



# Choosing the 'Perfect' Day to Retire

Presented by ProFeds

## Choosing the 'Perfect' Day to Retire

### 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



**FedImpact**  
Retirement Training  
presented by ProFeds

### Chris Kowalik

- 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**

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

##### 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

### Our Case Study Today

- System: FERS/Regular
- Current Situation:
  - Age: 58
  - Years: 25
  - Salary: \$80,000/year



Mike

- Plans to Retire:
  - Debating between “now” and age 62



## #1 Eligibility to Retire

### Eligibility to Retire

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

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### Eligibility to Retire

FERS Full Eligibility		Minimum Retirement Age	
Age	Years	Born in	MRA
62	5	1947 and earlier	55
		1948	55 and 2 months
60	20	1949	55 and 4 months
		1950	55 and 6 months
MRA (55-57)	30	1951	55 and 8 months
		1952	55 and 10 months
		1953-1964	56
		1965	56 and 2 months
		1966	56 and 4 months
		1967	56 and 6 months
		1968	56 and 8 months
		1969	56 and 10 months
		1970 and later	57

FERS MRA+10 Eligibility	
Age	Years
MRA (55-57)	10
Penalties apply to the pension!	

## Choosing the 'Perfect' Day to Retire

### 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 **AGE 60 or later**: he's fully-eligible
    - Draws pension right away with no penalties

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## #2 High-3 Calculation

## Choosing the 'Perfect' Day to Retire

### 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

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### High-3 Calculation

- CASE STUDY
  - Retire **NOW**: his high-3 would be \$77,600
  - Retire at **AGE 60**: his high-3 would be \$80,934
  - Retire at **AGE 62**: 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**)

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## #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

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##### Sick Leave

###### • CASE STUDY

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

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##### Sick Leave

###### • CASE STUDY

- For each extra month 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

### First Pension Check Due

- The pension...
  - begins accruing on the first day of the following month 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!

### First Pension Check Due

- CASE STUDY

<i>retire on...</i>	<i>begins accruing...</i>	<i>paid on...</i>
1/31	2/1	3/1

### First Pension Check Due

- CASE STUDY

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

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

##### First Pension Check Due

- CASE STUDY

<i>retire on...</i>	<i>begins accruing...</i>	<i>paid on...</i>
1/31	2/1	3/1
2/4	<b>?</b>	3/1
		4/1

87% of first check  
\$1,121 - \$1,735

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## #6 When COLAs begin

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##### 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 **NOW** or **AGE 60**: his pension will NOT receive any COLAs until age 62 (the loss of purchasing power is permanent)
    - Retire **AGE 62**: his pension will be subject to COLAs immediately



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### 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

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### 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)

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### Annual Leave

- CASE STUDY
  - Retire **NOW**: 448 hours would be **\$17,172**
  - Retire at **AGE 60**: 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

#### 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 5 years immediately prior to your retirement from federal service

#### Effect on FEHB/FEGLI

- CASE STUDY
  - Let's assume he has met the 5-year rule
  - Retire **NOW**: 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 **AGE 60+**: allowed to keep coverage



## #9

### Special Supplement

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##### 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 **AGE 60**: 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

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##### 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

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### Social Security

- CASE STUDY
  - Retire **before AGE 62**: 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

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## #11 Effect on TSP

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### 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)

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### 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

## Choosing the 'Perfect' Day to Retire

**A wall of decisions unique to you**



## Choosing the 'Perfect' Day to Retire

### Get the Rest of the Story



- Attend a workshop:
  - Virtual and live options
  - No cost to attend
  - Covers all of the federal benefit topics and decisions to be made
- See all the details at [FedImpact.com/Attend](https://FedImpact.com/Attend)

## Choosing the 'Perfect' Day to Retire

### Handouts & Replay



- Handouts
  - Download
  - Emailed
- Replay
  - Link will be emailed to all registered participants

## Choosing the 'Perfect' Day to Retire

### Next Webinar



- Next webinar topic!
  - **Retiring Early Under the MRA+10 Rules:** What you gain, what you lose and what you never get back
- Sign-up at: [FedImpact.com/Webinar](https://FedImpact.com/Webinar)

Find a workshop: [FedImpact.com/Attend](https://FedImpact.com/Attend)  
Next webinar: [FedImpact.com/Webinar](https://FedImpact.com/Webinar)



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for joining us

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