



3 Ways a Court Order Wrecks Your Federal Pension



3 Ways a Court Order Wrecks Your Pension

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!

3 Ways a Court Order Wrecks Your Pension

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

3 Ways a Court Order Wrecks Your Pension

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What you (and your current spouse) should know before you retire – and how to mitigate the impact moving forward

Agenda

- » **FEDERAL PENSION:** How your 'take home' pay may change while you are still living in retirement
- » **SURVIVOR BENEFITS:** How much your former spouse gets when you die – and how much it will cost you
- » **CURRENT SPOUSE:** How your current/future spouse's benefits may be reduced or eliminated
- » **TIMELINE:** How having a Court Order affects how long it will take OPM to process your retirement application

What this webinar will NOT cover

Court Ordered Benefits for Former Spouse

- » Courts can award a variety of benefits to a former spouse and the most common are:
 - Thrift Savings Plan
 - Portion of normal paycheck while fed is still working
 - **Portion of CSRS/FERS pension while fed is retired**
 - **Survivor Benefit on the pension after fed dies**

Language in the Court Order

- » A court order may award a portion of your pension (both while you're living and after you die) to a former spouse
- » The order may contain language about how the former spouse will receive payment either:
 - Directly from OPM
 - Paid to you and then you pay the former spouse
- » The court may specify who is responsible for the tax on the payments and any cost for benefits awarded

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The Formula for Determining the Marital Share

- » The order must make clear to OPM which formula is used to calculate the “marital share” that has been awarded
- » The most common formula is the “Bangs formula” which determines how much of your pension was earned during the period you were married:
 - (A) # of months in a federal/military position while married
 - (B) # of months in a federal/military position total
- » Using the Bangs formula, the marital share is:
 - $(A / B) \times 50\% \times \text{Pension} = \text{Amount former spouse receives}$

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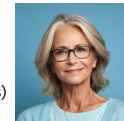
Today's Example

- » Julie is a FERS employee
 - Retiring at age 60
 - 30 years of total service (360 months)
 - \$100,000 high-3 at retirement
 - \$30,000/yr pension at retirement
- » 25 yrs of marriage
- » 23 yrs fed service & married (276 months)



Julie

Darren



Federal employee



Former spouse

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Julie & Darren's Court Order

- » Their court order awards Darren the following:
 - The marital share of Julie's pension
 - Payable monthly while Julie is living
 - Will be paid directly to Darren by OPM
 - The marital share of Julie's Survivor Benefit
 - Payable monthly starting when Julie dies
 - Will be paid directly to Darren by OPM
 - While living, Julie will pay the premium for this coverage

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**Your Federal Pension
(while you're living)**

Julie's Federal Pension (While She's Still Living)

- » Using the Bangs formula, we would calculate Darren's portion of Julie's pension as such:
 - $(276 / 360) \times 50\% \times \$30,000 = \$11,500/\text{yr}$
- » So when she retires,
 - Julie gets \$18,500/yr, and
 - Darren gets \$11,500/yr

Your Federal Pension (Survivor Benefits for your FORMER spouse)

Your Federal Pension (When You Die)

- » Survivor Benefits
 - The Survivor Benefit Plan is a way to leave a portion of your federal pension to a former or current spouse:
 - A former spouse:
 - Involuntary - by court order
 - Voluntary - by election at the time of retirement
 - A current spouse
 - Voluntary - by election at the time of retirement

Your Federal Pension (When You Die)

- » A former spouse (by Court Order)
 - A qualifying court order must explicitly grant them any or all of the Survivor Benefit Plan (if no language exists, no benefit is provided by OPM)
 - Unless married to one another for at least 30 years, if a former spouse remarries prior to the age of 55, benefits are forfeited and revert to a current spouse (if applicable)

Julie's Federal Pension (When She Dies)

- » A former spouse (by Court Order)
 - Using the Bangs formula, we would calculate Darren's portion of Julie's pension as such:
 - $(276 / 360) \times 50\% \times \$30,000 = \$11,500/\text{yr}$
 - So when Julie dies, Darren continues to receive \$11,500/yr through the Survivor Benefit Plan
 - This means that Darren gets paid the same amount regardless if Julie is still living or has died
 - While living, the court order requires Julie to pay cost (**\$2,300/yr**)

Your Federal Pension (Survivor Benefits for your CURRENT spouse)

Survivor Benefits in Retirement

- » For FERS*, the very most that can be given to a current spouse and/or a former spouse combined is 50% of the pension – PERIOD
 - The former spouse is first in line for benefits that were awarded by the Court
 - The current spouse is entitled to the remaining amount of the maximum allowable (but a lower amount may be elected with the current spouse's consent)

*The max allowable for CSRS retirees is 55% of the pension.

Survivor Benefits in Retirement

- » Julie is now married to Mike:
 - What can be protected for Mike if Julie dies?
 - How should Julie complete the paperwork?
 - What happens if Darren dies before Mike?



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Survivor Benefits Elections at Retirement

- » FERS SF-3107, Retirement Application (Section D)
- » Choices for a CURRENT spouse:

1.	<input type="text"/>	<i>I choose a reduced annuity with maximum survivor annuity for my spouse named in Section C. If you receive this annuity, your annuity will be reduced by 10%. Your spouse's annuity upon your death will be 50% of your earned annuity.</i>	50%
2.	<input type="text"/>	<i>I choose a reduced annuity with a partial survivor annuity for my spouse named in Section C. If you choose this option, your annuity will be reduced by 5%. Upon your death, your spouse's annuity will be 25% of your earned annuity. Complete form SF 3107-2, Spouse's Consent to Survivor Election, and attach it to your application.</i>	25%
3.	<input type="text"/>	<i>I choose an annuity payable only during my lifetime. If you are married at retirement, you cannot choose this option without your spouse's consent. No survivor annuity will be paid to your spouse after your death if he or she is not enrolled at the time of your death. In addition, your spouse will not be eligible to enroll in the Federal Employees Health Insurance Program, if he/she is not enrolled at the time of your death. If you are married at retirement, complete form SF 3107-2, Spouse's Consent to Survivor Election, and attach it to your application.</i>	0%

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Julie's Survivor Benefit Election

- » On the retirement application:
 - **Current spouse:** Julie will elect what benefit she wants for Mike to get (as if Darren was not getting anything)
 - **Former spouse:** Julie will NOT elect any SBP for Darren because Court Ordered payments happen automatically. Any reference to a former spouse on the SBP election is for VOLUNTARY elections only.

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Survivor Benefits in Retirement

- » If "full" SBP is elected (to protect 50% of \$30,000/yr pension):
 - Max allowable: \$15,000/yr
 - Darren: \$11,500/yr (by Court Order)
 - Mike: \$3,500/yr
 - Julie pays \$3,000/yr for SBP coverage
 - If Darren dies before Mike, Mike will begin to receive the full \$15,000/yr for the remainder of his lifetime

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Survivor Benefits in Retirement

- » If "partial" SBP is elected (to protect 25% of \$30,000/yr pension):
 - Max allowable: \$7,500/yr
 - Darren: \$11,500/yr (by Court Order)
 - Mike: \$0/yr
 - Julie pays \$2,300/yr for SBP coverage
 - If Darren dies before Mike, Mike will begin to receive the partial \$7,500/yr for the remainder of his lifetime

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Survivor Benefits in Retirement

- » If “no” SBP is elected (to protect 0% of \$30,000/yr pension):
 - Max allowable: \$0/yr
 - Darren: \$11,500/yr (by Court Order)
 - Mike: \$0/yr
 - Julie pays \$2,300/yr for SBP coverage
 - If Darren dies before Mike, Mike will continue to receive \$0/yr for the remainder of his lifetime

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Some Final Thoughts

- » You will submit a copy of your court order with your retirement paperwork (your package will take longer)
- » There are very real consequences to court orders:
 - Your pension while you're living
 - Your pension (SBP) for your former spouse
 - Your pension (SBP) for your current spouse
- » SBP Webinars:
 - Strategy of SBP: FedImpact.com/webinar-SBP-strategy
 - Leaving pension to kids: FedImpact.com/webinar-SBP-kids

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IN YOUR OWN RETIREMENT STORY

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U.S. Office of Personnel Management



"The most information I have ever received and heard in my ENTIRE military and professional career."
L.B., Department of Defense



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Handouts and Replay



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

Next Webinar



- » Next webinar topic!
 - **Maintaining Solid Habits in the Thrift Savings Plan**
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