

How Divorce or a Job Change Could Derail Your Financial Plan - Re... <http://www.govexec.com/pay-benefits/retirement-planning/2015/10...>

By Tammy Flanagan

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As federal employees close in on retirement, I often get some last minute questions, the answers to which can have a big impact on your post-career life. Here are a few that are at the top of the list:

I was divorced during my federal career. How much of my retirement will my former spouse be entitled to?

Surprisingly, many people underestimate the importance of this issue. The answer to the question is found in your divorce decree or court order. Divorce papers will spell out the specific benefit payable to the former spouse. If the decree is “silent” and does not mention CSRS, FERS, TSP, FEGLI or any of your other federal benefits (sometimes, even the lump sum annual leave payment be divided in a divorce settlement), then you can be pretty sure that your former spouse is not entitled to any of your retirement or other federal benefits. If there is a mention of your federal benefits, then be sure that you understand how the benefit will be divided. A common misunderstanding is failing to distinguish between the retirement benefit under CSRS or FERS and the CSRS or FERS survivor’s benefit. Those are two separate benefits. One is payable while you are living and the other after you pass away. You can check the [index of my columns](#) to find more information about former spouse benefits.

A former spouse’s entitlement to your Social Security retirement is based on the law, not your divorce agreement. Luckily, your Social Security is not affected even if your former spouse has a right to your federal retirement benefits. Here’s more on former [spouse entitlement to Social Security](#).

How will taking a downgrade before retirement affect my benefits?

Here is a cautionary tale from a law enforcement officer who moved to a non-law enforcement position prior to retirement:

I received an email from a woman who had completed more than 20 years of covered law enforcement service in order to have her retirement computed under the more generous law enforcement officer computation available under FERS (this situation would apply to CSRS as well). But prior to retirement (and after completing the required 20 years of covered LEO service), she changed jobs to a non-covered position with a pay rate 30 percent lower than her former position. Although she qualifies to have her retirement computed under the more generous formula for law enforcement officers, what she didn’t realize was the impact this would have on the overall value of her future retirement. Because of the decrease in her rate of basic pay, her high-three average salary was “frozen” at the time of the pay change. The high-three average salary, which is the basis of your retirement computation, is the average of any three consecutive years of your basic pay, which for her, were the last three years she served in a covered LEO position.

In addition, she received her lump sum annual leave payment at the new, lower pay rate when she separated. Finally, her life insurance under the Federal Employees Group Life Insurance Program that she carried into retirement was based on her final pay rate on the date of her separation, instead of the higher salary she would have been paid if she had retired from her law enforcement position.

It might have made sense for her to retire under the law enforcement retirement first and then find work outside of the

federal government and use the extra income to supplement her retirement benefit. This decision had a lifetime impact on the value of her retirement benefits. If you are considering a similar move, you may want to estimate the value of your retirement benefits with and without making such a drastic career move prior. The effect on your benefits can be significant.

What about working part-time prior to retirement?

There are many ways that a full time employee can transition to retirement by working part-time, including:

- *Switch from a full-time work schedule to a part-time work schedule.* The Office of Personnel Management [offers detailed information](#) about job sharing and part-time employment. The good news is that part-time service will not affect retirement eligibility. Having 30 years of part-time service will meet the 30-year service requirement necessary to retire at 55 under CSRS or the minimum retirement age under FERS, just as 30 years of full-time service would count. However the retirement benefit will be pro-rated to reflect the percentage of a full-time career that was worked.
- *Retire and find a part-time job outside of federal service.* This is a common practice among many federal retirees. CSRS and FERS retirement benefits are paid regardless of other income earned through employment after retirement. Keep in mind that there are earnings limits on the FERS supplement and Social Security retirement benefits in some cases. Here's [information about the FERS Supplement](#) earnings reporting and here's [a link to information about the Social Security earnings limit](#) rule. And don't forget that there could be [post-retirement ethics restrictions](#) on employment.
- *Consider phased retirement.* This is finally becoming available for some federal employees. Your agency will determine the requirements for who will be eligible and how the phased retirement program will work as far as mentoring requirements, time limits and return to full-time employment. Not all agencies will participate in the phased retirement program. Here's [more information](#) about the program and [a video](#) about entering phased retirement.

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