Government Executive

Are Your Retirement Dreams Realistic?

By Tammy Flanagan

March 31, 2016

The history of federal employee retirement systems dates back less than 100 years. The Civil Service Retirement System was created in 1920, the Social Security system was signed into law in 1935 and the Federal Employees Retirement System, with its Thrift Savings Plan, came along in 1986. For decades, employees could count on a 30 to 40 year career followed by a retirement filled with leisure activities and time with family.

Is this a realistic vision of retirement 10, 20 or 30 years from now?

The federal retirement system has evolved from the single benefit CSRS to the three-legged stool that is FERS. It puts more of the responsibility on the employee to save for a comfortable retirement. And this approach has yet to be tested on a wide scale over a long period of time.

More than 500,000 FERS retirees are now receiving benefits, a number that is growing significantly every year. In fiscal 2014, more than 65,000 FERS employees were added to the retirement rolls. By comparison, fewer than 40,000 CSRS employees retired that year.

It's clear that federal employees have embraced the Thrift Savings Plan as a personal savings vehicle. More than 88 percent of active FERS employees participate in the TSP, and the 4.8 million accounts in the plan were worth almost half a trillion dollars at the end of last year. The TSP is by far the world's largest employer-sponsored savings plan, and it will only get bigger due to a recent change requiring auto-enrollment of new military service members into the TSP.

Federal employees have become accustomed to putting away some savings for retirement. But what about the defined benefit portion of the federal retirement plan? Is there reason to be concerned about its future? Not yet, but employees should be aware there is no guarantee the benefits of today will look the same over the next few decades. Indeed, retirement itself could look very different many years from now.

Consider the following:

People are going to live a lot longer.

David Sinclair, co-director of a lab on aging at Harvard Medical School, says, "over the last 10 years, my lab and many others around the world have shown that it's not just possible to delay aging, but to reverse aspects of it. The first person to live to 150 has already been born."

Financial planning as we know it could become obsolete.

Ric Edelman, chairman and CEO of Edelman Financial Services, says the current retirement model will disappear as we advance into the 21st century. He bases his projection on changes in mortality tables due to advances in medicine, biotechnology and artificial intelligence. The result of this is that we need to plan for a much longer working lifetime and fewer years in retirement. Over the course of longer lives, employees may need additional education and training as their careers become obsolete.

Increased longevity boosts the odds of needing long-term care.

In a recent presentation to the Gerontological Society of America, Carol Bogosian of the Society of Actuaries noted that this is especially true for women of older ages. The cost of long-term care can deplete retirement assets for families who purchase services, and affect the financial security of the surviving spouse.

The pace of change in our world is steadily increasing (children born today may never get driver's licenses, thanks to self-driving car technology), and that may have a profound impact on not only how we plan for retirement, but how we think about the careers that come before retirement. If this seems overwhelming to you, you may take solace in the fact that government is slower to adopt new technology than the private sector. After all, we're till processing retirement applications in an underground mine using paper forms.

Photo: Flickr user Inalaf

By Tammy Flanagan

March 31, 2016

http://www.govexec.com/pay-benefits/retirement-planning/2016/03/are-your-retirement-dreams-realistic/127150/