Government Executive

Don't Make These Common Mistakes

By Tammy Flanagan

February 9, 2017

I don't take lightly the trust that I've earned from federal employees and retirees when providing information about federal retirement benefits. I received a well-deserved storm of criticism for careless errors initially included in my column last week (they've been corrected). It reminded me of the old adage "measure twice and cut once" before sending off a draft that will be read by employees trying to find the key to meeting their retirement planning goals.

Since we're on the topic of mistakes, this seems like a good time to share three common errors that can cost you more than just your pride after retirement:

Mistake No. 1: Misunderstanding the value and the cost of the spousal survivor benefit election.

When completing the CSRS and FERS retirement application, you must elect the type of retirement that you want. Your choices include the election of a:

- reduced retirement benefit to provide the maximum survivor annuity for your current spouse equal to 50 percent of your unreduced FERS retirement or 55 percent of your unreduced CSRS retirement;
- partial survivor annuity for your current spouse of 25 percent of your unreduced FERS retirement or 55 percent of something less than your unreduced CSRS retirement (you and your spouse will choose the amount of the "base" for this election);
- Single life annuity so that your annuity stops at the time of your death, but there is no reduction during your lifetime;
- reduced annuity to provide a survivor annuity to someone having an "insurable interest" in you equal to 55 percent of your retirement after it has been reduced (this requires proof of your insurability and the reduction is based on the difference between your age and that of the person you are naming as beneficiary; and
- reduced annuity for your former spouse(s) or current spouse and former spouse(s).

Here are several important factors to consider as you make this permanent election to your retirement benefit:

- If you're married on the date of your retirement, your spouse is entitled to the maximum survivor annuity benefit. To elect anything less will require the notarized consent of your spouse.
- The reduction to your retirement to provide a survivor annuity also reduces the amount of income that you will report to the IRS, which means the reduction is not quite as expensive as it seems since it will reduce your taxable income.
- The value of the spouse's (and insurable interest) survivor annuity if you should die first is generally paid for as long as your spouse (or insurable interest beneficiary) lives, whether they outlive you by three months or 30 years.
- If your spouse predeceases you, you may notify the Office of Personnel Management to elect to have your annuity restored to the unreduced amount. If you later remarry, you will have two years from the date of marriage to elect this benefit for your new spouse.
- Consider your answer to this question: "If I die first, how will the loss of my retirement impact my spouse or other loved one financially?"
- Life insurance can substitute for a survivor annuity, but remember that unlike the survivor annuity, life insurance requires you to be medically insurable and the cost is based on your age at the time of purchase. In addition:
    - There is no spousal entitlement to life insurance, which means the beneficiary may be changed and the policy can later be canceled without spousal consent.
    - Life insurance is not subject to an annual cost of living adjustment, which makes determining the amount of coverage needed a risky calculation. Survivor annuity benefits under CSRS and FERS receive annual adjustments to help offset inflation.
    - The amount of insurance needed depends on how long you are going to live, how long your spouse will outlive you and the rate of inflation over both of your lifetimes—things you can't know for sure.
- For more information about this important decision, see the 2017 index of this column under the heading of "Survivor Benefits."

Mistake No. 2: Not realizing that retirement can last as long—or longer—than your federal career.

Have you done the proper financial planning to be sure that you can afford to retire today and stay retired for the next 20 or 30 years or more? You may be old enough and have enough service to qualify for your CSRS or FERS retirement, but will those benefits (along with income from your Thrift Savings Plan and Social Security, if eligible) produce enough income to cover your expenses next year and every year after for the rest of your life? Have you also considered that your gross amount of retirement benefits will be much different from your total "net" retirement income? Just like your salary, retirement income is subject to insurance and tax withholdings and possible reductions (i.e. spousal survivor elections, court ordered benefits paid to a former spouse, etc.)

The good news is that the value of the CSRS retirement benefit and Social Security benefits are adjusted annually for cost of living. According to the Congressional Research Service, for someone who retired 30 years ago, they would have cost of living adjustments in all but three years (there was no COLA in 2009, 2010, or 2015). The COLA was more than 5 percent in two of those years (2008 and 1990). The average cost of living adjustment since 1987 has been 2.65 percent.

For most FERS retirees there is a "delayed, diet-COLA" that is applicable to the FERS basic retirement benefit. The COLA for the FERS retirement benefit is not provided until after reaching age 62—with the exception of certain special groups such as survivor annuitants, disability retirees, firefighters and law enforcement officers—and if the increase is higher than 2 percent, the adjustment for FERS benefits is up to 1 percent less than the rate of inflation.

Here are some other factors you need to consider about your income during retirement:

- According to a report by the Kaiser Family Foundation on the Rising Cost of Living Longer, Medicare per capita spending for seniors rises with age, as expected, but does not peak until age 96—more than doubling between the ages of 70 and 96, from $7,566 to $16,145— before declining for the small number of beneficiaries living into their late 90s and beyond.
- As with your salary, there are withholdings from your retirement income. Have you considered federal and state income taxes? Some states don't have a state income tax, but retirees will pay federal income tax on their CSRS or FERS retirement, Social Security retirement (depending on income) and most withdrawals from the Thrift Savings Plan (other than qualified Roth distributions). It may be wise to prepare a dummy tax return prior to retirement to check your tax obligations before you set your retirement date.
- There are also insurance withholdings from your CSRS or FERS retirement benefit as well as Medicare Part B premiums from your Social Security retirement benefit. Have you allowed for the increasing cost of healthcare that can occur as you get older and the additional out of pocket expenses that you may incur should your health decline in your later years?
- Your unreduced CSRS or FERS retirement may be subject to reductions for survivor elections, part-time work schedule, a former spouse's entitlement, age reductions for certain types of retirement and reductions for other issues such as service that is not creditable for retirement or service that is subject to a service credit deposit. Your human resources office can prepare a retirement estimate for you that should include a thorough review of your creditable service and any potential reductions to your retirement benefit.

Mistake No. 3: Working too long and missing out on the wonderful opportunities available after your federal career.

People who make mistake No. 2 don't generally make this mistake. I've met many federal employees who will have more net income during their retirement than they have in their net paycheck along with a healthy amount of cash in reserve. Why are they still coming to work? For some, it is what they love and it is their passion. It isn't about the money, but about the satisfaction of doing what they love to do.

But for others, the prospect of having unscheduled and unstructured hours of freedom can be paralyzing. Avoiding mistake No. 3 requires a different type of planning for retirement. For some, it requires a leap of faith and allowing yourself to have a period of transition to figure out what life after retirement is going to look like.

It might also involve testing the waters of a new adventure while you are still employed. One of my all-time favorite books to prepare for the mental transition to retirement is "How to Retire, Happy, Wild and Free!" by Ernie Zelinski.

If you would like a more practical approach, there's "Life Plan for the Life Span" by the American Psychological Association that addresses many aspects of aging, including health and health care, legal and financial matters, work life and retirement planning, psychological issues, and social roles. This publication provides a long list of resources for each of the topics addressed.

You may also enjoy a recent podcast of "For Your Benefit," which featured guest Christina Eanes, lifelong superachiever and author of "Quit [Bleeping] Around: 77 Secrets to Superachieving," who shared five key strategies to successfully transition from employee to annuitant.

For those of you who may already be retired, here's a list of the "10 Most Costly Retirement Mistakes" by the benefits staff of the National Active and Retired Federal Employees Association.

All of this reminds me of something Bill Watterson, creator of the comic strip Calvin and Hobbes, once said: "There's never enough time to do all the nothing you want." But for those who aren't ready to leave the workforce, this quote by Confucius might be more applicable: "Choose a work that you love and you won't have to work another day."

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