10 Biggest Mistakes Federal Employees Make When Planning for Retirement

While many federal employees will be eligible to retire in the next fifteen years, unfortunately some of them will discover they will be unable to retire at the time they intend to because important tasks — that should have been performed during their federal service — were not completed.

START PLANNING NOW

FERS retirement plans provide civil service retirement benefits from a combination of the Basic Benefit Plan, Social Security and the Thrift Savings Plan (TSP). Unfortunately, many people do not understand the complexities of these retirement plans until it's too late.

MAXIMIZE YOUR FEDERAL EMPLOYEE BENEFITS

This download discusses the 10 biggest federal retirement planning mistakes that many employees make before leaving civil service — whether they are part of the Civil Service Retirement System (CSRS), CSRS-Offset, or the Federal Employees Retirement System (FERS) and FERS-Transfer.
It is hoped that this discussion will assist all employees — especially those employees in mid-career or those who are relatively new to the federal government — to not overlook these tasks and therefore be able to achieve the goal of retiring when they want to.

1 Failure to carefully review personnel records prior to federal retirement.

Employees should routinely review and make sure that the information contained in their Official Personnel Folder (OPF) is correct and current; in particular, Form SF 50 (Notice of Personnel Action) which is updated annually. Form SF 50 contains some extremely important pieces of retirement-related information. In particular, Box 30 of form SF 50 that is entitled "retirement plan", officially states which retirement plan an employee is covered by. This includes the Civil Service Retirement System (CSRS), CSRS-Offset, or the Federal Employees Retirement System (FERS). Employees should check to make sure they are in fact covered by the correct retirement system. Unfortunately, there have been cases in which federal employees were placed in the wrong retirement system at the time they were hired and did not discover that fact until they were very close to their anticipated retirement date.

Employees should also review their OPF and take note of the following items that can affect their eligibility for federal retirement and the computation of their CSRS or FERS annuities:

1. beginning and ending dates of each separate period of service;
2. type of retirement coverage – CSRS, FERS, FICA, or none;
3. type of appointment – temporary, intermittent, WAE (When Actually Employed), part-time, career, or career conditional.

Employees should note that their "leave and earnings" statements, usually showing the SCD for retirement, may not be the same as their official SCD for retirement.

2 Failure to make timely requests estimates of unpaid deposits or redeposits.

Many employees are not aware that by making a deposit for military or temporary ("nondeduction") time, they push their SCD for retirement backwards, thereby increasing their service time and ultimately the amount of their CSRS or FERS annuities. Another result of making a deposit is perhaps being able to retire earlier than they first expected. For employees who were in federal service, left federal service and withdrew their CSRS or FERS contributions but subsequently reentered federal service, they can redeposit their withdrawn contributions (usually with interest charges) thereby restoring the years of service that were lost as a result of withdrawn CSRS or FERS contributions. Some employees are told about their deposits or redeposits later in their careers, thereby owing and paying more in interest charges.

3 Failure to fill out and if necessary, update beneficiary designations.

The following beneficiary forms should be filled out and, if necessary , updated — for example, if the employee gets married or divorced, etc:

1. Form SF 1152, Designation of Beneficiary for Unpaid Compensation and Unused Annual Leave of a Deceased Federal Employee;
2. Form SF 2823, Designation of Beneficiary of Federal Employees Group Life Insurance (FEGLI);
3. Form TSP 3, Thrift Savings Plan (TSP) Beneficiary Designation;
4. Form SF 2808 – CSRS and CSRS-Offset employees: Designation of Beneficiary of CSRS Contributions, or Form SF 3102 – FERS employees: Designation of Beneficiary of FERS Contributions.

4 Failure to understand the rules for maintaining federal health insurance (FEHB) during retirement.

Many federal employees fail to understand the rules for keeping their retirement health insurance benefits offered through the Federal Employees Health Benefits Program (FEHB). Note that both employees and annuitants pay on average 28 percent of the total FEHB premiums with the federal government paying the remaining 72 percent.
The rule is that an employee must retire on an immediate annuity (one that begins within 30 days after separation) or on a postponed annuity under the Minimum Retirement Age (MRA +10) provisions of FERS. In addition, the employee must be covered by FEHB under his or her own enrollment, or as a family member under another FEHB enrollment, for the five years of service immediately preceding retirement or since the retiring employee's first opportunity to enroll in FEHB.

5 Failure to contribute as much as possible to the Thrift Savings Plan (TSP) and starting during the earlier years of an employee's federal service.

This is especially important for FERS-covered employees whose retirement income will depend to a large degree on income from the Thrift Savings Plan. All employees should attempt to contribute the maximum regular contribution and if they will be age 50 or older, they should attempt to contribute an additional maximum in "catch-up" contributions. Many FERS-covered employees – especially those who have less than five years of service – are contributing less than five percent of their gross pay, thereby missing out on their agency's maximum four percent matching contributions. New employees should be aware that effective June 22, 2009, all new employees immediately obtain the automatic agency one percent of gross salary contribution and four percent agency maximum matching. But there will be a maximum four percent match from the agency only if a FERS-covered employee contributes a minimum of five percent of his or her gross salary each pay date throughout the year.

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6 Failure to consider the TSP as a "long-term" investment plan and properly investing as such in the TSP funds.

The Thrift Savings Plan is a retirement savings plan that allows participants to contribute some of their pre-taxed salary for the purpose of growing the monies in these accounts on a tax-deferred basis. Any earnings – this includes interest, dividends and capital gains – are not taxed until withdrawn. As such, TSP participants must think long-term with respect to which TSP funds they want to invest their contributions. Long-term is defined as the period throughout which an employee contributes to the TSP until the time the TSP participant or the beneficiary no longer needs his or her TSP account. A TSP participant should not define "long-term" as the time the participant contributes to the TSP and the day of retirement. A TSP account must continue to grow after an employee's retirement date.
As past investment performance has shown, long-term growth will most likely be accomplished when most of one's TSP account is invested in the stock funds (C, S, and I) or in the Life Cycle funds (L) that are invested mostly in the stock funds (the L2030, L2040 and L2050 funds) and not in the bond funds (F and G funds) or in the L income fund. TSP participants are also cautioned not to "time" the stock market and constantly move TSP funds around in order to achieve long-term goals and to "preserve" one's TSP account in stock market downturns. But as any investor is warned, TSP investors should heed that past investment returns are no guarantee of future performance.

7 Failure to plan for "incapacity" while employed and when retired.

While federal employees accrue sick leave hours each pay period that can be used in the event an employee becomes ill or is injured and is unable to come to work, few employees purchase long-term disability income insurance that will replace – in most cases tax-free – as much as 60 percent of an employee's gross salary in the event the employee suffers a long-term disability. The federal government's sick leave program should be considered as a short-term disability income insurance program. Most Executive Branch agencies do not offer long term disability income insurance to their employees. The federal government offers long-term care (LTC) insurance to its employees and retirees. Most episodes of LTC occur on average when an individual is in his or her 70's or 80's. Individuals are encouraged to buy LTC insurance when they are young and healthy enough to qualify as well as be able to pay reasonable LTC insurance premiums. Many insurance professionals recommend buying disability income insurance when employees starts their profession careers – usually when a professional is in his or her 20's or early 30's – and buying LTC insurance towards the end of their working careers when they are in their late 50's or early 60's.

8 Failure to have a proper and up-to-date estate plan.

As part of their overall estate plan, employees to name beneficiaries for their bank and brokerage accounts, life insurance policies, TSP accounts and IRAs, and have prepared important estate-related documents. A proper estate plan, established by consulting and working with a qualified estate attorney, includes a Will or Living Trust, a durable power of attorney, an advanced health care directive (health care power of attorney) and Living Will.

9 Failure to plan properly for retirement — in terms of income, housing and lifestyle changes — for themselves as well as for family members, especially spouses.

Retirement should be considered as another "life event" that can have significant effects on the income, housing needs and lifestyle of the retiree and immediate family members. Not properly planning for these changes could be devastating.

10 Failure to attend a mid-career and retirement seminar.

Many federal agencies offer to their employees two to three day mid-career and federal retirement planning seminars. These seminars, conducted by federal employee benefits experts, teach attendees what employees should expect in income and lifestyle changes once they retire from federal service. Among the topics usually discussed are retirement eligibility requirements, how the CSRS and FERS annuities are calculated, the best days of the month and the time of the year to retire, survivor benefits, what happens in the event an employee dies in service, how to invest in the TSP, what to expect to receive in Social Security benefits, how federal pensions are taxed by the federal government and the state governments, estate planning for soon-to-be retirees, and lifestyle changes during retirement. Many employees attend these seminars very late in their careers. They subsequently discover that they have made errors or omitted certain tasks that should have been dealt with earlier in their careers.

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