Government Executive

To Stay or Not To Stay in Government

By Tammy Flanagan

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Last week, I wrote about my experience talking to "Heather," a 36-year-old-federal employee. Here are the basics of Heather's situation:

Age 36 with 10 years of federal service; in the Federal Employees Retirement System.
TSP balance: more than $200,000.
Employed as a GS-14 project manager in the Washington area, at a salary of $112,224.
Contributes at least 10 percent of basic pay to her Thrift Savings Plan account and is diversified between the five TSP options, with a substantial percentage split between the C, S and I funds.
More than 20 years from retirement.
Single mother raising a young son.

Heather's big question is whether she should continue to work for the federal government or leave federal service for a potentially more interesting position in the private sector. Because of her need to care for her son and the fact that she is the sole breadwinner for her family, she has to be very careful when making career moves.

I offered Heather the following tips and suggestions:

Remember that in her current position, she gets a pension. The value of her FERS retirement will be based on having 31 years of service at age 57. It will be worth 31 percent of her high-three average salary if she continues in federal service to her minimum retirement age. This pension benefit would have to be replaced with retirement savings to provide equivalent income to her at 57. So, for example, using the 4 percent investment withdrawal rule of thumb, creating a $20,000 per year income would require an investment of $500,000. Heather should be aware that most employers in the private sector will not provide a similar defined benefit pension such as the FERS basic benefit.
Ask potential future employers about retirement savings options, including matching contributions, fees and expenses, investment options and vesting requirements. Not all employers provide matching contributions and the expense ratios will likely be much higher than the low administrative expenses of the TSP. (The TSP's 2012 rate was .027 percent, or 27 cents per $1,000 of investments).
If there is no pension benefit, then the reality is that Heather's savings will have to play a more important role in her retirement. She is doing a great job with her TSP account and if all goes well, she is on track to retire at age 57 if she stays in government.
Other options may include changing jobs within the federal service without changing benefits to find more rewarding work.
Other factors that will influence her career decisions include on-site day care at her federal employer; health insurance; Federal Employees Group Life Insurance that "floats" with her salary; family-friendly leave policies; and built-in disability benefits through accumulated sick leave, leave banks, leave transfer and disability retirement benefits.

Heather would be smart to consider the value of all of her federal benefits before making the decision to change careers and leave her federal job.

It can be an eye-opening process to review your benefits to understand their value and the factors that influence their future growth. The next step for Heather would be a thorough review of her retirement goals with a financial adviser to look at the big picture and find out if she has any debt and tax issues that might be lurking that could derail her plans. As a single mom, she'll also need to address estate planning issues at some point.

The good news is that Heather is doing many things right and she's on a path to a comfortable retirement. And that just goes to show that retirement planning should be an ongoing process throughout your federal career.

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