not yet been extended for 2012 and beyond, so we are scheduled to go back to the statutory 6.2% effective 1/1/2012. CSRS participants do not pay Social Security taxes, but may be entitled to some benefits if they paid Social Security taxes before becoming a CSRS participant or paid into the Social Security system after leaving federal service. The current benefit base can be found at: <http://www.socialsecurity.gov/OACT/COLA/cbb.html>

AGENT v6 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!

Ever Wonder How Social Security Benefits are Calculated?

SSA adds up your highest 35 years of earnings, adjusts them to current-year dollars (inflation adjusted) and divides that result by 420 (the number of months in 35 years) to determine 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, a zero is used for those years and your AIME will be lower.

Simply put, you receive:

90% of the first \$680 of your AIME
32% of the next \$4,100 of your AIME, and
15% of the amount in excess of \$4,780

Will my Children Receive Social Security Benefits When I Retire?

No, but believe it or not, they are entitled to certain Social Security benefits when *you* apply for Social Security benefits. If you have minor children at the time you apply for benefits at age 62, each of your minor children may apply for a benefit payment that is 50% of your benefit amount. Regardless of the number of minor children, each is entitled to their 50% of your benefit amount and your benefit amount is not reduced due to the payments to the minor children. Remember, this benefit starts at age 62, not when you retire from the Bureau. Check out more details here: <http://www.ssa.gov/retire2/yourchildren.htm>

34

AGENT v6 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!

Common Retirement Pitfalls

1) **Have a plan**

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) **Pre-retirement purchase of military time and former service**

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. Military service is creditable under FERS only if you make a military service credit deposit. Remember, under FERS, you cannot make a re-deposit of refunded contributions

3) **Make sure that you are qualified to receive FEHBP health insurance**

Be certain that you have been an FEHBP participant for the five years preceding retirement, or that you were covered under the "self and family option" under a spouse's FEHBP insurance.

4) **Be prepared to wait for your money**

I'm hearing from newly-retired agents that the Bureau is getting them their annual leave payouts in about four weeks or less, which is good news. The bad news is that OPM is still taking a very long time to fully adjudicate retirements. When you retire, OPM will start sending you an interim payment, which is typically about two-thirds of what you are entitled to and does not include the SRS. You receive these interim payments until OPM adjudicates (i.e. fully vets out and computes your retirement eligibility and award) your annuity. Upon adjudication, you will receive all of the back pay that you are entitled to and the SRS will start being paid to you as well. Adjudication can take as long as six months or more. Upon retirement, please keep in touch with me at fersfeedback@gmail.com and let me know how the retirement process worked for you and what I should know in order to fully inform those that will follow in your footsteps.

OPM does not automatically withhold state taxes for you. You must submit an IRS Form W-4 to OPM in order for OPM to withhold state taxes. Failure to have state taxes withheld could result in a state-levied underpayment penalty.

AGENT v6 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!

Remember, in addition to Social Security and Medicare taxes, a flat 25% federal tax withholding will be applied to your annual leave payout. The net annual leave payout will be direct deposited into the same bank account where your paychecks were deposited.

5) Understand any claims against your annuity

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.

How Can I Become More Informed About Federal Retirement?

Visit www.govexec.com and subscribe to the automatic email service to receive Tammy Flanagan's retirement columns, which appear on Thursdays. 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.

The Department of the Interior has a great site devoted to their Firefighter Law Enforcement Retirement Team, or FLERT. The website is at <http://flert.nifc.gov>. 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.

Visit the following sites for additional retirement and benefit information:

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.federsoup.com (forums on federal retirement)

www.fedsmith.com

www.federalnewsradio.com

AGENT v6 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!

What do I do now?

- 1) If you have a family and do not have life insurance - get some NOW!
- 2) Develop a plan to get your TSP contribution up to the maximum allowed.
- 3) Enroll in a disability insurance program if you have a family.
- 4) Start funding a college savings plan for your children.
- 5) Obtain a quote on long-term-care insurance and develop a plan to purchase the coverage.
- 6) Get your "papers" together in the event of your death to aid your spouse and your family.