

You May Be Better Off Than You Think

By Tammy Flanagan

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Many federal employees are worried that they may not be financially ready to retire and aren't really sure how to determine when the time is right. Here are some recent comments and questions I've heard at my pre-retirement seminars:

I will have 30 years and nine months of service on my birthday. Does it make sense for me to work three more months so that I will have 31 years?

The best thing to do is request retirement estimates from your human resources office for the two different dates. I generally suggest that the two retirement dates are at least six months apart to see how much more your retirement will be if you work a little longer. The bigger question, though, is this: Can you afford to retire? You'll need to take into consideration your expenses and your total retirement income. There's nothing magical about having 31 years of service compared to 30 years and nine months.

I'm getting a step increase next month. How long do I need to work so I will get credit for the higher pay in my high-three average salary?

The short answer is: one day. But that means you would have one day of the high three computed at the higher salary and one day of your salary that was in effect three years ago would drop off the computation. So don't expect too big of a difference in your retirement income. Your high three is computed on the highest three consecutive years of salary during your career. For most employees, this is the last three years. Of course, if you work three years at the higher pay rate, then you would completely eliminate the salary that was in effect three years ago. But keep in mind you that you'll probably get another pay increase—and then you'll have to decide if you want to work another three years. Keep in mind that by working a little longer you'll also have more time to contribute to your Thrift Savings Plan and earn additional Social Security retirement benefits (if you're covered by Social Security).

I have 40 years of service, but I need to delay my retirement until I get my last child out of college.

I've heard many variations on this—"get my mortgage paid off," "see my last child married," "pay off my kitchen remodeling project," and more. But you may be more ready than you think. Some employees could actually have more income if they retire than if they continue working—but they don't even know it. Remember, even if things are really tight, when you're retired from government, you can get another job to supplement your income.

Under the Civil Service Retirement System, the maximum retirement benefit is 80 percent of your high-three average salary, plus credit for unused sick leave. Most employees max out under CSRS at 41 years and 11 months of service. But most also can afford to retire well before they have earned the maximum benefit. Under the Federal Employees Retirement System, there's no maximum benefit, so you'll have to add up your benefits to see if you have enough income to retire.

Forty years of service under CSRS would provide 76.25 percent of your high-three average salary. That is not the end of

the story, however. Take into consideration any reduction to this benefit for survivor benefits, unpaid deposits, part-time pro-ration, age reductions and other factors.

Under FERS, 40 years of service (I know, no one has this much service under FERS yet), would provide either 40 percent or 44 percent (if you're 62 or older with more than 20 years of service) of your high-three. In addition, you'll be entitled to Social Security or the FERS Supplement. Once you determine how much your benefit will be, you'll be able to figure out how much you'll need to withdraw from your TSP account to create enough retirement income to cover your expenses.

For both CSRS and FERS, remember that the withholdings from your monthly retirement benefit will be smaller than the withholdings from your salary. Retirement withholdings include taxes and insurance. Depending on your age, where you live (some states exempt your federal retirement from state taxes or don't have an income tax), and how much income you will receive, your taxes may be lower than what you pay on your salary. You'll no longer have withholdings for the Medicare tax, the FICA tax, CSRS and FERS retirement contributions, and TSP contributions. But don't forget to take into account other taxable income such as TSP and other retirement account withdrawals, other retirement income, second-career pay and Social Security benefits.

As you can see, some employees are better off than they give themselves credit for. Others can't afford to retire -- yet. But don't worry, the day will come, as long as you plan ahead and make the right preparations.

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