



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



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- » 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

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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



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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"
- » You owe it to yourself to get true and accurate information



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Balancing the 'Big Rock' Theory

- » Three levels of decisions
 - **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
- » Plans to Retire:
 - Debating between “now” and age 62
 - Looking at a contractor job



Mike



#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
- » Get your Certified Summary of Federal Service:
FedImpact.com/certify

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Full Eligibility vs. MRA+10

FERS Full Eligibility	
Age	Years
62	5
60	20
MRA (55-57)	30

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

Minimum Retirement Age

Born in	MRA
1947 & earlier	55
1948	55 & 2 months
1949	55 & 4 months
1950	55 & 6 months
1951	55 & 8 months
1952	55 & 10 months
1953-1964	56
1965	56 & 2 months
1966	56 & 4 months
1967	56 & 6 months
1968	56 & 8 months
1969	56 & 10 months
1970 & later	57

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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 (this is called "postponing" the pension)
- 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

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High-3 Calculation

- » Average of the highest 3 years (36 months) of consecutive earnings – but only certain types of pay
- » 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

» DELAYING RETIREMENT

- **What if he waits to retire in January after a pay raise?**
- That will only affect 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 that do not equal a full month (which is 30 days) are discarded

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Sick Leave - Example

	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	18

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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 PAYABLE 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

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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	?	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?
 - They will receive that percentage of the next year's COLA

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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



#7 Annual Leave

Annual Leave

- » He is only allowed to carry over 240 hours from one year to the next
- » Retiring at the end of a given leave year would allow him to cash out the highest amount (the 240 carried over 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)

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 **~\$300**.



#8 Effect on FEHB/FEGLI

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Effect on FEHB/FEGLI

- » Both FEHB and FEGLI programs have requirements 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

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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

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#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

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 \$22,320/yr, some or all of this benefit goes away
- Retire **AGE 62**: he will NOT qualify for the SRS



#10 Social Security

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 a person is drawing SS benefits and earns too much (prior to 65-67), they may give up some or all of this benefit

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 \$22,320/yr, some or all of this goes away
- He can choose to draw SS benefits starting from age 62 to age 70



#11 Effect on Continued Salary

Effect on Continued Salary

» CASE STUDY

- If he continues working in his federal job, he will continue to draw his normal salary until he retires
- He may also decide to take another job that may replace this income
- A natural byproduct of having a continued salary means there are fewer years in retirement that we have to live off savings/investments



#12 Effect on TSP

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 or any age with 25 years of covered service)
- » Make certain all loans are paid back or a taxable event is declared
- » 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 for withdrawals)
- If he were to continue to work, he'd be allowed to keep contributing
 - His contributions: up to \$30,500/yr
 - His agency's match: \$4,000/yr

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**A wall of
decisions
unique to you**



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**DISCOVER HOW TO BE THE HERO
IN YOUR OWN RETIREMENT STORY**

"The workshop you delivered yesterday was phenomenal. I enjoyed the presentation as well as the class participation and interaction."
U.S. Office of Personnel Management



"The most information I have ever received and heard in my 30-year military and federal career."
L.B., Department of Defense



Retire with confidence.

» 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

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Handouts and Replay



» Handouts

- Download
- Emailed

» Replay

- Link will be emailed to all registered participants

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Next Webinar



- » Next webinar topic!
 - **Tackling the Tax Train**
Exploring the Roth conversion strategy to drastically reduce your tax obligation in retirement
- » Sign-up at:
FedImpact.com/Webinar

Thank you for joining us

Stay tuned for benefits and news updates



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