

Last Paycheck vs. First Retirement Check

How you can expect your pay to change once you retire from federal service

Last Paycheck vs. First Retirement Check

Welcome

- » About today's topic
- » 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!

Last Paycheck vs. First Retirement Check

Your ProFeds Presenter





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- » ProFeds Founder
- » Developer of the FedImpact Retirement Workshop
- » Host of the FedImpact Podcast

Support Team

» Standing by for your questions

Agenda

- » INCOME: changes in gross income you can expect as a retiree
- » EXPENSES: which expenses go up and which go down in retirement
- » SHORTFALL: how you can fill the income gap (but there's a catch!)
- » My challenge for you today!

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What this webinar will NOT cover



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Retirement Benefit Highlights*

- » Pension: A monthly payment you will receive for the duration of your lifetime
- » Survivor Benefits: A portion of your pension that is payable to your spouse when you die
- **» FERS Supplement:** A monthly payment if you retire with an immediate pension before age 62
- » Social Security: A monthly payment that can begin between age 62 and 70 and payable for your lifetime

* You must meet various requirements to receive each benefit.

Retirement Benefit Highlights*

- » FEGLI: A life insurance death benefit payable to your designated beneficiary when you die
- **» FEHB:** Health insurance benefits available for you and your eligible family members
- » FLTCIP: Long term care insurance that pays out if you need certain kinds of care (under OPM suspension)
- » Thrift Savings Plan: A 401(k)-style plan designed to provide tax-advantaged savings and investing

* You must meet various requirements to receive each benefit.

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Need a Deeper Dive into These Topics?

- » Articles: FedImpact.com/articles
- » Podcasts: FedImpact.com/podcasts
- » Webinars: FedImpact.com/webinars
- » Workshops: FedImpact.com/attend

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The Transition



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The Transition Period

- » It will take OPM several months to finalize your retirement application
- » During this time,
 - You will receive 60-70% of your gross pension (with only federal taxes being withheld),
 - You will not receive the Special Retirement Supplement (missed payments will be paid to you when your retirement is finalized by OPM)
- » Having cash on hand for this transition period is critical!

Last Paycheck vs. First Retirement Check Benefits payable from your retirement payments May start to be paid Paid from initial Paid at the end from **Obligations** from retirement interim payments 30-40% withheld check (once final) Federal income taxes State income taxes pay out-of-pocket Survivor Benefit FEGLI FEHB **FEDVIP** pay out-of-pocket **FLTCIP** pay out-of-pocket * Survivor Benefits, FEGLI, and FEHB coverage remain in-force during this interim period

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Once OPM Finalizes Your Pension

- » You will receive a letter indicating that OPM has completed your retirement application and determined your "real" annuity/pension amount
 - If OPM held too much in reserve, you'll get a refund
 - If OPM held too little in reserve, you'll owe money
- » You'll begin to receive your normal pension from this point forward
- » You'll receive "back pay" for missed FERS Supplement payments, and then continuing monthly

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A Look at the Numbers

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Case Study



- » Mike is a Regular FERS
- » Married to Mary
- » Current age: 59
- » Retirement age: 60
- » Service years: 30
- » Ending salary: \$103,011

How does his <u>last paycheck</u> compare to his first retirement check?

FERS Pension

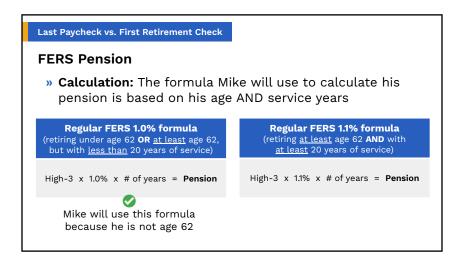
» Mike's details:

- Employee type: Regular

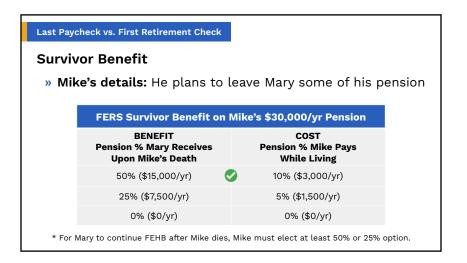
- Retirement Age: **60**

- Service years: 30









FERS Supplement

» Calculation: The formula Mike will use will be based on his estimated Social Security & years of FERS service

Special Retirement Supplement Formula

SS benefit at age 62 x (# years of FERS service ÷ 40) = Benefit

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FERS Supplement

- » Mike's details:
 - Estimated Social Security Amount (Age 62): \$1,200/mo
 - Years of FERS service (excluding military service): 26

Mike's Supplement

30 years service (4 military) & monthly SS benefit at age 62 of \$1,200

$$1,200 \times (26 \div 40) = 780/mo$$



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Social Security

» Calculation: Mike's Social Security (SS) is based on his highest 35 years of earnings while contributing to SS

Mike's Social Security Statement					
Age 62	\$1,200/mo	Age 67	\$1,714/mo		
Age 63	\$1,286/mo	Age 68	\$1,851/mo		
Age 64	\$1,371/mo	Age 69	\$1,988/mo		
Age 65	\$1,485/mo	Age 70	\$2,125/mo		
Age 66	\$1,600/mo				

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Federal Employees Group Life Insurance

- » Mike's details:
 - He <u>currently</u> has FEGLI Basic, A, and Bx5

Mike's FEGLI	Amount	Cost
Basic Coverage	\$106,000	\$36.75/mo
Option A Coverage	\$10,000	\$3.90/mo
Option B Coverage	\$520,000	\$202.80/mo

Federal Employees Group Life Insurance

- » Mike's details:
 - He can choose how much FEGLI to keep in retirement

Mike's FEGLI	Amount	Choices
Basic Coverage	\$106,000	Keep 100% Keep 50% Keep 25%
Option A Coverage	\$10,000	Keep 25%
Option B Coverage	\$520,000	Keep 100%

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Federal Employees Health Benefits

- » Mike's details:
 - He <u>currently</u> has BCBS, Standard, Self + One

	Blue Cross Blue Shield 2025	Monthly Premium	Annual Premium
	(104) Standard Self-Only	\$378.76	\$4,545.12
	(105) Standard Self + Family	\$920.07	\$11,040.84
Ø	(106) Standard Self + One	\$832.31	\$9,987.72
	(111) Basic Self-Only	\$245.18	\$2,942.16
	(112) Basic Self + Family	\$657.82	\$7,893.84
	(113) Basic Self + One	\$593.97	\$7,127.64

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Federal Long Term Care Insurance

- » Mike's details:
 - He doesn't currently have this benefit, and it is not currently available through OPM since the program has been suspended since December 2022

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Thrift Savings Plan

- » Mike's details:
 - Mike is currently contributing \$31,000/year to the Traditional TSP (with a balance of \$500,000), but knows that he's not allowed to contribute once he is retired

The Comparison



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Last Year of Work (age 59) vs. First Year of Retirement (age 60)			
Last Year of Work	Income/Expense	First Year of Retirement	
\$103,011	Salary	\$0	
\$0	Pension	\$30,000	
\$0	Special Retirement Supplement	\$9,360	
- \$6,966	Federal Tax (24% MFJ)	- \$3,886	
- \$3,101	State Tax (flat 5%)	- \$1,818	
- \$7,116	Social Security (6.2%) & Medicare Tax (1.45%)	\$0	
- \$824	FERS Contributions (0.8%)	\$0	
- \$31,000	TSP Contribution (Traditional)	\$0	
- \$2,921	Life Insurance (FEGLI)	- \$8,713	
- \$9,987	Health Insurance (FEHB)	- \$10,552	
\$0	Survivor Benefit Plan (SBP)	- \$3,000	
\$41,095	INITIAL TAKE HOME PAY	\$11,391	

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Addressing the Income Shortfall

- » How does he try to fill the gap of \$29,704?
 - Lower their standard of living?
 - Use savings (cash)?
 - Control the expenses?
 - Work longer?
 - Get another job?
 - Take from the Traditional TSP?

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What's Missing?

- » We have NOT accounted for:
 - Long Term Care (cost varies for insurance and care)
 - Medicare Part B at age 65 (\$2,220/yr per person in 2025)
 - Unexpected expenses (ex: major repairs or medical bills)
 - Inflation (causing the cost of living to go up)
 - Loss of income when spouse stops working
 - Any of the fun things they wish to do in retirement
 - How long it will take OPM to get everything straight



Lots of **Decisions**

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Some Observations

- » Some of these numbers are pretty set (and others can be changed based on decisions you make)
- » Figure out your numbers NOW (don't guess)
- » Avoid surprises in retirement
- » Identify decisions that need to be made today, to give you better control in the future
- » Where do you get this help? (hint: it is not HR, a cool Facebook page, or your friend in the office)

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"When you know your numbers, your decisions become more obvious"

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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



