Government Executive

5 Myths About Federal Retirement

By Tammy Flanagan

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One of the things I enjoy most about teaching classes and conducting webinars on the topic of pre-retirement planning is when I can bust a myth that is standing in the way of someone meeting his or her retirement goals. Sometimes these myths have been circulating so long that they've taken on an aura of truth. And they can stand in the way of planning for a bright and comfortable retirement.

Let's take a look at some common federal retirement myths.

1. You need to save at least $1 million (or some other specific dollar amount) to retire comfortably.

Who says? More importantly, how do they know? Federal retirees have at least one and sometimes two sources of retirement income that will last a lifetime. In many cases, these will cover monthly living expenses not matter how much you've been able to save.

To figure out how much you really need in savings, start by thinking through your future living expenses. Here's a simple worksheet from Vanguard to help you.

Next, get an accurate estimate of your Civil Service Retirement System or Federal Employees Retirement System benefit from your agency human resources office. And contact Social Security or create an online Social Security account to figure out what, if anything, you can expect to receive based on your work record -- along with any spousal benefits you might be entitled to.

Your retirement savings will help pay for future unexpected expenses and to cover inflation. (Yes, you will receive cost-of-living adjustments on your federal retirement benefits, but they may not cover some expenses that tend to increase at a rate higher than inflation -- think health care, for one). Some federal retirees will need their savings to provide a third source of monthly income in addition to their government retirement benefits, but the dollar amount may not be as high as you think.

2. You definitely can retire from government at age 57 if you have 30 years of service (or at 60 with 20 years of service, or at 47 with 25 years of service and an offer of early retirement).

These basic rules apply under either CSRS or FERS, but they obscure a more important question: Can you retire comfortably at any of those ages and ensure your financial future? The important thing is to figure out at what age and with how many years of service you can *afford* to retire.

Myths one and two are opposites of each other. The first causes people to fear they will never be able to retire, and the second rests on the false assumption that just because you're eligible to retire, you can do so comfortably.

3. You should take your Social Security benefit as soon as you are eligible since you don't know how long you will live.

It's not that simple. Claiming early may be the right decision for some people, such as those with serious medical issues or a family history that suggests a shorter than average life expectancy. But with people living longer and retirement sometimes lasting decades, it's best to make deliberate calculations and see if you can wait longer in order to collect more. By the way, this is not "gaming" the system, or taking advantage of a benefit that was created to keep people out of poverty. It's just being smart and using all of the information you can get to put together a retirement income that will sustain you for the next 20, 30, 40 or more years.

It's true that Social Security is an actuarial system that pays out the same amount to someone who claims their benefit at 62 or 70 as long as they die around age 81. But you might live longer than that. In addition, you could have someone else who depends on your income -- or vice versa.

4. There's a magical best date to retire for everyone.

I accept some responsibility for this myth. As many of you know, I write an annual "Best Dates to Retire" column. It identifies the dates in any given year that are generally good. But you should only pick a specific date after considering the following:

- What are you trying to accomplish? Maximizing your lump sum annual leave payout? Coordinating your retirement with the starting date of your second career? Maximizing the anount you can save in the Thrift Savings Plan? Avoiding paying more taxes than you have to?
- What other income will you have after your retirement and when will you begin to receive it?
- When will your retirement benefit start? It's the first day of the month after your date of final separation. Between your retirement date and the date your benefit kicks in, you won't receive either your salary or your benefit check.

5. Because the G Fund is safe, it's your best bet for TSP investments.

The G Fund, which invests in government securities, has a reputation for rock-solid security. As a result, many federal employees invest 100 percent of their TSP in the G Fund. They're afraid of the risk of stocks and bonds because they don't know when to invest and when to pull back.

A better approach is to diversify between the C, F, G, S, and I funds no matter what is happening in the market. Rebalance your savings from time to time to take advantage of growth, and shelter some of your investments from too much risk -- especially as you get closer to retirement. (Or let the lifecycle funds do this for you.)

Shortly after the TSP started in 1987, the stock market took off like a rocket. As it grew, many federal employees moved all of their G Fund money to the C Fund. Then the market "corrected." Many feds lurched back to the safety of the G Fund. That's like going to Las Vegas and constantly putting your money in slot machines after you've seen them light up for a payout.

Just because the G Fund, which invests in government securities, will never have a negative return does not necessarily mean it's your best option. If you need to understand more about investing, there are lots of opportunities to learn. You can start with information from the Thrift Savings Plan itself.

If you need additional help, you can attend a pre-retirement or midcareer planning seminar at your agency. I've been conducting such seminars since 1988 and the most common comment that I see on evaluations is "wish I would have attended sooner," followed by "this training should be mandatory."

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