Maximizing Annual & Sick Leave

Presented by ProFeds

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!

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

Maximizing Annual & Sick Leave

Highlighting the differences between annual leave and sick leave when it comes time to retire – and how to maximize each type of leave

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Agenda

- DIFFERENCES: Sick leave vs. Annual leave
- AT RETIREMENT: How each leave type is paid out
- PAYOUT: When you can expect to receive leave payments and how they are calculated
- TAXES: The tax implications of leave payouts
- ADVANTAGES: Which type of leave should federal employees take at the end of their career?

What this webinar will NOT cover

ANNUAL LEAVE

WHILE WORKING

Accruing Leave While Working

- Annual Leave Accrual*
  - Service of less than 3 years: **4 hours/pp**
  - Service between 3 years to 14 years: **6 hours/pp**
  - Service of 15 or more years: **8 hours/pp**
- Hours are only earned for a complete pay period
- May be used for any purpose

* Employees in part-time positions, uncommon tours of duty and Senior Executive Service, Senior Level, and Scientific or Professional positions earn different amounts of annual leave each pay period.

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Accruing Leave While Working

- Annual Leave Carryover
  - The term "carryover" refers to the hours of leave an employee is allowed to carry over into the next leave year
    - Most employees have a carryover limit of 240
    - Exceptions: Overseas service (360), USPS (440), SES (720)
  - Excess hours are forfeited once the new leave year begins

Annual Leave Carryover Timeline*

Year	End of Leave Year	Schedule 'Use or Lose' by
2023	January 13, 2024	December 2, 2023
2024	January 11, 2025	November 30, 2024
2025	January 10, 2026	November 29, 2025
2026	January 9, 2027	November 28, 2026

* The beginning and ending dates of the leave years shown below apply to **most employees**. However, some agency payroll systems use a different pay period schedule. Employees should contact their agencies to verify the beginning and ending dates of a particular leave year.

SICK LEAVE

WHILE WORKING

Accruing Leave While Working

- Sick Leave Accrual*
  - Full-time employees: 4 hours/pp
- There is NO LIMIT to the amount of sick leave that you can accumulate and carry over from year-to-year
- Hours are only earned for a complete pay period
- May be used for a variety of medical/care purposes

* Part-time employees earn 1 hour for each 20 hour pay status. Employees in uncommon tours of duty earn an amount equal to 4 hours X average hours per bi-weekly ÷ 80 = bi-weekly sick leave accrual.

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ANNUAL LEAVE
IN RETIREMENT

Payout of ANNUAL Leave at Retirement

- What can be paid out:
  - EARNED annual leave hours including:
    - Regular annual leave
    - Restored annual leave
    - Unexpired compensation time
    - Credit hours

Payout of ANNUAL Leave at Retirement

- How is it calculated:
  - Hourly rate as if you had continued working (includes annual pay raises, but not retention allowances):
    - Regular annual leave
    - Restored annual leave
  - Hourly rate based on your final salary:
    - Unexpired compensation time
    - Credit hours

Payout of ANNUAL Leave at Retirement

- How it is paid out:
  - Annual leave is paid out in lump-sum by your agency within a few weeks of retirement (sometimes, this will be two payments)
- How it is taxed:
  - Taxed as “ordinary” income (agencies use two methods – flat tax or treated as bi-weekly check)
  - Withholdings: Federal/state/local taxes, FICA (SS/Medicare)
    - No withholdings for CSRS/FERS contributions, TSP, insurance premiums

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Example Scenario

- Employee is debating on whether to retire on either **12/31/2023** or **1/31/2024**
- They currently have the following:
  - Annual leave: **300**
  - Comp time: **35**
- 2023 salary: $95,000
- 2024 salary: $96,000 (anticipated)

Example Scenario

- Retiring: **12/31/2023**
- Leave hours:
  - Annual leave: **300**
  - Comp time: **35**
- 2023 salary: $95,000
- 2024 salary: $96,000

Example Scenario

- Retiring: **12/31/2023**
- Leave hours:
  - Annual leave: **300**
  - Comp time: **35**
- 2023 salary: $95,000
- 2024 salary: $96,000

Payout of ANNUAL Leave at Retirement
STEP 1: Determine Hourly Rate Ending hourly rate: $45.52 ($95,000 ÷ 2,087 hours = $45.52/hr)
STEP 2: Calculate Initial Payment Total hours: 335 X $45.52 = **$15,249**
STEP 3: Calculate Second Payment *(ONLY for regular annual & restored leave that would have been used the next year; determined by next year's pay raise)* Annual hours: 300 X $0.48 = **$144** ($45.52 - $46.00 = $0.48 difference)

Example Scenario

- Retiring: **1/31/2024**
- Leave hours:
  - Annual leave: **256**
  - Comp time: **35**
- 2024 salary: $96,000

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Example Scenario

- Retiring: **1/31/2024**
- Leave hours:
  - Annual leave: **256**
  - Comp time: **35**
- 2024 salary: $96,000

Payout of ANNUAL Leave at Retirement
STEP 1: Determine Hourly Rate Ending hourly rate: $46.00 ($96,000 ÷ 2,087 hours = $46.00/hr)
STEP 2: Calculate Initial Payment Total hours: 291 X $46.00 = **$13,386**
STEP 3: Calculate Second Payment *Not applicable since this employee's leave would not have extended into the next year (2025)*

SICK LEAVE

IN RETIREMENT

Payout of SICK Leave at Retirement

- What can be paid out:
  - EARNED sick leave hours
  - Remember, there is no limit to the number of sick leave hours you can save throughout your career
  - Many years ago, FERS were on a 'use or lose' basis with sick leave, but that is no longer the case (both CSRS and FERS are treated exactly the same now)

Payout of SICK Leave at Retirement

- How it is paid out:
  - Sick leave hours are converted into YY/MM/DD using the OPM "2087 Chart"
  - That length of service is ADDED to the actual creditable service an employee had (for retirement purposes)
  - NOTE: Unused sick leave only counts to increase your pension. It does NOT count toward eligibility, so it does not help you to retire sooner.

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Payout of SICK Leave at Retirement

- How is it calculated:
  - On the 2087 Chart, locate the number of sick leave hours you have (if in between numbers, round up)
  - Let's dispel a common myth about sick leave…
    - It is NOT true that "only full months of sick leave" count
    - You MUST FIRST add the sick leave YY/MM/DD to the creditable service YY/MM/DD and THEN days which don't equal a full month are discarded.

Payout of SICK Leave at Retirement

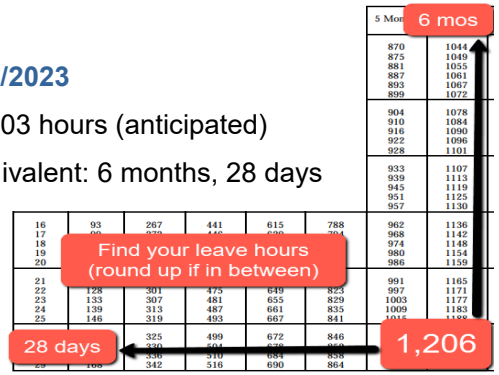
- How it is taxed:
  - Taxed as "ordinary" income (since it is simply part of your monthly pension check)
  - Withholdings: Federal/state/local taxes

Example Scenario

- Retiring: **12/31/2023**
- Sick leave: 1,203 hours (anticipated)
- Converted equivalent: 6 months, 28 days

Use OPM's '2087 Chart' to convert hours into YY/MM/DD

FedImpact.com/2087



Example Scenario

	YY	MM	DD
Creditable service	30	00	20
Military service	04	00	00
Unused sick leave	00	06	28
	34	06	48
Rounded	34	07	~~18~~

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Example Scenario

- Retiring: **12/31/2023**
- Length of service
  - Without SL: 34y 0m
  - With SL: 34y 7m
- Ending high-3: $93,000

Maximizing Annual & Sick Leave

Example Scenario

- Retiring: **12/31/2023**
- Length of service
  - Without SL: 34y 0m
  - With SL: 34y 7m
- Ending high-3: $93,000

Payout of SICK Leave at Retirement
STEP 1: Determine Pension w/o SL $93,000 x 1.0% x 34y 0m = $31,620
STEP 2: Determine Pension w/ SL $93,000 x 1.0% x 34y 7m = $32,163
STEP 3: Calculate the Difference $32,163 - $31,620 = **$543**

Maximizing Annual & Sick Leave

STRATEGY FOR WHEN TO USE WHICH ONE

Maximizing Annual & Sick Leave

If You Had the Choice…

- As you near retirement, use SICK leave whenever possible to preserve ANNUAL leave
- Annual leave is more valuable to you because you are paid this amount upfront when you retire
- Curious to see the math?

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Comparing the Value of Leave Hours (Sick Leave vs. Annual Leave)		
	Annual Leave	**Sick Leave**
Amount	**1 month**	**1 month**
How is it paid to you?	Lump-sum shortly after retiring	Added to length of service in pension calculation and paid out over your lifetime
Example	If an employee retires with a final salary of $95,000, the payout would be **~$7,920 lump sum**	If an employee is a regular FERS under age 62 with a high-3 salary of $93,000, the payout would be **$77/year** for the rest of your life

But What if…

- A very common question we are asked:

"I'm thinking of retiring 12/31/2023. If the end of the leave year is 1/13/2024, shouldn't I just wait until then to retire so I have more annual leave to cash out?"

But What if…

- A very common question we are asked:

"Wouldn't it be better if I just stayed employed and burned through my leave while still drawing a full check?"

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

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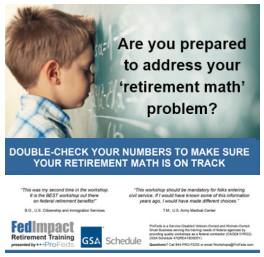
Double-check Your Retirement Math



- Attend a workshop:
  - In-person training
  - No cost to attend
  - Covers all of the federal benefit topics and decisions to be made
  - One-on-one help available
- See all the details at **FedImpact.com/Attend**

Handouts & Replay

LINK TO REPLAY

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

Next Webinar

- Next webinar topic!
  - **Your 10-Point Retirement Checklist**
    Must-do action items, timelines and step-by-step instructions to be prepared
  - Sign-up at: **FedImpact.com/Webinar**

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