The FERSGUIDE

Retirement Benefits Guide for FERS Employees and Annuitants

2018 Edition
(updated 2017.12.1)

FERSGUIDE
Retirement Benefits
Divorce Services

FERSGUIDE

FERS Employees and Annuitants

Thank you for reading the FERSGUIDE. I've provided this in-depth comprehensive retirement-benefits guide for over 20 years and have answered thousands of questions from subscribers. This guide has always been a labor of love for me, something that I passionately enjoy and believe in. To that end, this year I expanded it again, adding 16 pages; with the guide now at 130 pages and with additional hyperlinks and examples. My gratitude to Bob White for authoring and updating the Social Security and Medicare section of the guide.

Beginning in December 2014, I started charging for the FERSGUIDE (via PDF on my website) and accompanying subscription to the FERSGUIDE website. You can purchase your copy for $15 at *https://fersguide.com* by subscribing to the website. If you have a copy of this publication, and you are *not* a paid FERSGUIDE subscriber, please consider visiting the website and becoming a subscriber, as the guide is no longer a free resource. I've tried to make the cost reasonable in order to encourage subscription participation.

Purchasing the FERSGUIDE is as simple as clicking the "**JOIN NOW**" banner on the website and using your credit card. During the payment process, you will create a username and password, and these credentials will allow you to log into the website and download the FERSGUIDE in PDF format and unlock other website content, including PowerPoints and other resources. If you are not comfortable using your credit card on the Internet, just drop a check in the mail to FERSGUIDE, LLC, to the address on the website homepage and I'll enter your subscription for you (be sure to include your email address).

Your 2018 subscription will entitle you to updates of the 2018 guide throughout the guide-year (which ends on 11/30/2018), monthly newsletters and the opportunity to ask questions of me. I only answer questions now that come from paid subscribers.

It remains my goal to educate new FERS employees about retirement benefits so that they will be well-prepared and able to retire sooner than originally planned. New employees can receive their first-year subscription for free—just email ***newhires@fersguide.com*** with your request and provide your name and EOD date.

Warm regards,
Dan Jamison, CPA
FERSGUIDE, LLC

FERSGUIDE

FERS Employees and Annuitants

2018 Edition (v.2017.12.1)

Table of Contents – Click on the Subject

I. What Are the Major Federal Tax Law Changes for the 2018 Tax Year?

There were the usual inflation-adjustment changes for the 2018 tax year and we are in the 7th year of the 39.6% tax bracket for taxable incomes over $480,050, compliments of the American Taxpayer Relief Act of 2012. Key among the 2018 changes:

Personal exemption rises by $100 to **$4,150**
Standard deduction for Married Filing Jointly (MFJ) rises $300 to **$13,000**
Standard deduction for Single taxpayers rises $150 to **$6,500**
Child tax credit remains **$1,000** per child
Annual exclusion for gifts remains increases by $1,000 to **$15,000**

The Roth IRA contribution limit remains at $**5,500** ($**6,500** if over age 50) and phases out at $189,000 - $199,000 for MFJ. No contribution is allowed if the MFJ taxable income exceeds $199,000. For single filers, the phase-out range is $120,000 - $135,000 (up $2,000 from 2017). The TSP annual contribution increases $500 to $**18,500** and the TSP Catch-Up contribution limit stays at $**6,000**.

The 2018 tax rate brackets have been inflation-adjusted, which is indicated in the following table for MFJ returns:

Bracket	Tax Is This Amount Plus This Percentage...	...of the Amount Over
$0 to $19,050	$0 plus 10%	$0
$19,050 to $77,400	$1,905 plus 15%	$19,050
$77,400 to $156,150	$10,657.50 plus 25%	$77,400
$156,150 to $237,950	$30,345 plus 28%	$156,150
$237,950 to $424,950	$53,249 plus 33%	$237,950
$424,950 to $480,050	$114,959 plus 35%	$424,950
above $480,050	$134,244 plus 39.6%	$480,050

For details on many 2018 tax law changes, see ***IRS Revenue Procedure 2017-58***.

Keep in mind, this is not an all-inclusive or definitive list of tax rates and benefits. Many tax benefits now have phase-out levels, so for many dual-income couples or highly compensated Single filers, benefits like the personal exemption and standard deduction may be completely or partially eliminated.

II. FERS Annuity Benefits

A. Proposed Reductions to Federal Retirement Benefits

2017 was a crazy and tumultuous year for proposals to eliminate or reduce federal retirement benefits. We had proposals coming from all over the place, the Administration, the House Budget, the Republican Study Committee and others. These proposals included (in no particular order):

1) Eliminating COLAs for current and retired FERS employees,
2) Reducing the CSRS COLA by .5%,
3) Eliminating the Retiree Annuity Supplement (RAS),
4) Increasing FERS contribution rates,
5) Lowering the return of the TSP G fund to mirror a money market account,
6) Capping the government's FEHBP rate of contribution increase to the COLA, and
7) Using a High-5 in place of the current High-3.

I've been at this for over 20 years, and I've never seen folks so panicked, and rightfully so. Rumors were rampant about the implementation of these cuts and whether one could escape the cuts by retiring before the start of the fiscal year or before the start of the calendar year. Turns out, by the House adopting the Senate version of the budget, it all went away for now. We've essentially "kicked the can" until the next budget cycle. How many more times will federal employees and annuitants luck out?

By far, the worst of the proposals from a financial impact was the elimination of the COLA. After that was the elimination of the RAS, followed by higher contribution rates.

I think the Congressional Budget Office (CBO) ***report*** issued in August 2017, gives us a look into what the future looks like for new hires. I highly recommend reviewing this report using the link above. It is very well written and provides a good backdrop for discussion of this matter. Just as CSRS gave way to FERS in 1984, FERS may give way to a new defined contribution plan. The CBO report analyzed five scenarios:

1) Increase pension contribution rates for some employees,
2) Decrease pension contribution rates for some employees,
3) Change the pension formula to a High-5,
4) Eliminate pension, increase Government's TSP contribution to a maximum of 15%,
5) Eliminate pension, increase Government's TSP contribution to 10%.

The interesting thing about the CBO report is that they do not make recommendations. They just gather, analyze and present facts to Congress. This report not only looked at the

It is also possible to buy back *active-duty* military time and still receive credit for that time in the calculation of your military *reserve-retirement* annuity. If you expect to receive a military retirement that is based primarily upon your reserve-component time, then you may purchase your active duty time into FERS. For example, a person with 4 years of active-duty military service and 16 years of reserve service would be able to purchase the 4 years of active-duty time into FERS. Generally, reserve time can't be purchased into FERS, but you can purchase your *active-component* reserve time when you received orders, such as AT, deployments or other activations any time you have orders.

Here's a good link for more information on how military buy-back works and the DFAS page includes a tool for estimating the cost: **DFAS–Military Deposits**.

The value and benefit of buying your military time as quickly as possible cannot be emphasized enough. Here is an example from an actual employee: While in college, the employee was on a work-study program and was employed by the U.S. Department of Veterans Affairs (VA) for 4 years. Then he went to law school and joined the Marine Corps for 10 years. He later joined federal service as a FERS employee in 1995 and purchased a total of 4 years from the VA and 10 years from the Marine Corps for a total of $10,000 in 1997 while still inside the grace period. When this employee retires, his annuity will be about $77,000. Without those 14 years purchased with the $10,000 investment, his annuity would have been $50,050, a reduction of $26,950 per year. He will earn back the amount of the service deposit after his first 5 months of retirement. Of course, we have ignored the time value of money, but clearly, one can see what a great investment the $10,000 was for him.

Although I am discussing military-time purchases on retirements that are based primarily upon reserve service, you can also buy in your military service if you had an entire active duty career. There's a myth out there that the military pension stops after it is purchased into FERS. Not true—it will continue to be paid to you until you retire.

2. USERRA–Uniformed Services Employment and Reemployment Rights Act

What's been discussed so far is making a deposit for military service that was completed *prior* to becoming a federal civilian employee. What about those folks who remain in the reserves and are activated *while* they serve as a federal civilian employee? That's where the USERRA law comes into play. USERRA was signed into law on October 13, 1994. USERRA clarifies and strengthens the Veterans' Reemployment Rights (VRR) Statute. The Act itself can be found in the ***United States Code at Chapter 43, Part III, Title 38***.

Let's imagine you are a member of the U.S. Army Reserves, and let's suppose you hired on at age 25 and planned to retire at age 57 with 32 years. You're activated and deployed to Afghanistan for one year. You are away from your position for a full year on military leave.

delivery mistake by the USPS. If this happens, contact OPM, submit an earnings survey and your RAS should be restored. While on the topic of OPM's online services, all annuitants **must** log into ***OPM's Services Online*** **at least** one time every 6 months or the account will be deactivated. One of my subscribers just went through this—it took 50 auto redials to get through to OPM, 48 additional minutes on "HOLD" and then he had to wait 24 hours to use the temporary password due to OPM's rules. It is much easier just to log in semiannually.

I still receive more questions about the RAS than any other topic in this guide. Here's a real-life RAS example graciously shared by a FERSGUIDE subscriber. This person retired January 2013 at age 55. He turned 56 (his MRA) in January 2014. He received the 2014 Annuity Supplement Earnings Report, dated April 30, 2015, in the mail in May 2015. He completed the form and faxed it back to OPM, indicating an income well in excess of the phase-out amount. Since his birthday is in January, he had to report most all of the earned income for the year. He then called OPM and inquired about what would happen. He was told that his RAS would stop on July 1, 2015, because of his 2014 earnings. He also asked the OPM representative if he owed any part of the RAS back to OPM as an overpayment, to which the OPM representative stated, "No." I hope this example will help illustrate the reporting mechanics of the RAS.

Your RAS benefit can be ***estimated*** by dividing the number of whole years (rounded down to the nearest whole year) of your creditable ***civilian*** (purchased military time does **not** count, unless it is USERRA time, then count it) FERS service by 40, and multiplying that by the benefit the SSA calculates to be payable to you at age 62.

OPM will calculate the RAS with its own complicated method, but this estimate will get you very close to OPM's calculated amount. For many, the amount they receive ends up being around $11,000-$13,000 annually, but you can perform your own estimate using your annual statement from the SSA. For example, if you retire under FERS with 25 years of service, your RAS would be approximately 25/40ths of your computed SSA benefit at age 62, as listed on your SSA statement. The SSA has restarted mailing SSA statements to certain groups based on age. You should also apply for an ***online account with SSA*** so you can print out a statement to determine your benefit. After I created my SSA account 3 years ago, I discovered that one of my Form W-2s related to my government-paid move was not included in my credited Social Security wages, so you may also be able to quickly correct these types of errors as well.

We do not receive a COLA on the RAS. See ***Chapter 51 of the CSRS and FERS Handbook***. Look at the bottom of page 16, where it says, "The retiree annuity supplement is not increased by cost-of-living adjustments (COLAs)."

Hopefully, running through a calculation example will be helpful. Let's calculate my estimated RAS using my retirement date of December 13, 2013. I had 21 years and 3 months of service credit. Since OPM only uses whole years of service in the RAS calculation, I used 21

Remember, service credit for unused sick leave is added to service credit from employment to yield a combined total service credit. OPM only counts *whole* years and *whole* months in your final service credit retirement calculation. For example, if you had the following service credits:

	Example 1			Example 2		
	Years	Months	Days	Years	Months	Days
Service Credit	22	5	16	22	5	16
Military Purchase	3	2	2	3	2	2
Unused Sick Leave		2	**6**		2	**12**
Total Service Credit	25	9	24	25	9	30
Service Credit Used for Retirement Calculation	25	9	**0**	25	**10**	0

In Example 1, the credit for the 6 days of sick leave, 2 days of military buy-back and 16 days of service credit (24 days total) were lost due to OPM only giving credit for *whole* months. In Example 2, the 12 days of unused sick leave give the employee 30 days in the "days" column, which will add another month to the service credit length. In this example, with a High-3 of $90,000, each additional month of credit (.0833%) is worth about $75 per year, or about $6 per month.

If you're sick—stay home—you'd likely end up with no credit for some portion of your unused sick leave anyway. I get a lot of emails asking if annual leave should be used instead of sick leave. My take on this issue remains the same—if you're on vacation take annual leave. If you're sick, use sick leave. Don't try to manage it until your final year of employment—just let the credit fall where it lands, until you are closer to retirement. As I stated above, some portion would probably end up being forfeited anyway.

In the above example, those 6 days of unused sick leave and 2 days of military buy-back are of no use to you in your retirement annuity calculation, and neither are the 16 days of service credit. That's 24 days that do not benefit your retirement annuity at all. Now, let's convert those 24 calendar days back to work days (24 x 5.8)/8=17 ***or*** 24 x .725 = 17.4. This means that in this example, you *could* take 17 additional days of sick leave and your annuity would be unchanged. That's something to consider as you close out your last few months of service. I am not advocating fraud by any means, but if you've been putting off knee surgery or that dreaded age-50 colonoscopy, why not consider doing it before you retire if you have "extra" sick days? My sick leave balance at my retirement was 0.0 hours.

The following points should be noted when thinking about phased retirement:

- Phased retirement is only available with agency approval and a 50% work schedule. Keep in mind that this is a management tool, not an employee right.
- Employees are considered part time for earning leave and for pay.
- FEHBP remains just as it would for a full-time employee.
- FEGLI will maintain a value of your full rate of pay.
- Employee must have been full time for the 3 years preceding entering phased retirement.
- Annuity will be approximately one-half of what it would have been without credit given for unused sick leave until fully retired.
- No Retiree Annuity Supplement is payable until fully retired.
- Phased retirement is only available for FERS employees that could have retired under a voluntary retirement at their MRA with 30 or more years of service, or age 50 with at least 20 years of service.
- CSRS employees must be eligible to retire with 55 years and 30 years of service or age 60 with 20 years of service.
- Agencies are required to establish written criteria to approve or disapprove applications for phased retirement.

The way I understand it, retirement benefits will be calculated like this example. Suppose you enter phased retirement at age 57 with 30 years of service with a High-3 of $100,000. Your phased retirement pension would be $30,000 x 50% = $15,000. Let's suppose in phased retirement, your salary increases to $105,000 for 2 years. You would collect 50% of that salary in phased retirement along with 50% of your annuity. When you finally full retire, you would then receive (2% x $105,000) x 50% added to your actual retirement annuity of $30,000. When you finally fully retire, you will then receive credit for your unused sick leave. It's a convoluted formula, but suffice it to say, you will receive credit for unused sick leave.

M. What Happens If I Die before I Am Eligible for Retirement?

OPM "retires you" on the day before your death. The deceased employee must have had *at least 10 years of creditable service* for a monthly spousal annuity to be paid upon death. For example, if a FERS participant has 15 years of service and were to die as an onboard employee, the following computation would apply, assuming a High-3 of $75,000:

15 years x 1% = 15%
15% x $75,000 = $11,250 earned annual annuity
$11,250 x 50% = $5,625 annual annuity paid to surviving spouse at $468 monthly

earnings or self-employment to see if your earning capacity has been restored. You are permitted to earn income while on a disability retirement, but it can't exceed 80% of the current rate of pay for the position occupied immediately before retirement. Remember, the SSDI earnings limit is significantly lower than the OPM earnings limit, so it's possible to lose SSDI from earning over the SSDI limit, but retain OPM benefits because you're under its limit.

Let's explore this relationship between SSDI payments and OPM a little deeper, as I have observed many folks have their income drastically reduced when they become employed after retiring on a disability annuity. SSA has a term called "Substantial Gainful Activity," or SGA. For 2018, that amount is $1,180 per month, or $14,160 annually. That means if you were to obtain a $30,000 per year job as a disability annuitant, and also happen to be collecting a $2,000 SSDI payment, then SSA is going to stop paying the SSDI due to your earnings exceeding the established SGA level. OPM would have been coordinating benefits on that $2,000 payment, lowering your OPM-paid annuity by 60% of $2,000, or $1,200. Just because SSA stopped paying you your $2,000 per month SSDI payment, OPM will NOT stop coordinating benefits! OPM will continue to short you $1,200 a month, so you've effectively lost your $24,000 annual SSDI payment because you took a $30,000 a year job. Think long and hard before you decide to reenter the workforce if you are collecting SSDI.

Depending on what your post-disability-retirement plans are, you may be better off being denied SSDI and not appealing that decision. If you take a disability retirement and never plan to work again, then, of course, you will fight hard to get approved for SSDI because you will collect more per month because OPM only coordinates benefits on 60% of your SSDI payment; meaning that you get to keep the other 40% of the SSDI payment. But, suppose you plan to reenter the workforce and earn 80% of your former wage. You'd be much better off having applied to SSA for SSDI and being denied. Then, you can take your high-paying job and all you lose out on is the 40% after the coordination of benefits, rather than the 100% loss of SSDI benefits. The only earnings limit you will have to worry about is OPM's 80% limitation. If your children are receiving SSDI benefits as result of your disability, OPM will not coordinate benefits on the payments to the children.

The underlying rules governing a disability retirement are contained in ***Chapter 60*** of the CSRS and FERS Handbook. If you are considering a disability retirement, you may wish to review this material.

OPM can grant a disability retirement regardless of whether the SSA approves you as disabled initially or on subsequent attempts. The only difference is that if you receive SSDI, a portion of that payment is netted out against the amount OPM pays you. If the SSA deems you disabled, you will net a little more every month between the 2 income sources, as explained later.

FERS disability-retirement annuitants will **not** receive the Retiree Annuity Supplement (RAS) in addition to their disability-based retirement annuity. If you are eligible to retire under a standard immediate voluntary annuity by meeting the age and service requirements, then you can

Those of you paid by DFAS or GSA should have $712 deducted per pay period to hit $18,500 by the 26th pay date.

Note my use of the term "pay date" and not "pay period." There are still 26 pay periods at the NFC, despite having 27 pay dates. For TSP and IRS W2 purposes, we go by pay dates.

In **each** pay period, you must contribute 5% of your gross wages in order to get the full 4% matching from the government, which is why it is important to adjust contributions annually. For example, if you hit the $18,500 deferral cap by November 1, you could lose out on 2 months' worth of matching contributions from the government.

For example, let's assume your salary is $90,000. That's approximately $3,462 per pay period. Let's also assume you did not correct the "frontloading" of your TSP contributions and you hit the $18,500 contribution limit in pay period 22 of 2018 because you have your TSP set up to contribute 23% of your pay instead of a discrete dollar amount. That means you will receive no government matching funds for pay periods 23, 24 and 25 (pay period 25 of 2018 counts for the TSP limit in 2018). In this example, our employee potentially missed out on 4% of $3,462 for 3 pay periods.

Only use a percentage of your salary as a contribution selector if you just plan to make a 5% contribution to ensure the full match. If you are contributing more than 5%, **STOP USING PERCENTAGES** and convert your contribution to a discrete dollar amount so you can set goals for yourself and make sure you don't go over the maximum annual contribution before the last pay date of the year. If your goal is $686 or $712 per pay period, it's easier to see what you need to do when you know you're contributing $400 per pay period rather than "7% of my pay."

Until you reach the maximum, consider increasing your contribution each year by funding it with your January pay increase or your step increase (a step increase is approximately 3%) until you're at the maximum. You'll never notice it because your paycheck will not be going down at all and you "magically" lived all of last year without that raise. This is another good reason to stop using percentages. When you get a step increase (3%), consider splitting that with the TSP and increasing your contribution by an amount equal to 1.5% of your pay and keep the rest for yourself. Once you get to the maximum, the pain stops as increases beyond the current annual maximum are usually small, such as $500 annually, which is less than $20 a pay period. **If you take nothing else away from this guide, please remember the TSP is the key to a good retirement and the earlier you get to the maximum, the better your retirement will be**.

To make your changes to the TSP, go to your payroll center website and make the changes using the self-service option. The process differs by payroll center website. If pay period 25 (for the NFC) has already passed by and you'd like to compute the amount that you should have deducted henceforth to make the maximum $18,500 annual contribution, here's the formula:

N. What Are My TSP Withdrawal Options When I Retire?

Upon retirement, you have 5 options with your TSP account:

1) **Do nothing**. If you choose this path, at age 70½, you will be required by the IRS to take required minimum distributions (RMDs).

2) **Transfer the entire account balance out of the TSP to an IRA**. If you select this, you can invest in a wider array of investment options and either manage your own money or hire a professional. (Most of us think of this as a "rollover," but TSP nomenclature calls it a "transfer.") (See my earlier section on the "workaround" ***here***.)

3) **Use your account balance to purchase an annuity through the TSP**. My research indicates less than 1% of TSP participants choose this option.

4) **Request an amount to be paid to you monthly**. If you worked until your 55th year, you choose the monthly amount.

5) **Request a one-time partial disbursement**. (Can be done in conjunction with any of the above). Note that you must exercise this option *before* you elect to begin your monthly payments, or concurrently on the same Form TSP-70. Unless you retired in your 50th year or later, a penalty of 10% will apply.

   Be careful when you want to make a partial withdrawal and start monthly withdrawals.

   Either:

   1) Send in the TSP-77 first, and wait for it to be processed and disbursed before sending in the TSP-70, or
   2) Conduct both transactions on the TSP-70, but be very careful with the percentages in Section IV.

For example, if you have a $500,000 account balance and want a $100,000 single payment and the remainder to be disbursed as monthly payments, you indicate 20% of the account balance for the single payment and 80% for the monthly payments. The TSP has a 25-page booklet at ***Withdrawing Your TSP Account*** that further describes your withdrawal options.

Option 5 has become increasingly popular with retired participants. Many folks want more investment options and professional account management, which you can't get at the TSP. Suppose you are eligible for penalty-free access and you retire at age 57. It will be 2½ years until you are age 59½. You have an account balance of $500,000 and desire to receive $1,000

3. FERS Annuity Division in Divorce:

FERS benefits are governed solely by Title 5, United States Code (USC), which makes it very different from a defined-benefit pension plan at a private, state or municipal plan. The most notable difference is that under Title 5, no monies can be court-ordered to be paid by OPM to your former spouse until you *actually* retire, unless you leave federal service and request a refund of contributions. If you were in a private plan, which is governed by ERISA (Employee Retirement Income Security Act), court-ordered monies can be ordered to be paid to your former spouse when you are *eligible* to retire, not when you *actually* retire. In any plans, a lump-sum amount can also be paid at any time upon receipt of the proper court order.

If you were to *never* retire from federal service, then no monies will ever be paid to your former spouse by OPM pursuant to a court order. Talk about a game of *Survivor*! If you die while still working at 80 years old, you will never have to pay; but the real odds are that you will retire, and if you do, then your FERS annuity is subject to a divorce decree or order that divides the annuity.

Your FERS annuity is paid to you after retirement by OPM, and it's OPM that will process any court order that administers your annuity as a result of divorce. Court orders received and accepted by OPM are referred to as Court Orders Acceptable for Processing, or COAPs. An ERISA-governed plan uses a court order called a Qualified Domestic Relations Order (QDRO) to divide marital property. OPM will not accept a QDRO, as these are related to ERISA-governed plans, unless it has specific language that states it complies with Title 5, Code of Federal Regulations (CFR) Part 838, and the terminology therein. It is crucial that when and if you hire an attorney to handle your divorce, he or she understand these differences.

OPM is very flexible about how a COAP can pay benefits to a former spouse. As long as the information needed to determine the amount payable to the former spouse is contained within the 4 corners of the COAP, and the request is not contrary to law, OPM will follow the COAP.

For example, a COAP could direct OPM to pay a former spouse based upon a:

1) Simple prorata share based upon the length of the marriage;
2) Discrete dollar amount per month;
3) Percentage of the annuity payable, or
4) Formula that is clearly explained within the COAP.

For example, in a prorata award to a former spouse, OPM will pay out a portion of the FERS annuity to a former spouse that is based upon the percentage that the period of marriage overlapped with the federal career. Normally, the maximum spousal share will not exceed 50% of the total annuity. For a *simple* example, suppose you were married for 20 years (240 months) of your 25-year (300-month) federal career. Your marriage and career length can be turned into

But, if you would be turning 50 in the year which starts after 12/31, you may want to work at least a day in the year that you turn 50 if you *need* complete penalty-free access to your TSP under H.R. 2146.

OPM Leave Year Dates

Calendar Year		Leave Year Ends on:
2017		January 6, 2018
2018		January 5, 2019
2019		January 4, 2020
2020		January 2, 2021
2021+		Not Yet Released by OPM

By working at least one day into the following year, but staying within the leave year, you will accomplish 3 things:

1) You will be able to cash out your annual leave, including leave accrued in excess of 240 hours;
2) You will have satisfied the IRS that you were in your 50^{th} year at retirement, thus making you eligible for penalty-free TSP access under H.R. 2146; and
3) Your annuity will not start until 2/1, and you will not receive pay from the day you retire until 2/1.

In the example above, the question becomes, "what is it costing me in regard to my missed annuity to get access to my TSP at 50?" In this example, assume you retired 1/5. In rough terms, you'd get 5 days of regular pay and no FERS annuity pay for January. That works out to about a $3,500 cost for penalty-free TSP access.

Another scenario could be that you only have 240 hours of leave, so you smartly retire on 1/31. By retiring on 1/31, you accomplish the following:

1) You will still be able to cash out your annual leave, including annual leave earned in the new leave year;
2) You will have satisfied the IRS that you were in your 50^{th} year at retirement, thus making you eligible for penalty-free TSP access; and
3) Your annuity starts on 2/1, so you are never out of pay status.

H. College Savings Accounts

Not directly related to retirement, but a well-funded college savings account will make your retirement less stressful. The number one reason cited to me when I ask my subscribers why they aren't retiring at their earliest eligibility date, is "***I can't retire, I have to pay for my kids' college education(s)***." Even $50 per month, invested for 18 years at a return of 7% will amount to $21,500. Increase that to $100 per month and you're up to $43,072. Consider the maximum allowable contribution of $166 per month to a Coverdell ESA, and after 18 years at 7%, you'd have $71,500 available. Should one child receive a scholarship, the funds in their Coverdell ESA can be used for siblings. Coverdell ESAs allow contributions of up to $2,000 per year per-child, but contribution limits begin to phase in at $190,000 of Modified Adjusted Gross Income (MAGI) for married taxpayers, and the contribution is completely phased out by $220,000 of MAGI. For single taxpayers, use one half of the married amounts.

Don't let some slick salesman tell you that Coverdell ESAs are no good and that you should be in a 529 plan (believe me, he or she will). As long as your income doesn't cause you to phase out and the most you have to invest is $2,000 or less per year, per child, you can't beat a Coverdell ESA. 529 accounts typically have higher fees, including fees for the state that sponsored the plan. As a result of the passage of the American Taxpayer Relief Act of 2012 (P.L. 112-240), the Coverdell ESA has been made permanent.

There is one "trick" to the Coverdell ESA. Contributions must be made to the account **before** the beneficiary turns 18 years of age. Many high school seniors will turn age 18 before graduation, so be sure to schedule your contributions accordingly. For example, my oldest son will turn 18 in November 2017, so I have to alter my 2017 monthly contributions from $2,000/12 months ($166.66) to $2,000/11 months ($181.81). After November 2017, I am no longer allowed to contribute to his Coverdell ESA.

While on the topic of saving for college, look for an expansion of this section in my mid-year update in June 2018. I have hired a "college-planning specialist" to assist me as my high school junior prepares for college, so that I can share that experience and knowledge about the process with my subscribers. This service is comprehensive, and it includes SAT/ACT preparation, planning for payment of expenses, narrowing down best fit schools, assistance with the FAFSA and CSS applications, review of aid offers, and related matters. Rather than try to figure this out on my own, I thought it best to hire an experienced planner here in the Richmond, Virginia, area. At this point, all I have to report is that my son has prepared for and taken the SAT and ACT, and we've had a couple of meetings on funding college. Since I have the Coverdell ESAs, we are reasonably well prepared for in-state tuition. Stay tuned for updates.

E. Life Insurance

In my opinion, the primary purpose of life insurance is to provide for others in the event of your untimely demise. For many people, life insurance is not necessary because they have no child, spouse, parent, sibling or other relation that relies on them for support. For others, it is a very real need. Folks with children to provide for must have life insurance to provide for expenses associated with raising the child and supporting the homestead expenses, and possibly secondary education. If you have children and do not have life insurance, **START TODAY** with the process. Your insurance salesperson can assist you with determining the proper level of insurance needed to provide for those who depend on you. Consider the need to insure your spouse, especially if he or she are the primary caregiver to the children, as you would likely need to hire a care provider if your spouse were to pass away.

I prefer term life insurance policies. Once you get your children into or through college, the combined value of your TSP funds, investment accounts and home equity will likely rise to a high enough level to support your spouse if you die. Consider 20-year or 25-year term life insurance at the time your children are born. I like to keep my insurance separate from my investments. There are variations of life insurance, such as "Whole Life" and "Universal Life" that combine the insurance and investment components.

Many of you have FEGLI policies paid through payroll deduction. In my opinion, FEGLI is terribly overpriced insurance for the young and healthy, and accepts everyone with no medical underwriting and allows pre-existing conditions, which is why it is so expensive. If you are young and in reasonably good health, you might be able to obtain about twice the amount of coverage for the same price through SelectQuote at ***www.selectquote.com***, WAEPA at ***http://waepa.org*** or another reputable company. Never cancel an existing insurance policy until you have obtained replacement coverage. I've received numerous emails from those who replaced their FEGLI coverage and obtained the same level of coverage for up to half of the amount they were previously paying for FEGLI, or doubled their benefit for the same premium. **<u>You will be shocked when you see how much your life insurance is really costing you through FEGLI on a "dollars per thousand of coverage" metric.</u>** See my separate section on FEGLI ***here***.

F. Short-Term Disability Insurance

Short-term disability insurance is designed to replace your income when you are sick or hurt in a nonwork-related incident. After a designated waiting period (typically 90 days or about 522 hours of sick leave), your short-term disability insurance will kick in and replace your income until you get better and can return to work. They key concept here is that you are *going to get better and return to work*. If you didn't have short-term disability insurance and became unable to work, what would you do when your sick leave and annual leave both run out? Your reduction for starting benefits at age 62 grew over the next years to an additional 5% at age 62. A person turning 62 in 2005 through 2016 was eligible at age 62 for a Social Security retirement benefit that is 75% of his or her full benefit, whereas those who drew benefits at age 62 in 1999, or any time before, received 80% of their full benefit.

The reduction is growing again for those born in 1955 or after, culminating for those born in 1960 and after with the benefit reduction at age 62 increasing from 25% to 30%. The person born in 1955 who applies for reduced retirement benefits at age 62 will receive 74.17% of his or her full 100% benefit, which is now payable at age 66 and 2 months. The person born in 1960 who applies for reduced retirement benefits at age 62 will receive 70% of his or her full 100% benefit, which is payable at age 67.

The following Social Security chart shows the increase in full retirement age, the benefit reduction percentage at age 62 by year of birth and how much of a $1,000 benefit would be payable at age 62.

$48,000 in the months from January through August 2018 and another $20,000 in September through December, your yearly earnings would be $68,000. Social Security subtracts the exempt amount, $45,360, from your earnings through August, $48,000, resulting in an excess of $2640. Applying the $1 for every $3 test, $880 must be withheld from your payable yearly benefits.

The third part of the retirement test is the retirement test ends effective with the month prior to the month in which you turn full retirement age. If you were born on the first of the month, you are considered to have attained your age on the day before so your retirement test would end the prior month. Continuing our example from above, if you turn age 66 on September 29, 2018, the retirement test ends August 31st. In other words, you can earn any amount of wages or self-employment income starting in September 2018 and still receive your full Social Security benefits. In the example above, Social Security does not care about the $20,000 earned in September through December 2018 for retirement test purposes. Social Security will also not care about your future earnings as these earnings are after your full retirement age, which is the ending point for the retirement test.

F. Retirement Earnings Test–Advanced Information and Considerations

The Social Security retirement test sets a limit on earnings for those who file for benefits before their full retirement age of 66 (and advancing to 67). Many categorize this as a penalty or as "working for half-wages," since you lose Social Security benefits when you exceed the annual limit of $17,040. You lose $1 of benefits for every $2 of earnings over the $17,040 limit. In the example above, earning $18,000 in 2018 resulted in a 1-month benefit reduction of $480 for the excess $960 of wages, so it does appear there is a penalty of $480 that reduces the excess wages to half wages. There is, however, another consideration of the penalty that may surprise you.

When you apply for benefits prior to your full retirement age, age 66 for those born 1943-1954, Social Security reduces your 100% full retirement age benefit downward based upon the number of months you want benefits prior to your full retirement age. For example, your full retirement age is 66 and you apply for benefits starting at age 63. Your Social Security benefit is reduced based upon you receiving 36 full monthly benefit checks prior to full retirement age. This reduction would reduce your benefit by 20%. In this example, you have 36 reduction months that determines your reduction factor, which determines the amount of your reduced benefit. If you applied at 62 with a full retirement age of 66, you would have 48 reduction months, resulting in a 25% benefit reduction. The benefit you would be paid from your application to full retirement age would be based upon this initial computation of your benefit. Your excess earnings from age 62 through age 66 would decrease the Social Security retirement benefits paid to you.

your family maximum. As above, if your benefit at age 66 is $2,000, then the maximum payable to your family is $1,000. For example, at the time you start receiving your $2,000 Social Security retirement benefit, you have 2 minor children, 16 and 17 years of age. Each child will be paid $500 per month, splitting the maximum of $1,000 equally between the 2 children. When the 17-year-old turns 18, having already graduated high school, that child's $500 benefit stops. As there is now one child still eligible, that child's benefit will increase to $1,000 per month. When the younger child attains age 18, having also already graduated from high school, the benefit simply stops.

When you start your Social Security benefits, Social Security will also pay a child's benefit to a child of yours who is disabled, unmarried and whose disability started prior to age 22. This benefit is often a surprise to the person retiring as the disabled child is often now an adult. The disability must be one that prevents gainful work and it must be medically proven to have been in existence at a level preventing the ability to work prior to the child turning age 22. For example, a person retires in July 2018, at age 62. The person has 3 children, currently ages 32, 29, and 26. All the children are well over the age to receive benefits as a minor child or student, but the child that is 32 was born with a disability. If the disability has prevented the child from working at a substantial level from age 22 through July 2018, and the child is unmarried, and the disability is determined to be severe from age 22 to present, then the child will be eligible for Disabled Adult Child's benefits, which will commence in 2018 and continue for as long as the child is unmarried and disabled. The monthly benefit for the disabled adult child is a maximum of 50% of the worker's full benefit subject to the family maximum.

K. When Should I Apply for Social Security Benefits?

In the past, this was not a difficult question to answer. Once a person turns age 62, the earnings would dictate whether Social Security benefits were payable. The decision of when to file for Social Security retirement benefits was clear. It was when you retired or substantially reduced your earnings. Since most workers had pensions from their employers, retirement meant the beginning of their private pension and Social Security. This began to change in the 1980s when private pensions began to be replaced by 401(k) defined-contribution plans. Also, in 1981, legislation allowed Individual Retirement Accounts (IRAs) for all workers, allowing individuals tax advantages to self-fund their retirement.

Today, the answer to the question of when to apply for Social Security retirement benefits is much more complicated. There are numerous companies and websites that will sell you the answer based upon your individual circumstance and desires. There are multiple reasons for today's complexity to the question, **"**When Should I Apply for Social Security?"

championed by many as the ultimate method for high-earning couples to maximize benefits received by the couple. In 2015, Congress called the option an "unintended windfall" and this option was eliminated for anyone attaining age 62 in 2016 or thereafter. See section "2016 Filing Changes" section for details.

File and Suspend*:* This couple's strategy was based upon the Social Security regulation that allows an individual at full retirement age to voluntarily suspend their benefits in order for those benefits to increase due to Delayed Retirement Credits. Under this regulation, the worker files and then voluntarily suspends the benefits. Since the worker filed and established eligibility, benefits were payable to eligible family members, such as the spouse. In some cases, the spouse had already filed at age 62 for the reduced retirement benefits and was now able to receive additional benefits as a spouse even while the worker is not receiving benefits due to the voluntary suspension. In other cases, the spouse also wants his or her retirement benefit to increase by waiting until age 70, but at age 66 files a restricted spouse's application that starts a 50% benefit that is received until age 70. The voluntary suspension provision also allowed the worker to decide when to "unsuspend" benefits. Social Security would end the suspension automatically at age 70 but the individual could request resumption of monthly benefits at any time, including asking to be paid all past suspended benefits. The Bipartisan Budget Act of 2015 eliminated the receipt of cash benefits by dependents when the worker elects to suspend benefits. See the next section for details of the change.

N. 2016 Filing Changes

The Bipartisan Budget Act of 2015, which was signed November 2, 2015, contained a section titled, "*Closure of Unintended Loopholes*." This legislation changes the provisions of both restricted applications and voluntary suspensions upon which the file-and-suspend strategy is based.

Starting April 30, 2016**,** voluntary suspensions will continue to be available to individuals at full retirement age who want to increase their benefits due to the Delayed Retirement Credit, but the suspension will be for all benefits payable to anyone on their record. No more file-and-suspend to entitle your spouse to benefits. In addition, if a person wants to end his or her voluntary suspension, benefits will start the month after the month Social Security receives the request for resumption of benefits.

Restricted applications for spouse's benefits when the filer is also entitled to his or her own retirement benefits are eliminated for anyone who attains age 62 in any calendar year after 2015. For individuals attaining age 62 in 2016 or later, an application for spouse's benefits will be deemed to also be an application for retirement benefits, and an application for retirement benefits will be deemed to also be an application for spouse's benefits. This was the rule applied to individuals filing before full retirement age and it is now being extended to those at full retirement age for everyone born 1954 or later.

Q. Medicare

Medicare is major medical health insurance that you have been paying for in addition to Social Security, with a 1.45% payroll deduction. All of your earnings are subject to Medicare taxes, as the "wage base" only applies to OASDI (Social Security). Medicare eligibility remains at age 65. To date, that age has not increased, although there have been discussions about increasing the Medicare eligibility age. Medicare has 2 parts. Part A is Hospital Insurance, which is fully paid by your previously paid taxes. There is no premium for Part A, which primarily covers room and board in the hospital. There is a deductible for in-patient hospital stays and also coinsurance payments for stays over 60 days in a hospital. Part A of Medicare also provides coverage for skilled nursing care, home health care and hospice care.

Part B, the Supplemental Medical Insurance, is the part of Medicare that covers your doctor visits, ambulance services, emergency room visits, and preventative services such as flu shots. You elect or decline Part B. The standard Part B premium for 2018 is $134.00 per month, the same as in 2017.

Although most people with Medicare Part B pay the standard premium, a percentage pay less than the standard premium and a smaller percentage pay a higher Part B premium. The cost for Part B in 2013, 2014 and 2015 was $104.90 per month. Setting the Medicare Part B premium for 2016 became quite complicated as the cost of the program increased but there was no Social Security COLA for 2016 so there is a hold-harmless regulation that prevents the Medicare Part B premium from increasing when beneficiaries do not receive a Social Security benefit increase. Of the 53.8 million people on Medicare, the majority receive a Social Security benefit, which means they continued to pay a Medicare Part B premium of $104.90. The funding for the increase in cost of Medicare Part B fell primarily on those new to Medicare in 2016 and on the shoulders of people who have Medicare but no Social Security benefit. To reduce the premium increase, a loan was provided to Medicare in the Bipartisan Budget Act of 2015. The Medicare premium in the future will now be to both fund the Part B program and to repay the loan.

The 2016 Medicare Part B premium was set at $121.80 for those new to Medicare in 2016 and for those already entitled to Medicare but not receiving a Social Security benefit. This was determined as a monthly Part B premium of $118.80 and a $3 per month surcharge. The $3 surcharge will be applied to everyone entitled to Medicare in any year in which Social Security benefits are increased due to a COLA. The $3 per month surcharge is expected to last for 5 years. The "standard" Medicare Part B premium for 2017 was $134 per month. This is the amount that was paid by those who enrolled in Medicare Part B in 2017 and by those entitled to Medicare but are not receiving Social Security benefits. The 2017 Medicare Part B premium for about 70% with Medicare Part B was $109 as the Medicare increase could not exceed the benefit increase received from the 0.3% Social Security benefit COLA. In 2018, the Medicare standard premium remains $134 per month. This premium will now be paid by the majority of those with