

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



EDIMPACT

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- » 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



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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

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

- Looking at a contractor job



Mike

Choosing the 'Perfect' Day to Retire



#1 Eligibility to Retire

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

Full Eligibility vs. MRA+10

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

FERS MRA+10 Eligibility		
Years		
10		
Penalties apply to the pension!		

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

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

Choosing the 'Perfect' Day to Retire

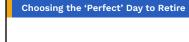
Pension Calculation

- » Retiring under different scenarios yields different pension calculations
 - FERS under age 62 (regardless of the # of years)
 - FERS at least age 62 $\underline{\rm BUT}$ less than 20 years of service
 - FERS at least age 62 <u>AND</u> 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 that do not equal a full month (which is 30 days) are discarded

Choosing the 'Perfect' Day to Retire Sick Leave - Example YY MM DD **Creditable Service** 25 00 20 **Military Service** 00 00 00 Unused sick leave 00 06 28 (48) 25 06 Rounded 25 07 18

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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 following month</u> 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!

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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
	first check 1 - \$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 <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



#7 Annual Leave

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Annual Leave

- » He is only allowed to carry over 240 hours from one year to the next
- » Retiring at the <u>end of a given leave year</u> 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)

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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 ~\$300.

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#8 Effect on FEHB/FEGLI

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 <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 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

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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 a person is drawing SS benefits and 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 <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 \$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

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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

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#12 Effect on TSP

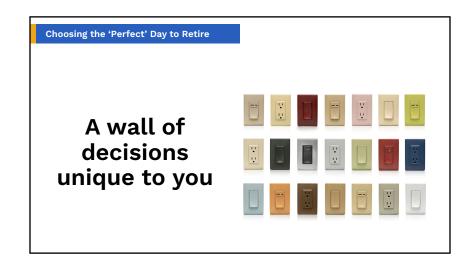
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Effect on TSP

- » 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 or
 - (^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)

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







Next Webinar

Join us for a short webinar: **Tackling the Tax Train**

Mar 21, 2024 @ 1pm CT

Presented by PROFEDS



- » Next webinar topic!
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- » Sign-up at: FedImpact.com/Webinar

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