

#### Welcome

- Our audience today
- Q&A the ProFeds Support Team standing by
- Handouts available for download
- Recorded how to get the replay
- · Stay until the end!

Choosing the 'Perfect' Day to Retire

#### Your ProFeds Presenter



Retirement Training

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- · ProFeds Founder
- Developer of the FedImpact Retirement Workshop
- · Host of the FedImpact Podcast

#### **Support Team**

Standing by for your questions

Choosing the 'Perfect' Day to Retire

# **Choosing the 'Perfect' Day to Retire**

How not to let short-sighted decisions ruin your big day

#### Agenda

- The real objective of choosing the right date
- The water cooler effect
- Learning to balance these decisions
- · Case study to show the effect on various benefits:
  - Pension
  - Leave
  - Other benefits
  - Taxes

#### Choosing the 'Perfect' Day to Retire

#### The Real Objective

- · Get the very most possible
- · Get everything you've earned
- Get it on time
- Get your priorities straight
- Get your ducks in a row



#### Choosing the 'Perfect' Day to Retire

#### The Water Cooler Effect

- Misinformation, myths, and misplaced advice spreads like wildfire
- Well-intentioned, but...
- Information shared is often missing "the rest of the story"



#### Choosing the 'Perfect' Day to Retire

#### Balancing with the 'Big Rock' Theory

- Three levels of decisions
  - Big rocks: Big decisions with big consequences
  - Pebbles: Medium decisions with medium consequences
  - Sand: Small decisions with small consequences



# What this webinar will NOT cover

Choosing the 'Perfect' Day to Retire

#### **Our Case Study Today**

System: FERS/Regular

Current Situation:

Age: 58Years: 25

Salary: \$80,000/year

Plans to Retire:

Debating between "now" and age 62



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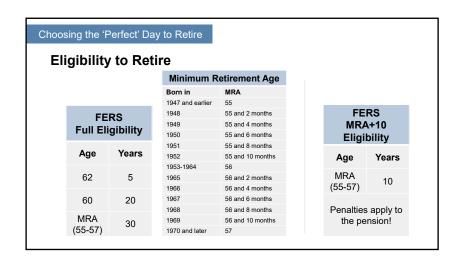


#1
Eligibility to
Retire

Choosing the 'Perfect' Day to Retire

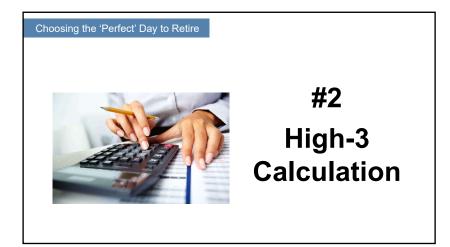
#### **Eligibility to Retire**

- Ensure you are eligible to retire based on your age and your years of <u>creditable</u> service
- Pay attention to special types of service that can drastically impact your eligibility to retire!
  - Military service
  - Non-deduction service
  - Refunded service



#### **Eligibility to Retire**

- CASE STUDY
  - Retire **NOW**: he qualifies for MRA+10 rules
    - Either takes pension right away (with a permanent penalty), or
    - Voluntarily wait to begin drawing it age 60 to avoid the penalty
  - Retire at <u>AGE 60 or later</u>: he's fully-eligible
    - · Draws pension right away with no penalties



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#### **High-3 Calculation**

- Average of the highest 3 years (36 months) of consecutive earnings – only certain types
- Most often, an employee's high-3 is accrued at the end of their career
- This is not based on CY or FY, and you do not have to be in a pay grade for a whole year for it to count

#### **High-3 Calculation**

- CASE STUDY
  - Retire <u>NOW</u>: his high-3 would be \$77,600
  - Retire at <u>AGE 60</u>: his high-3 would be \$80,934
  - Retire at <u>AGE 62</u>: his high-3 would be \$82,845
- But what if he retires in January after a pay raise?
  - That will only effect 1 of the 36 months in the calculation!

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# #3 Pension Calculation

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#### **Pension Calculation**

- Retiring under different scenarios yields different pension calculations
  - FERS under age 62 (regardless of the # of years)
  - FERS at least age 62 BUT less than 20 years of service
  - FERS at least age 62 AND at least 20 years of service
- Penalties may also apply (like under MRA+10)

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#### **Pension Calculation**

- CASE STUDY
  - Retire NOW: he's eligible under MRA+10 rules
    - Either takes a penalized pension right away (\$15,520/yr), or
    - Voluntarily waits to begin drawing pension at age 60 to avoid the penalty (\$19,400/yr)
  - Retire at **AGE 60**: he's fully-eligible
    - Draws pension right away with no penalties (\$21,852/yr)
  - Retire at **AGE 62**: he's fully-eligible
    - Draws pension right away with no penalties (\$26,427/yr)



#4 Sick Leave

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#### **Sick Leave**

- Sick leave hours will be converted to YYMMDD
- This length of service is added into pension calculation
  - Unused sick leave only counts to increase your pension
  - It does NOT count toward eligibility, so it does not help an employee retire sooner
- Any extra days which do not equal a full month (which is 30 days) are discarded

### Choosing the 'Perfect' Day to Retire

#### Sick Leave

CASE STUDY

	YY	MM	DD
Creditable service	25	00	20
Military service	00	00	00
Unused sick leave	00	06	28
	25	06	48
Rounded	25	07	<del>18</del>

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#### **Sick Leave**

- CASE STUDY
  - For <u>each extra month</u> of service that he is able to add to his pension, it increases his pension.
    - Retire **NOW**: each extra month adds \$65/yr to his pension
    - Retire **AGE 60**: each extra month adds \$67/yr to his pension
    - Retire AGE 62: each extra month adds \$76/yr to his pension



#5
First Pension
Check Due

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#### **First Pension Check Due**

- The pension...
  - begins accruing on the <u>first day of the</u> <u>following month</u> after someone retires, and
  - is paid the next month
- This is why it is ideal for someone to retire on the LAST DAY OF THE MONTH!

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#### **First Pension Check Due**

CASE STUDY

retire on... begins accruing... paid on...

1/31 2/1 3/1

Choosing the 'Perfect' Day to Retire

#### **First Pension Check Due**

CASE STUDY

retire on... begins accruing... paid on...
1/31 2/1 3/1
2/4 3/1 4/1

#### **First Pension Check Due**

CASE STUDY

retire on	begins accruing	paid on
1/31	2/1	3/1
2/4 ?	3/1	4/1
87% of firs \$1,121 -		



#### Choosing the 'Perfect' Day to Retire

#### When COLAs Begin

- COLAs are paid to FERS retirees beginning at age 62
- The month in which a FERS employee retires determines how much of the COLA they get in their very first year
  - What percentage of the months in the PRIOR year were they due a FERS pension?

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#### When COLAs begin

- CASE STUDY
  - COLA start age:
    - Retire <u>NOW</u> or <u>AGE 60</u>: his pension will NOT receive any COLAs until age 62 (the loss of purchasing power is permanent)
    - Retire <u>AGE 62</u>: his pension will be subject to COLAs immediately

#### When COLAs begin

- CASE STUDY
  - First COLA calculation:
    - If he retires at the end of the year (12/31/2025 at age 62), he will NOT receive a COLA to his pension for the next year (2026), but will receive 12/12ths of the COLA starting in January 2027
    - If he retires in the middle of the year (6/30/2025 at age 62), he will receive 6/12ths of the COLA starting in January 2026, and 12/12ths from that point forward

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## #7 Annual Leave

#### Choosing the 'Perfect' Day to Retire

#### **Annual Leave**

- He is only allowed to carry over 240 hours from year to year
- Retiring at the end of a given leave year would allow him to cash out the highest amount (the 240 from the previous year and the ~208 that he earned in the current year)
- This lump-sum payment is always taxable as earned income (so your retirement month matters)

#### Choosing the 'Perfect' Day to Retire

#### **Annual Leave**

- CASE STUDY
  - Retire <u>NOW</u>: 448 hours would be \$17,172
  - Retire at <u>AGE 60</u>: 448 hours would be \$17,577
  - Retire at **AGE 62**: 448 hours would be **\$17,991**
- What if he doesn't retire on the last day of that pay period? His payout will exclude the 8 hours of AL and reduce his payout by ~\$314.



#8
Effect on
FEHB/FEGLI

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#### Effect on FEHB/FEGLI

- Both FEHB and FEGLI programs have requirement to keep the coverage in retirement
  - You must retire on an immediate pension,

AND

 You must have this coverage in place for <u>5 years</u> immediately prior to your retirement from federal service

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#### Effect on FEHB/FEGLI

- CASE STUDY
  - Let's assume he has met the 5-year rule
  - Retire <u>NOW</u>: if he retires under MRA+10 rules and voluntarily postpones receipt of the pension to avoid the penalty, he will lose FEHB & FEGLI during the time he is not receiving his pension
  - Retire at <u>AGE 60+</u>: allowed to keep coverage

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#9 Special Supplement

#### **Special Retirement Supplement**

- This benefit is paid to most FERS employees who retire prior to age 62 and employees must:
  - Retire on an immediate, non-disability pension
- It is based on a special percentage of your Social Security benefit expected at age 62 (based on your length of federal service)
- If an employee gets another job, they may give up some or all of this benefit

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#### **Special Retirement Supplement**

- CASE STUDY
  - Retire NOW: he will NOT qualify for the SRS
  - Retire <u>AGE 60</u>: he will qualify for the SRS
    - If he has a SS benefit of \$1,200 and has 27 years of federal service, he would receive \$810/mo until age 62
    - If he gets a private job and makes more than \$18,950/yr, some or all of this benefit goes away
  - Retire **AGE 62**: he will NOT qualify for the SRS

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#10 Social Security Choosing the 'Perfect' Day to Retire

#### **Social Security**

- The SS benefits that are estimated on your statement assume that you continue to work and contribute to SS
- The longer you wait to retire, the more strategies may be available to you to draw a higher amount
- If an employee earns too much (prior to 65-67), they may give up some or all of this benefit

#### **Social Security**

- CASE STUDY
  - Retire <u>before AGE 62</u>: no more contributions to SS (assuming he does not continue to work); may cause reduction to estimated SS benefit amount
  - If he has wages more than \$18,950/yr, some or all of this goes away
  - He can choose to draw SS benefits starting from age 62 to age 70

#### Choosing the 'Perfect' Day to Retire



## #11 Effect on TSP

#### Choosing the 'Perfect' Day to Retire

#### Effect on TSP

- Federal employees RETIRING/SEPARATING from federal service in the year they turn age 55\* (or older) may access TSP funds without penalty (\* age 50 for Law Enforcement, Firefighters & Air Traffic Controllers)
- Make certain all loans are paid back or a taxable event is declared (and penalties if under 59 ½)!
- The longer you keep working, the longer you are able to contribute to the TSP (and get the match)

#### Choosing the 'Perfect' Day to Retire

#### Effect on TSP

- CASE STUDY
  - He has already passed age 55 (so no penalty)
  - He didn't have any outstanding TSP loans
  - If he were to continue to work, he'd be allowed to keep contributing

· His contributions: up to \$26,000/yr

His agency's match: \$4,000/yr

