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In-The-Know Monthly eNewsletter

Five Building Blocks for Financial Literacy

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Financial literacy is important for everyone but the decisions required by employees covered under the Federal Employees Retirement System (FERS) make financial literacy a critical skill. The Government Accountability Office (GAO) defines financial literacy as "the ability to make informed judgments and to take effective actions regarding the current and future use and management of money. It includes the ability to understand financial choices, plan for the future, spend wisely, and manage the challenges associated with life events such as a child's education, or paying for a child's education."

While financial literacy is important for all employees, the ability to understand financial choices and plan for the future take on increased importance for employees covered under FERS. FERS has three components: a FERS basic annuity administered by the Office of Management and Enterprise Services; Social Security administered by the Social Security Administration; and the Thrift Savings Plan (TSP) administered by the Retirement Thrift Investment Board.

Many people think of retirement as picking a date and stopping work but a successful retirement needs planning long before the work. FERS employees must make important decisions about all three components of the FERS retirement system throughout their careers and retirement. While working, decisions must be made about TSP investment strategies and management of your TSP retirement they are faced with decisions on TSP withdrawal strategies. Social Security also requires decisions about when to claim



Understanding the financial literacy basics can give you the knowledge and skills to make these decisions. This helps you reach your retirement goals. The Financial Literacy and Education Commission (FLEC) has identified five building blocks for financial literacy -- The MyMoney Five. (www.MyMoney.gov) Keeping these five principles in mind as you make day-to-day decisions and plan your financial goals can help you make better decisions about your retirement plans. The five building blocks are: Earn, Save & Invest, Protect, Spend, and Borrow.

Earn. Understand not only your actual pay but also your benefits. In these days of electronic Leave Earnings statements it's all too easy to ignore them. A good practice is to review your Leave Earnings statement regularly. Do you understand all the deductions from your pay? The many deductions shouldn't be a mystery to you. Do deductions for health, life insurance and TSP reflect your elections? If you have any questions about the second element of the "Earn" principle is understanding your benefits and making elections that best suit your needs. Your agency can help you understand the deal of money in the benefits programs for you. Agency contributions to your FERS retirement benefits, Social Security, TSP, and life insurance can total tens of thousands of dollars a year. The more you know about them, the more you can benefit from your agency's contributions in your benefits.

FERS employees need to understand the when's, how's and why's of the decisions concerning filing for Social Security benefits, management of your TSP account allocations and strategies for withdrawing your money from TSP continue throughout retirement or in **Correct decisions can have a lifetime impact!**

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Save & Invest. The TSP is an important component of the FERS retirement package and making the most of it is critical to a successful retirement. FERS employees receive matches to their TSP contributions. Understanding and taking maximum advantage of the TSP is imperative for developing a savings goal and a plan to meet that goal. TSP offers five investment funds and the L Funds, or "Life Funds" use professionally determined investment mixes that are tailored to meet investment objectives based on various time horizons. It is important to match your investment goals to the investment objectives of the TSP funds. The TSP web site (www.tsp.gov) provides the investment options so you can strike an optimal balance between your savings goal and the expected risk and return associated with each fund.

Protect. Take precautions to protect your financial situation such as accumulating emergency savings and having the right insurance. Life insurance has unexpected financial surprises such as a car repair or a broken household appliance. A recent study found only 38 percent of households said they could cover an unexpected expense, such as \$1,000 for an emergency room visit or \$500 for a car repair, with cash that is held in a savings account or checking account. If you're getting a tax refund, why not consider saving some of it? You can use it to build an emergency fund to cover those unexpected events.

Federal employees have excellent insurance options available to protect themselves and family members. Reviewing your health and life insurance during the annual Open Season may save you money and provide better insurance coverage for you and your family. In addition, understanding the rules for continuing health and life insurance coverage after you retire is critical for your retirement planning.

Spend. A spending plan, or budget, can help you create your emergency savings but it can also provide you with a road map to making smart financial decisions. For many people the difference each month between meeting their goals and "putting it on the credit card" can be relatively small amounts. Having a spending plan will help you raise a red flag on those areas that cause problems.

Borrow. Borrowing money can enable some essential purchases and builds credit, but interest costs can be expensive. Paying high interest amounts on credit cards can trap you in financial purgatory and make achieving your retirement goals much harder. Your monthly credit card statement contains an estimate of how long it can take to pay off your credit card balance if you make only the minimum payment and an estimate of how much you likely will pay, including interest, in order to pay off your bill in three years (assuming you have no other charges). Take a close look next month—it may surprise you. The National Credit Union Administration web site has information to help you understand all the details on your credit card statement (<http://www.mycreditunion.gov/Pages/pocket-cents-understanding-credit-card-statement.aspx>).

Getting started. NITP's resource page <http://www.nitpinc.com/websites.php> links to websites that can help you apply the "MyMoney" strategy to your financial future.

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