Government Executive

Tricks and Treats in Retirement

By Tammy Flanagan

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Halloween is right around the corner, so this week I'm focusing on tricks and treats in the retirement process. In this context, "trick" means sham, snow job, run around or double-cross. "Treat" indicates a pleasant surprise or satisfactory result. Read the stories below, and see if you can predict which will turn out to be tricks and which will be treats.

Judy's husband passed away on Aug. 10 and the Office of Personnel Management was notified within two weeks of his death. Her husband was receiving a reduced Civil Service Retirement System benefit so Judy could get survivor's annuity benefits and continuation of health benefits if she outlived him. Did she get them?

Trick: Judy said she had notified OPM personally, but the agency treated the notification as though it had come from someone else. So OPM assumed she had already died, and asked her heirs for a copy of her death certificate, too. A phone call to OPM straightened out the confusion and Judy will soon be receiving the survivor's annuity that her late husband had provided for her along with continuation of his health insurance.

Delores is a recent widow who is planning her retirement under CSRS. She is hoping that her retirement along with the widow's benefit from her husband's Social Security will be enough for her to have a comfortable retirement. Will Delores be financially secure?

Trick: Assume Delores is 68 years old and is planning to retire in 2017 after 35 years of federal service. She will be entitled to a retirement benefit that will replace 66.25 percent of her high-three average salary of $71,250. Her unreduced retirement will be $47,203 a year or $3,933 per month. She has been receiving her deceased husband's Social Security retirement benefit since she turned 66. When she retires, Delores will be surprised to find out that her CSRS retirement will offset the amount of her Social Security widow's benefit, so she will no longer be entitled to this benefit. She had heard of the Government Pension Offset, but wasn't aware that it would reduce her entitlement to her widow's benefit by two-thirds of her CSRS retirement. Her widow's benefit is $2,200 a month. Two-thirds of her $3,933 CSRS benefit will be $2,622 a month, which is more than the $2,200 widow's amount. Delores will receive her CSRS retirement, but will lose the entire widow's benefit.

John decided to compare his health plan choices this open season. He wonders if he can save money by taking advantage of the consumer driven health plans available to federal employees. Will he?

Treat: John decided to shift away from a traditional preferred provider organization health plan with a $350 deductible and average coinsurance payments of 15 percent for in-network and 35 percent for out-of-network coverage. He switched to a high deductible health plan that has much lower premiums and will save him close to $50 per pay period for self-only coverage. The new plan has a $1,500 deductible and only 5 percent coinsurance for in-network and 25 percent for out-of-network coverage. Although the deductible is high, the plan includes a health savings account that receives a monthly contribution of $62.50 from the insurance plan that will cover half of his deductible. John plans to contribute an additional $2,650 in 2017 to the HSA account, which will lower his taxable income next year. If he doesn't spend the money in his HSA on health care next year, he gets to keep it to use in future years. If he spends the money for eligible expenses, it comes out of the HSA tax-free.

Ben, who is divorced, wants to retire from a large city and move to a smaller town that is closer to his family and located where he would like to live in retirement. He doesn't have a job lined up, but since he is eligible to retire, he isn't too concerned. He would eventually like to be rehired in a federal position. Ben is wondering if he can suspend his retirement if he begins his second career of federal service so that he can later retire based on both his first and second period of federal service. Can he?

Trick: The complicating factor for Ben is that it turns out his ex-wife will be entitled to 50 percent of his retirement as a result of their divorce agreement. That payment will begin upon Ben's retirement. Under federal reemployment rules, Ben's retirement benefit, along with the portion paid to his former spouse, will continue even if he is rehired into a new federal position, because he voluntarily retired from his former job. His new federal salary will be reduced by the amount of his full retirement benefit if he is reemployed in a full-time position. There are certain situations where retirees can be rehired as federal employees without the salary offset, but these arrangements have to meet specific requirements. To learn more, read about reemployed annuitants and dual compensation waivers.

Ronald has maximized the tax deferral of his salary in his Thrift Savings Plan. He plans to retire at the end of March next year. He will have six pay periods to make TSP contributions in 2017. Can he save his entire 2017 salary in the TSP if he has other savings that he can use to pay his living expenses?

Treat: Ronald would like to contribute as much of the maximum $18,000 elective deferral limit for 2017 as he can to the Thrift Savings Plan before he retires. Luckily for him, the percentage limitations were lifted from TSP contributions in 2006, which means that employees can contribute up to 100 percent of their basic pay to the TSP. A word of caution for those who want to select a dollar amount to contribute rather than a percentage of pay: If the amount you choose is too high to allow for mandatory deductions for retirement and insurance withholding, you may not have any TSP contributions withheld from your salary for that pay period. If you plan to use Ronald's strategy, it's best to select a percentage contribution rather than a dollar amount that might be too high.

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