The FERSGUIDE

Retirement Benefits Guide for Special Category Employees and Annuitants GS13+

2018 Edition
(updated 2017.12.1)

SS TSP FERS FERSGUIDE Retirement Benefits Divorce Services

FERSGUIDE

Special Category Employees (SCEs) GS13+

Thank you for reading the FERSGUIDE. I've provided this comprehensive retirement benefits guide for over 20 years and have answered thousands of questions from subscribers. I firmly believe there is no better guide out there for Special-Category Employees (SCEs) such as Law Enforcement Officers (LEOs), Firefighters (FF), Customs and Border Protection Officers (CPBOs), Border Patrol Agents, Air Traffic Controllers (ATCs) and other SCEs, and I take great pride in being able to make that statement. 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 added 18 pages, with the guide now at 146 pages and with additional hyperlinks and examples. I have added additional details for Foreign Service Pension System participants and for air traffic controllers. My continuing 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 the website) and the accompanying subscription to the FERSGUIDE website. You can purchase your copy for $15 at ***https://www.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 made the cost reasonable in order to encourage subscription participation.

Purchasing the FERSGUIDE is as simple as clicking the "**JOIN OR RENEW NOW**" banner on the website's homepage and using your credit card. During the payment process, you will create a username and password, and these credentials will allow you to log in to 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 with your check).

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 now only answer questions from paid subscribers.

It remains my goal to educate new SCEs 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.

Lastly, I ask all of you who are not members of the Federal Law Enforcement Officers Association (FLEOA), and are eligible to be members, to please join at ***www.fleoa.org*** or contact your FLEOA agency representative. I also urge you to join your agency-specific association(s) as well, such as the FBIAA for FBI Agents, NATCA for ATCs, AFSA for Department of State and ATFA for ATF employees. These associations perform a great deal of good for all of us behind the scenes; it's costly for them to provide this support, and your membership helps.

Warm regards,
Dan Jamison, CPA
FERSGUIDE, LLC

FERSGUIDE

Special Category Employees GS13+

2018 Edition (v.2017.12.1)

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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

C. What Is the FERS Basic Annuity?

Under the FERS SCE provisions, SCEs receive a 1.7% service credit per year for the first 20 years of service and 1% for each year of service thereafter. For example, if you worked 26 years under FERS as a SCE, you would receive (20 x 1.7%) + (6 x 1%) = 40% of your High-3. You will receive service credit for each year and each whole month of service from your combined work history, military time purchase(s), civilian service credit purchase(s) and unused sick leave. Keep in mind that CBP officers only receive the enhanced 1.7% rate on service performed after July 6, 2008 (if they opted into the SCE provisions). See the ***Unused Sick Leave*** section for an example of how your service credit time is calculated.

A paragraph only for Air Traffic Controllers (ATCs): ATCs have an additional opportunity for a potentially beneficial annuity computation called the Vision 100 provision. If an ATC is at or above their MRA with 30 years of creditable service and has at least 5 years "actively engaged in the separation and control of air traffic or as a first or second level supervisor of an ATC," he or she may elect to retire under the Vision 100 provisions. *Under the Vision 100 provision, COLAs will not be applied until age 62*. All "good time" or "ATC years" will count as 1.7% years. That means that if you qualify as an ATC under the Vision 100 provision, all of your years will count as 1.7% years, not just the first 20 years. It's basically like an MRA+30 retirement for regular FERS, but using 1.7% for all of your "good time" years. As the MRA for many employees slides from 56 to 57, it's more difficult to utilize this option, as ATCs face mandatory retirement at age 56. Suppose a person that wanted to utilize the Vision 100 provision was born in 1970. That means their MRA is age 57, yet they face mandatory retirement at age 56, and you have to be at your MRA to use the Vision 100 provision. That means at or before age 56, you will need to transfer to some other position at the agency, or another federal agency, where you can stay on as a non-ATC employee until you reach your MRA and retire under the Vision 100 provisions. As is the case with other SCE's, you do not have to be in an ATC position to retire as an ATC. Note that the commercial software packages are not programmed to calculate a Vision 100 retirement, so ATCs need to be sure to request an "enhanced calculation: from the FAA. It's best to hand write that at the top of the request form.

Your High-3 *includes* Administratively Uncontrollable Overtime (AUO) and Law Enforcement Availability Pay (LEAP) up to the 25% level and "locality-based comparability payments" (i.e., locality pay). Locality pay certainly makes your High-3 "higher," but it has no other direct effect on your retirement annuity amount. If you were in a high-locality area such as Houston or San Francisco for 3 years, the benefit of the locality pay is already built into your High-3 salary.

The High-3 for a *structural firefighter* is quite different than the High-3 for a *wildland firefighter*. The difference is in the computation of the amount of overtime pay that is includible in the High-3. This difference is driven by how your shifts are structured in a 72-hour, 60-hour or 56-hour schedule. You can find a great deal of resources at ***www.dodfire.com***, including

F. Can I Purchase Military and Civilian Service Credit?

1. Military Service Deposits

Former honorable military time is creditable under FERS, but a deposit must be made to your agency to "buy" those years of service into FERS. This time counts at the 1% per-year-of-service rate. Buying back military service time into FERS can be a complex task and should be done with the assistance of a human resources specialist at your agency. There are 2 components to this deposit:

1) A fee based upon the percentage of total military base pay; and
2) An interest charge if the service deposit is made after the 2-year grace period.

The cost of buying back the service is a set percentage (usually 3%) multiplied by your base pay earned from your military service. The applicable interest rates vary from year to year and interest charges continue to accrue on the unpaid balance until the deposit is satisfied.

For example, if you earned $100,000 in pay from military service, the approximate fee is $3,000 plus the compounded applicable annual interest charge for the years elapsed since the service was completed. If the service credit deposit is made within 2 years and 364 days of beginning employment under FERS, there is no interest charge. After retirement, you cannot buy this service credit into FERS—it is ***forever*** lost. Bottom line: Do it as soon as possible—it is a great return on a small investment if you have military time. If you buy your military time back and end up separating before you retire, at age 62 (or at your MRA if you had 20 SCE years at separation) when your FERS annuity becomes payable to you, that military time will still be paid to you in your deferred annuity.

Interest Rate on Military Service Deposits

1985	13.00%	**1998**	6.75%	**2011**	2.75%
1986	11.13%	**1999**	5.75%	**2012**	2.25%
1987	9.00%	**2000**	5.88%	**2013**	1.63%
1988	8.38%	**2001**	6.38%	**2014**	1.63%
1989	9.13%	**2002**	5.50%	**2015**	2.00%
1990	8.75%	**2003**	5.00%	**2016**	2.00%
1991	8.63%	**2004**	3.88%	**2017**	1.875%
1992	8.13%	**2005**	4.38%	**2018**	2.125%
1993	7.13%	**2006**	4.13%		
1994	6.25%	**2007**	4.88%		
1995	7.00%	**2008**	4.75%		
1996	6.88%	**2009**	3.88%		
1997	6.88%	**2010**	3.13%		

G. What Is the FERS Retiree Annuity Supplement (RAS)?

The Retiree Annuity Supplement (RAS) is unique to FERS. It is a payment from OPM ***in addition to*** the FERS basic-annuity payment. It is intended as a substitute for the Social Security portion of your complete FERS benefit package, from the date of retirement until the date the annuitant reaches age 62, the age when the annuitant becomes eligible to apply for Social Security. The RAS stops at age 62 even if the annuitant elects to delay the receipt of Social Security benefits until a later age. The RAS benefit is paid by OPM and receiving this benefit has absolutely no effect on your future Social Security benefit payments. Receiving this benefit is *not* an election—if the annuitant is eligible to receive it, it will be paid to him or her by OPM. This benefit is combined with the basic FERS annuity benefit and deposited into your bank account as a single monthly benefit payment.

Like Social Security benefits, the RAS is subject to an earnings test, which means the RAS is reduced if your earned (nonpassive) income from wages or self employment is higher than an allowable amount. The earnings test does not kick in until your Minimum Retirement Age (MRA), typically 56 or 57. The chart below displays MRAs by birth year. For example, if you retire at age 50, you will collect the RAS *without* an earnings test until you reach your MRA. Retire at 57, and the RAS is earnings-tested right away.

http://www.opm.gov/retire/pre/fers/eligibility.asp

Birth Year:	Your MRA Is:
Before 1948	55
In 1948	55 and 2 months
In 1949	55 and 4 months
In 1950	55 and 6 months
In 1951	55 and 8 months
In 1952	55 and 10 months
In 1953-1964	56
In 1965	56 and 2 months
In 1966	56 and 4 months
In 1967	56 and 6 months
In 1968	56 and 8 months
In 1969	56 and 10 months
In 1970 and after	57

H. When Am I Eligible to Retire?

SCEs are eligible to retire at:

1) **Any age with 25 years** of service in a SCE position;
2) **At age 50 with 20 years** of service in a SCE position; and
3) Must retire at the end of the month in which they turn **57**, unless an extension is granted, or upon accepting a *non-SCE-covered* position.

Keep in mind—I'm talking about "SCE" time above. Five years in a non-SCE position and 15 years as a SCE is not going to get you retired at age 50 on an immediate annuity. If you retire before age 50, with 25 years or more of SCE coverage, things are no different than if you left at age 50. Your annuity starts right away. You get COLAs right away and you can tap into the TSP using the life expectancy option. There are no drawbacks to retiring before age 50 in regard to any FERS benefit that would not be payable until you were age 50. There are considerable consequences to TSP access if you retire before age 50 under newly passed H.R. 2146. See the ***TSP section*** for details.

Air Traffic Controllers (ATCs) (this paragraph and bullet list only): An ATC is subject to mandatory retirement at age **56**. An ATC is someone who:

1) Engages in the separation and control of air traffic;
2) Provides pre-flight, in-flight, or airport advisory service to aircraft operators;
3) Is a first-level supervisor of an ATC;
4) Is an immediate supervisor (such as a second level supervisor) of any of the above Employees. **NOTE**: *A second-level supervisor is NOT subject to mandatory Retirement at age 56.*

You cannot "tack on" your unused annual leave to make you eligible for retirement, unless you are taking an "early out" under the Voluntary Early Retirement Authority (VERA) rules. Since many agencies are making VERAs available, here's a link to the rules that govern the application of VERAs, ***OPM Chapter 43 - VERAs.***

OPM will calculate your length of service in years and whole months. See the ***Unused Sick Leave*** section below to see how that works. For example, a service credit of 22 years, 5 months and 27 days counts as 22 years and 5 months. The 27 days will not count toward your annuity calculation.

Here's a tidbit for those of you who were born on the first of the month. If you want to retire on the day you turn 50 with at least 20 years of service, you'd leave on the first of the month. But if you do that, you don't get paid by your agency for the rest of the month, and your annuity won't be effective for a month. Guess what? OPM considers you to be the age of the

K. Will I Receive a Cost-of-Living-Adjustment (COLA) on My FERS Basic Annuity?

Yes, it is based upon the Bureau of Labor Statistics Consumer Price Index for Urban and Clerical Workers (CPI-W). If the CPI-W increase is 2% or less, you receive the same increase for your COLA. If the CPI-W increase is more than 2% but less than 3%, you will receive a 2% COLA. If the CPI-W increase is more than 3%, you will receive the CPI increase minus 1%. COLA adjustments are effective in December and will appear on the January annuity payment. The COLA is prorated until you have been an annuitant for a full year. For example, if you retired on May 30, you would receive one-half of the COLA adjustment the following year. In the following year, you'd receive the full COLA. From inception through the 2018 adjustment, the FERS COLA has averaged 2.12%. (1984-1988 COLAs are ignored in this computation because of the delay in implementing FERS, as there were no FERS COLAs, as employees were in CSRS-Interim.) The COLA can vary widely from year to year. There were no COLAs in 2010, 2011 and 2016. The 2014 COLA was 1.5%, the 2015 COLA was 1.7%, the 2017 COLA was a whopping .3% and the 2018 COLA is 2%.

The COLA begins at retirement for SCEs—even if you retire before age 50 with 25 years. This is a great benefit of being in a SCE-covered position, as all other FERS participants must wait until age 62 to start receiving a COLA. *There is no COLA applied to the FERS Retiree Annuity Supplement (RAS) for anyone.*

L. Should I Select a Spousal Benefit Survivor Annuity (SBSA) When I Retire?

The Spousal Benefit Survivor Annuity (SBSA) refers to the reduction in your FERS annuity monthly benefit that provides for the continuation of a portion of your benefits that will be paid to your spouse upon your untimely demise. *Without* a SBSA, when you die, your annuity "dies with you"—there is nothing paid to your surviving spouse. You select a SBSA at the time you retire, on your SF-3107, "Application for Immediate Retirement - FERS." You have 3 options for the SBSA:

1) **No election for a SBSA**. This option requires the notarized signature of your spouse. Your spouse will lose access to FEHBP if you predecease your spouse, unless your spouse is also a federal employee with FEHBP access.

2) **5% reduction** in your annuity that provides an annuity equal to 25% of the retiree's unreduced annuity to the surviving spouse. This option also requires the notarized consent of your spouse. Your surviving spouse will have FEHBP access if you were *Self-and-Family* or *Self-plus-Spouse* at the time of your death.

Q. Foreign Service Pension System (FSPS)

This is a new section of the guide for 2018. I have an increasing number of FSPS participants subscribing to the guide, so it's only fitting that I provide an explanation of FSPS, as it is almost identical to SCE FERS, with a few exceptions. The FSPS is administered by the U.S. Department of State (DOS). FSPS is not to be confused with the Foreign Service Retirement and Disability System (FSRDS). FSRDS is to the DOS what CSRS was to most feds. FSRDS ended at the same time CSRS ended and FSPS started at the same time that FERS was enacted. See the parallels? An overview of FSPS from the DOS website can be viewed ***here.*** As with other groups, I urge FSPS participants to join the ***American Foreign Service Association (AFSA)***. There are a few differences, which I have identified below, along with the main points of similarity:

Retirement Eligibility:
Voluntary – Requires 20 years and attaining age 50. No provision for 25 years at any age.
Disability – Same as FERS
Deferred – Same as FERS

Mandatory Retirement:
If a law enforcement officer – Age 57
Not a law enforcement officer – Age 65

Benefit Accrual:
Same as SCE FERS. First 20 years at 1.7%, remaining years at 1% and must retire on an immediate annuity to be entitled to the 1.7% rate.

COLAs:
Same computation and effective date as FERS SCE.

FSPS Annuity Supplement:
Calculated in the same manner as FERS and subject to the same earnings test.

Contributory Rate:
FSPS participants pay 1.35% into FSPS, vs. 1.3% for SCE FERS.

Survivor Annuity Options:
Same options, Full and Reduced, same cost.

Divorce:
Divorce rules are different – see Divorce Section for FSPS guidance.

D. H.R. 2146–Defending Public Safety Employees' Retirement Act

H.R. 2146 (PL 114-26) was signed into law on June 29, 2015 and basically takes the old "retire in your 55th year of age rule" and replaces the "55" with "50." Simple enough? It means that if you work at least 1 day into your 50th year of birth and then retire, you will be covered by the new law. Furthermore, H.R. 2146 also clears the way for folks who already retired in their 50th year of age to switch from life expectancy-based TSP payments to payments they control. On December 18, 2015, the 2016 Consolidated Appropriations Act extended the benefits of H.R. 2146 to include Nuclear Materials Couriers, U.S. Capitol Police, Supreme Court Police and DSS Agents of the Department of State.

Of course, anyone who follows me knows that I'm not a big Roth TSP fan for law enforcement officers and firefighters, and this is another reason why. ***As I interpret it, H.R. 2146 does not apply to the Roth TSP***. Quite frankly, no one has issued any guidance on this yet, but since the old "55 rule" didn't apply to the Roth TSP and H.R. 2146 basically replaced "55" with "50" in the same part of IRC §72, I'm going to provide guidance that H.R. 2146 does not apply to the Roth TSP. For the Roth TSP, you will have to be age 59½ with funds on deposit for 5 years in order for your withdrawals to be "qualified," meaning that the entire amount is nontaxable. This creates an even worse problem (described in detail later in this section) because the TSP will not *currently* allow you to separate payment streams between your Roth TSP and Traditional TSP balances.

E. H.R. 2146–As It Applies to Annuitants

If you retired *before* your 50th year of birth, then the benefits of H.R. 2146 will ***never*** apply to you, and if you are already on life expectancy-based payments or on another §72(t) withdrawal plan because you retired before your 50th year of birth, you are stuck with that methodology as originally required by the IRS.

If you retired *in your 50th year or later* (up to age 55—the old penalty-free standard), ***and*** you left your funds in the TSP, then you are in luck, and the benefits of H.R. 2146 will apply to you. During the October 1, 2017–December 15, 2017, TSP Open Season, you may shift from a series of substantially equal periodic payments based on life expectancy or another Internal Revenue Code (IRC) §72(t) withdrawal plan (that you managed at the TSP) to monthly payments in the amount of *your* choosing. H.R. 2146 contains language that protects you from the IRS considering this payment change to be a "change of methodology."

This is exactly what I did during the October 1–December 15, 2015, Open Season. I submitted Form TSP-73 and requested a stated dollar amount for my monthly payment, as allowed by H.R. 2146.

the Roth TSP ***may or may not be a good choice***. You may want to consult a qualified financial or tax advisor to look at your specific situation and assumptions.

If you're late in your career, don't get sidetracked with the Roth TSP. Just keep on doing what you have been doing with the Traditional TSP and enjoy the tax break. If you're a youngster who's 20+ years from retirement, and you can afford to forego the earlier tax break, the Roth TSP *may* be a great option for you. You have a long time for those earnings to snowball and you'll never likely regret your decision to contribute to the Roth TSP. I also place a great deal of weight on the "sleep-at-night factor" in the Roth TSP decision. If having a Roth TSP makes you sleep better at night—DO IT. If you're contributing $18,500 of your salary each year, no matter which path you choose with the TSP, you will come out way ahead of the pack and will never regret whichever TSP path you chose.

O. HUGE Roth TSP Pitfall

Many of you are probably unaware of the serious pitfall you may encounter if you opt to contribute to the Roth TSP. For a SCE, the Roth TSP may be a poor choice for reasons other than tax-rate differences between retirement and your work years.

The idea behind the Roth TSP is that you contribute after-tax monies during your career and when you withdraw funds from the account in retirement, the earnings are tax-free. The trick here is that the withdrawal must be a "**qualified withdrawal**" for the earnings to be tax-free. In order for the withdrawal to be considered a "qualified withdrawal" by the IRS,
2 tests must be met:

1) "*Five years must have passed since January 1 of the calendar year when you made your first Roth TSP contribution*"; ***AND***

2) *"You are at least 59½, permanently disabled (or deceased).*"

Here's the problem: As a SCE you can retire as early as 50 years of age (or earlier with 25 years of SCE time) and are mandatorily retired at age 57 (age 56 for ATCs). If you decide to take post-retirement withdrawals from the TSP (under the life expectancy option or the age-50 H.R. 2146 exemption), you will not meet the age test for the Roth TSP withdrawal to be considered "qualified." Since your withdrawal is not "qualified," you may be taxed on the portion of your withdrawal that represents the "attributable" earnings. **This eliminates the tax-advantaged nature of the Roth TSP until you become 59½.** You may be just as well off having a regular post-tax investment account outside of the TSP. You're contributing after-tax dollars and paying taxes on the earnings generated by the post-tax investment.

X. The TSP Is Not Insured for Fraud Losses

One of my subscribers asked me what would happen if his TSP account was the successful target of fraud. I told him that I didn't know, but depending on the nature of the fraud, I thought the TSP or U.S. Treasury would reimburse for the losses. I suggested he write to the TSP and ask. Here's what he was told in a letter from the TSP:

"*If a participant's account is compromised and funds stolen, we have no agreement with the U.S. Treasury on funds recovery. We would instead refer the participant to his/her local authorities. Our participants' TSP accounts are not insured by the SIPC, as this is for registered broker-dealers and the TSP is a defined-contribution plan.*"

Y. I Can't Afford To Contribute the Maximum to the TSP!

You can't afford **not** to! **You can't retire comfortably on the FERS annuity alone!**

"*Watch your pennies and the dollars take care of themselves.*" Did you know that $6 per day for lunch or Starbucks is about $130 per month? $130 per month, invested at 7% for 25 years, will be worth $105,924 at the end of the 25-year period. That's a very expensive latte! Lay off the Starbucks and bring your lunch—you'd be amazed at what that's costing you over the long run. There are plenty of other ways to wring a few dollars out of your earnings, and everyone must make his or her own choices. Remember, "financial maturity" is your willingness to forego short-term pleasure for long-term gain. However you accomplish it, **you must carve out 5% of your earnings as a TSP contribution**. As mentioned earlier, when you receive a step or grade increase, allocate that pay increase to a larger TSP contribution, or perhaps allocate the annual January pay adjustment to the TSP. You don't have to get there overnight, but you must have a plan to get there. The nice part is when you get to the maximum, you no longer have to worry about coming up with additional contributions each year. For example, when the TSP limit increases, it's typically an increase of $500. Folks that are already at the maximum just have to add $20 to their TSP contribution to keep up with the maximum. There is a substantial federal tax break for contributing to the Traditional TSP—it's not dollar-for-dollar, but it certainly takes the edge off. Most states also allow a tax break. New Jersey, for example, does not allow a state tax deduction for the TSP. For example, if you are in the 25% federal tax bracket and the 5% state tax bracket, your combined marginal tax rate (the tax levied on the last dollar you earned) is 30%. This means that each dollar contributed to the Traditional TSP above your current contribution only costs you 70 cents. If you contribute an additional $5,000, it only costs you $3,500 to do so. You can then adjust your withholding so that you have $1,500 less in taxes deducted from your paychecks to help make up the out-of-pocket difference immediately.

200) onto the 240 hours you carried over from the previous year, giving you a potential leave balance of 440 hours by the end of the leave year. As long as you retire before the end of the leave year (***dates vary each year***), you will be paid for all 440 hours—that's more than 11 weeks of pay—not a bad way to start retirement.

If you retire at year-end and there is a pay adjustment in January, your annual leave will be paid out at the higher adjusted rate as OPM rules require annual leave to be paid out at the rate you would have received on those hours had you stayed in service and taken the leave, including the January pay adjustment (if applicable). This adjustment is typically calculated separately if you retire at year-end and will arrive in the form of a paper U.S. Treasury check with no remittance advice. This is how my adjustment was paid to me. Since AL is a payroll function and you are no longer an employee, this adjustment can't be paid electronically. Social Security and Medicare taxes are withheld from your annual-leave payment. The unused annual leave hours are paid out at the rate you would have earned if you'd taken them, so AUO/LEAP and locality adjustments are included. Most pay systems also withhold taxes at the same rate as an award, approximately 25%. No TSP contribution can be made from your annual-leave payment.

Shift Firefighters Only: Your unused annual leave will be paid out to you in the same fashion as the discussion in the unused sick leave section. If you are a 72-hour shift firefighter, you will be charged 72 hours for a week's pay. Your annual leave ceiling is also higher. For a 72-hour shift firefighter, the ceiling is 432 hours and for a 56-hour shift firefighter, the ceiling is 336 hours. Per ***5 CFR 630.210***, employees who work uncommon tours of duty are charged annual leave on an hour-for-hour basis for time off. In other words, take a day of annual leave during your shift and you are charged for 14 hours of annual leave.

E. When Will I Get Paid after I Retire and What's the Timeline?

Considerable thought usually precedes a decision to retire, but did you ever wonder exactly what happens with your money after you retire?

Before we start with OPM, keep in mind that your access to your payroll center, like the NFC for example, will expire about 60 days after you retire. I highly advise immediately upon retirement, you log in to your payroll center and download information that you may wish to keep, such as your final E&L statement and any tax forms you may no longer have copies of.

The first thing that you are going to see is the payout for your unused annual leave, or UAL. This payment is processed by your payroll center and will be deposited into your bank account in the same manner your salary was. This deposit generally occurs 3-8 weeks after retirement, with a few folks waiting a bit longer for theirs as it varies greatly by agency.

G. Can I Afford to Retire Early? YES!

First, let's review what you will receive from the federal government should you choose to retire. Here are the assumptions for the calculation. You may have to adjust these accordingly, but this example should provide a reasonable view of the point I am trying to make.

Assumptions:	Sample Numbers	Your Numbers
Age at Retirement	51	
Years of Service	23	
Hi-3 Salary	$140,000	
SSA Benefits at 62	$1,900	
TSP Balance	$500,000	
Spousal Annuity	Yes, 50%	

Retirement Components	Sample Numbers	Your Numbers
FERS Self-Only Annual Annuity	$51,800	
Less Survivor Annuity Reduction	5,180	
Gross FERS Annual Annuity	46,620	
Gross FERS Month Annuity	3,885	
FERS RAS (until 62)		
23/40 * $1,900	1,093	
TSP Monthly Payment under H.R. 2146	2,000	
Gross Monthly Benefit	6,978	
Gross Annual Benefit	$83,736	

But wait, I was making $140,000 and you want me to live on $83,736? Yes, but first we need to add back to the $83,736 the items that will no longer be deducted from your paycheck to give us a comparative number as an equivalent "cash-in-hand" analysis:

V. Insurance Issues

A. What Happens to My FEHBP Insurance in Retirement?

As long as you were enrolled in the Federal Employees Health Benefits Program (FEHBP) for 5 continuous years prior to retirement, you may stay enrolled in the FEHBP into retirement and until you die. You and your spouse may continue enrollment in the FEHBP beyond 65 and benefits are automatically coordinated with Medicare Option "A." ***If you did not elect the FERS survivor annuity, your spouse will not have FEHBP insurance after your death. You must also have been enrolled as "Self-and-Family" or "Self-plus-Spouse" at the time of your death.***

If you were covered under another person's FEHBP *Self-and-Family* or *Self-plus-Spouse* plan for 5 years, you are deemed by OPM to be qualified as participating in the FEHBP for purposes of the 5-year test. Generally speaking, the same rule applies if you were covered by a DoD-sponsored *Self-and-Family* or *Self-plus-Spouse* plan.

Additionally, if you participate in TRICARE, TRICARE is considered qualifying time for the FEHBP 5-year rule. All you need to do is make sure you are covered by the FEHBP on the day that you retire. For employees married to federally employed spouses, some extra thought should be given to this matter. If you no longer have to provide health insurance for a child at the time the first spouse retires, consider changing each spouse to *Self-Only* as this is usually less expensive than carrying the other spouse under a *Self-and-Family* or *Self-plus-Spouse* option and it will avoid any insurance issues when one spouse pre-deceases the other. If you don't trust OPM to grant you FEHBP benefits at a later date, consider completing ***OPM Form RI 79-9***. Complete block "A" and include a copy of your spouse's Form SF-2809. This will document your right to FEHBP coverage as long as you meet the 5-year test and you are continuously covered by your spouse's *Self-and-Family* or *Self-plus-Spouse* FEHB plan. ***The most valuable retirement benefit we receive, in my opinion, is our FEHBP health insurance***. Take great care to preserve that benefit.

If you fail to meet the 5-year test, you may petition OPM for a waiver, but waivers are almost impossible to get for a person retiring on a voluntary basis. The earliest you can request a waiver is 4 months prior to retirement. Waiver petitions should be sent to:

U.S. Office of Personnel Management - Retirement Benefits Branch
1900 E Street, NW
Washington, DC 20415-3532

In retirement, the federal government continues to pay about 75% of the cost of your FEHBP insurance. The only difference is that you pay your share on a monthly basis in

VI. Social Security

A. Am I Eligible for Social Security?

Absolutely. Social Security is an important part of the retirement system that was designed for federal employees. The Federal Employees Retirement System (FERS) is often described as a 3-legged stool. One leg of the retirement stool is FERS, the second leg is Social Security and the third leg is the Thrift Savings Plan. As a FERS participant, you are paying Social Security taxes (OASDI) of 6.2% on your pay, up to the annual limit (also known as the benefit base), which for 2017 was $127,200 and in 2018 increases to $128,700. CSRS participants do not pay Social Security taxes on their government earnings, but may be entitled to benefits if they paid Social Security taxes on other sufficient lifetime earnings.

To be eligible for a Social Security retirement benefit, a person needs 40 Quarters of Coverage (QC) or 10 years of work covered by Social Security. This is called "vested" in many other retirement systems. The 40-QC requirement is easy to meet. Prior to 1978, a person acquired 1 QC each time tax was paid on $50 of earnings in each calendar quarter. Starting in 1978, the amount was based upon total annual earnings and increased with wage inflation. In 2017, a QC was received for each $1,300 of covered earnings, wages or income from self-employment. In 2018, 1 QC is received for each $1,320 of covered wages or self-employment. The maximum number of quarters you can receive in a year is 4. For example, a person works only in the summer of 2018, earning $5,280. SSA would credit the person 4 QC or 1 year of covered work. If the earnings were $50,000 in 2018, credit would be given for 4 QC or 1 year of work. The 40 QC may be earned at any time in your life and earnings count for QC equally at any age. Summer work while you were in high school may have earned you a few quarters of coverage, as might part-time work when you are age 66. Once you meet the 40-QC requirement, you are eligible for Social Security retirement benefits when you attain age 62. The amount of those benefits is based upon your lifetime earnings and your age at commencement of benefits.

B. When Will I Receive Social Security under FERS?

Once you turn 62, you are eligible for benefits paid to you by SSA based upon your lifetime wages. SSA defines a working lifetime as 40 working years, as from age 22 to age 62. Social Security then drops the lowest 5 years from the benefit computation. The highest 35 years of wages or self-employment where Social Security taxes were paid are used to determine your full 100% benefit. This is the benefit you are due at full retirement age. Social Security also calls this your normal retirement age. Full retirement age was age 65 until 1983 when Congress passed a law gradually increasing the full retirement age. Although the law was passed in 1983, it did not start to change the full retirement age until 2000, when those applying for benefits at age 62 (those who were born in 1938) saw a very small reduction, 0.8%, in their benefits. The

D. How Much Will My Social Security Benefit Be Each Month?

The average monthly Social Security retirement benefit in 2017 was $1,377, which will increase to $1,404 in 2018. The maximum retirement benefit in 2017 for a person who had maximum Social Security taxable earnings throughout his or her life and retired in 2017 at age 66 was $2,687 per month. Adding another year of maximum earnings and the change in the benefit formula due to wage inflation, the 2018 maximum benefits will increase to $2,788 per month for a person who retires at age full retirement age in 2018.

A few years ago, Social Security introduced a great ***online retirement benefit estimator***. This tool uses your Social Security earnings record to give you an estimate of your future retirement benefits. The closer you are to age 62, the more accurate the estimate. You can plug in various future earnings projections and retirement ages to answer many "what if" questions regarding your future Social Security retirement benefit.

E. Retirement Earnings Test

If you receive Social Security benefits prior to your full retirement age, there is a limit on the amount you may earn from wages and self-employment and still receive 100% of your Social Security benefits in the year. This retirement test ends the month you turn full retirement age, currently age 66 and raising to age 67. You are already familiar with this earnings limit, as the Social Security's retirement test is used in the FERS Retiree Annuity Supplement earnings test. There are 3 parts to the earnings test. The first and main part is that if you are receiving benefits in the year or years prior to your full retirement age, you are subject to a $1 reduction in your benefits for every $2 you earn over the yearly limit. The yearly limit is also called the exempt amount.

The yearly limit in 2017 was $16,920. The 2018 limit is $17,040**.** As an example of this part of the retirement test, let's assume you retire in 2017 at age 62 and receive a Social Security benefit of $1,300 per month. In January 2018, after your retirement, you start a part-time job which will pay you $18,000 for the year. The retirement test for 2018 is $17,040 so your $18,000 exceeds the limit by $960. The reduction in your Social Security benefits is $1 for every $2 over the limit. The $960 excess is divided by 2, resulting in a benefit reduction of **$**480 for the year. In other words, for **one** month in 2018, your $1,300 benefit is reduced to $820.

The second part of the retirement test is a special higher earnings test applied in the year that you turn full retirement age. This higher amount was $44,880 in 2017 and increases to $45,360 in 2018. In addition, if you exceed this higher amount, the reduction in benefits is $1 for every $3 over the limit. For example, suppose you are turning full retirement age, 66, in September 2018. The exempt amount for January through August is $45,360. If you earned

G. How Are Social Security Benefits Calculated?

Social Security's benefit formula uses your lifetime earnings. Social Security does not and has never computed retirement benefits using your High-3 years of earnings. Your lifetime earnings are first adjusted for inflation. Specifically, this inflation adjustment turns all your wages prior to age 60 into what they would be worth as of the year in which you turn age 60. Social Security calls this "indexing your earnings." Earnings starting with age 60 and beyond are indexed with an inflation factor of 1, which results in no inflation adjustment. For example, a person turning 62 in 2018 who earned $7,000 in 1974 would have those 1974 earnings turned into indexed earnings of $42,418.54. Assuming that person also earned $15,000 in 2017 (after age 60), the actual earnings of $15,000 and the $42,418.54 of 1974 indexed earnings are both considered. Social Security then selects the 35 highest earnings years. In this case, if both 1974 and 2015 were high years, both the $15,000 and the $42,418.54 would be counted. The 35 highest years of earnings, indexed for inflation until age 60, are totaled and divided by the number of months in 35 years, 420, to arrive at your Average Indexed Monthly Earnings or AIME.

If you have a work career where you worked fewer than 35 years where Social Security taxes were withheld, all your years will be used but the results are still divided by 420, resulting in a lower AIME. The AIME is then multiplied by up to 3 "bend points" to determine your Primary Insurance Amount (PIA) or your 100% benefit. The PIA is the benefit you would receive at full (normal) retirement age. The bend points are adjusted annually based upon national wages.

For those persons attaining age 62 in 2018, the "bend points" are:

90% of the first $895 of your AIME, plus
32% of the average monthly indexed earnings over **$**895 through $5,397, plus
15% of the amount in excess of $5,397

H. Will My Family Receive Social Security Benefits When I Retire?

Your immediate family could possibly be entitled to benefits. Once you establish your entitlement to benefits, then benefits may be payable from your account to your spouse and children. Your Primary Insurance Amount (PIA), or the benefit you would receive at full retirement age, establishes the amount your family could receive from your account. This family amount is 50% of your full benefit. If your benefit at age 66 is $2,000 per month, then the maximum benefit payable to you and your family is $3,000 per month. Social Security calls this the family maximum. In this example, $2,000 is the worker's or retired person's portion and $1,000 is available to the family. If you file for benefits at age 62, you would receive $1,500 per

Now we will compute Matthew's Social Security benefit assuming that he worked one additional year, 2010, earning $77,983 so that he would have 35 years of work under Social Security. This additional year of earnings increased Matthew's full Social Security benefit to $2,257 per month and at age-62 his benefit would now be $1,693 per month.

Now we will compute Matthew's Social Security benefit, assuming he works 4 additional years, until age 60. The years and earnings were: 2011 - $77,983; 2012 - $77,983; 2013 - $80,276; and 2014 - $81,079. These additional years of work were higher than 4 other years of earnings used to compute his Social Security benefit, so those lower years are dropped and these higher years are added. These additional years increased Matthew's full Social Security benefit to $2,315 per month and his age 62 benefit to $1,736 per month.

In summary, Matthew's Social Security benefit at age 62 increased by $25 per month by working an additional year so that he had 35 years of earnings for his Social Security benefit computation. Working 4 additional years, earning the highest salary of his career, only increased his age 62 benefit by $43 per month.

Social Security automatically mails a personal Social Security statement to individuals who are not collecting benefits and are age 60 and older. These statements show your yearly earnings and provide a benefit estimate. Note that the future benefit is an estimate based upon continued employment until age 62 at your current pay rate. If you retire before age 62, and do not engage in any additional work where Social Security taxes are withheld, then the estimated benefit will be too high. You can obtain statements prior to age 60 by creating a My Social Security account on Social Security's website or obtain a one-time statement by submitting a written request to Social Security.

M. Social Security Filing Concepts and Strategies

In recent years, there has been a new concept regarding filing for Social Security benefits. The concept was that Social Security rules are so complex and the options for filing so numerous that a strategy or plan of action is needed to file for and maximize Social Security retirement benefits. This was particularly true for couples in which both spouses had earned substantial Social Security benefits. For example, Social Security in 2000 started to allow individuals to voluntarily suspend their benefits at full retirement age, then age 65 and now age 66 and 2 months through age 70, which would allow the benefits to increase for each month of suspension. Social Security rules do change and those changes can be important to your retirement. The filing strategy concept also recognizes there can be different goals to filing for benefits. The goal may be to receive income as early as possible, to provide the largest survivor benefit or to provide the highest monthly benefit in later years when there is no possibility or income from work. A recent Social Security publication noted that a married couple in which both are eligible for Social Security retirement benefits may each have a choice of 97 months in

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

4. If your out-of-pocket medical costs are lower than $1608, you are saving the difference for each year you are not enrolled in Medicare Part B.

5. FEHB plans set a maximum out-of-pocket expense which for many plans is $5500 per year. If the worst happens, the maximum cost is $5500.

6. You can enroll in Medicare Part B after you turn 65. The premium will be 10% higher for each year of delay and the coverage cannot be started immediately. The enrollment period is January through March each year with coverage starting July 1st. In the future if you find yourself with high medical costs, there is still the option to enroll In Medicare Part B. As long as the increased yearly Part B premium does not exceed your plan's out-of-pocket maximum, for example $5500, you are still saving money.

7. For high income individuals or couples, the cost of Medicare Part B with the income related monthly adjustment significantly decreases the financial incentive for enrolling in Medicare Part B. This is especially true as the last few years have shown this population is targeted whenever additional funds are needed for the Medicare program,

U. Medicare and FEHB

Medicare and FEHB are major medical plans that do have overlapping coverage. Neither Medicare nor any FEHB plan reduces its monthly premium because you carry the other coverage. You pay the full premium for each coverage. In 2018, however, a few FEHB plans have started to offer partial reimbursement of Medicare premiums. If you have both coverages, Medicare pays first if you are retired or conversely, FEHB pays first if you are still an active employee, excluding rehired annuitants.

In recent years, OPM has requested FEHB plans to provide an incentive for FEHBP members to enroll in Medicare Part B. For example, the 2016 letter from OPM to FEHBP carriers stated, “Plans should propose benefit changes that allow members to maximize their benefits under FEHBP and Medicare, such as reduced cost sharing under hospital, medical or pharmacy benefits for members with Part B. We also encourage plans to improve their coordination activities for pharmacy benefits covered under Part B and FEHB. As noted earlier, enhancements to benefits that encourage Medicare participation will not need to be offset by decreases in other benefits.” As a result, many FEHB plans now waive coinsurance and deductibles for members who have Medicare coverage and as already noted, in 2018 a few plans are offering partial reimbursement of Medicare Part B premiums.

A. Choosing a Financial Advisor

My CPA practice is 100% devoted to assisting federal employees and annuitants with divorce matters. **I do not offer any financial consulting or advising service, tax preparation services or one-on-one consulting**. As a paid subscriber, you may ask as many benefits questions of me as you like, but I can't provide advisement services.

I maintain a vetted list of financial advisors, and the list is growing as I identify more fed-savvy advisors. They are located all across the country. They specialize in assisting federal employees. I have no financial relationship with any of them; I simply provide a list to you and you make the inquiries. If you are looking for an advisor and would like a copy of this list, please email me. I do not share your email with the advisors on the list—it's up to you to contact them.

Besides vetting an advisor's credentials (or choosing a vetted planner from my list), look for an advisor that is experienced with federal pensions. If you have to explain to them what FERS is, then I'd look elsewhere for your financial planner.

** *THE END* **