

10 Worst Mistakes Federal Employees and Retirees Make

(As prepared by the National Association of Retired Federal Employees - NARFE)

- 1. Waiving a survivor benefit for a spouse with an income or retirement plan.** In the event of your death, all your bills don't die with you, joint expenses continue for your spouse. Electing a survivor benefit allows your spouse to live uninterrupted, in the style to which he/she has become accustomed.
- 2. Migrating before calculating.** Moving before you have examined all the pros and cons of relocating to a new location can be an expensive mistake. Thoroughly assess and compare the financial, emotional, cultural, medical, proximity to family, and other considerations to prevent an expensive mistake. Focus on the reality of, rather than the dreams of retirement.
- 3. Forgetting to consider your significant other or your own interests.** Your partner may not be eligible to retire or many never retire from being a homemaker. After 20-30 years, your partner may not want you around the house all day. In addition, you may not be ready to relax and want to invest your energy elsewhere. Plan your retirement. Whether it's volunteer work, projects, continuing education, or employment, everyone needs a reason to get up and get going every morning.
- 4. Ignoring your change in insurance needs upon retirement.** The Federal Employees' Group Life Insurance Programs (options A, B, and C) increase in monthly premiums by nearly 50 percent at age 44 and 60. Many retirees who maintain the same coverage they had as employees are overpaying. Examine your needs to determine what purpose life insurance serves in your specific situation. Consider Long Term Care Insurance before you retire when the requirements are less restrictive. If you are able to drop or reduce your life insurance, more premium money would be available for Long Term Care Insurance.
- 5. Expecting to receive a full Social Security retirement.** The Windfall Elimination Provision (WEP) can reduce the earned Social Security benefits of a federal worker who retires after 1985 up to 60 percent. Under the Government Pension Offset (GPO), spouses could lose all of their survivor social security benefits. To prepare for this hit, educate yourself on those issues, adjust your retirement budget accordingly, and work to repeal these laws.
- 6. Neglecting to elect a survivor benefit when you retire.** Electing a survivor benefit for a spouse at retirement or upon marriage (remarriage) after retirement will entitle a surviving spouse federal health benefits. Recent retirees can (within 18 months) elect a survivor benefit; however, post-retirement elections are very costly. Survivor benefits for a post-retirement marriage must be elected within two years of the marriage. The survivor can pay Federal Employees Health Benefit (FEHB) premiums directly if the survivor annuity does not cover the premium.
- 7. Failing to have 5 years of FEHB coverage before retiring.** A federal employee covered by a spouse's private sector health plan who opts not to enroll in FEHB while employed or is not enrolled for five years cannot enroll in FEHB as a retiree. To preserve this valuable benefit, enroll in the least expensive self-only FEHB plan for at least five years before retiring in order to continue FEHB into retirement and maintain the opportunity to family coverage at open season.
- 8. Losing your FEHB coverage for your spouse then he/she has a non-federal health plan.** If you elect a self-only FEHB enrollment, your spouse will not be able to retain that coverage in the event of your death. As federal retiree, you must not only elect a survivor benefit but also have a family enrollment in effect at the time of death. To prevent this loss in coverage, enroll in a family plan during the next open season.
- 9. Choosing the wrong health care options for a two-person federally-employed family.** Choosing between two self-only or a family enrollment is an important decision with financial implications. Each family has its unique situation that will determine what type of enrollment is best. In some cases, two federal retirees should opt for the family plan while families with one federal employee still working can choose two self-only enrollments. Find out how premium conversion will affect your decision, the exceptions to the rules, and what's best for you by joining NARFE today.
- 10. Failing to join an organization that represents your interests.** Visit the NARFE web site (www.narfe.org) for benefits they provide.

The next 10 Worst Mistakes Federal Employees Can Make

- 11. Missing the chance to contribute to the Thrift Savings Plan (TSP).** CSRS employees who do not contribute to the tax-deferred TSP are missing a good chance to increase their retirement income. FERS employees who do not contribute are missing out on government contributions to their TSP accounts and the growth of a critical part of their retirement packages. CSRS employees can contribute up to 8 percent of their pay not to exceed a \$12,000 ceiling this year (the ceiling will increase in future years). FERS employees can contribute up to 13 percent of their pay, and receive a government match of up to 5 percent of their pay, not to exceed a \$12,000 ceiling this year (the ceiling will increase in future years). It is particularly critical for FERS employees to make contributions to the TSP as soon as they can during their federal careers because the TSP is intended to make up about one-third of their income in retirement. A FERS employee who maximizes his or her TSP contribution by mid career (e.g., about 15 years before retirement) may have TSP contributions two to three times higher than the FERS employee who maximizes his or her TSP contributions five years before retirement. Note that current employees over age 50 are now allowed to make \$2,000 "catch-up" contributions.
- 12. Not purchasing long-term care insurance coverage at the right age.** Everyone knows that long-term care insurance rates are based on a person's age when he or she applies. From an actuarial perspective, people pay the same overall average total in long-term care insurance premiums. Younger people pay smaller amounts over a longer period of time, while older people pay higher rates over a shorter period or time. The key factor is that acceptance rates among younger groups of employees are significantly higher than for older employees and retirees. Since you also have to be sure that you can continue to pay the premiums after retirement, you need to have a good idea of what your net retirement income will be after reductions (e.g., for survivor annuity, etc.), income taxes (federal and applicable state taxes), and other premium deductions (e.g., for group health and life insurance). If you are in good health, it may be best to wait until you are in your fifties to consider purchasing long-term care insurance. At that point, you will have a better grasp of your financial situation, the assets to protect and the amount of long-term care insurance you can afford.

13. Mismanaging your sick leave. CSRS employees receive credit for their unused sick leave in the computation of their retirement annuities. Retirement annuities are based on years and whole months of federal service and unused sick leave. If an employee is retiring with 30 years, six months and 15 days of federal service, and has unused sick leave credit of five months and 15 days, his or her total service for annuity computation will be exactly 21 years. If the same employee has an unused sick leave credit of exactly six months he or she will be giving away 15 days that could have been used before retirement.

14. Leaving annual leave calculations to the last minute. Most federal employees have a ceiling of 240 hours of annual leave that they can carry over from one year to the next. Leave above the ceiling at the end of a leave year falls into the “use or lose” category. An employee who carries over 240 hours of annual leave and plans to retire the following November 30th can be paid a lump sum for the 240 hours plus the leave accrued through November 30th, a total of up to approximately 432 hours (depending on annual leave usage in that last year of employment). Everyone needs to be sure to check on this closely if they plan to retire at the end of the calendar year.

15. Forfeiting your ability to pay your military service credit deposit. Employees must pay their military service credit deposits to their employing agencies before they retire. They cannot pay the Office of Personnel Management after they retire. CSRS employees hired before October 1, 1982, must pay the deposit to assure retirement credit continues if they are eligible for Social Security at age 62, or their date of retirement, if later than age 62. CSRS employees hired after October 1, 1982 must pay the deposit to have military service included in their annuity computation. FERS employees must pay the military deposit to get credit for the military service for both retirement eligibility and retirement computation purposes.

16. Choosing the wrong date on which you will retire. Retirement annuity benefits become payable on the first business day of the month after the month in which the annuity benefits begin to accrue. For example, if a person retires on June 30th, retirement benefits begin to accrue on July 1st, and are payable on August 1st. For some retirees (disability retirees and involuntary retirees), annuity benefits begin to accrue immediately if they separate from the government during the first three days of the month. For everybody else, retirement benefits begin to accrue on the first day of the month after the month in which the person separates for retirement. For a voluntary retiree who separates on June 15th, benefits begin to accrue on July 1st. If he or she decides to retire on June 30th, benefits begin to accrue on July 1st, and there is no break between being paid salary and annuity. Employees who separate under early optional retirement authorities or voluntary separation incentive programs need to be careful in selecting their retirement dates, because these are voluntary retirements, not involuntary retirements.

17. Failing to carefully select the time of year in which you will retire. Many people retire at the end of a calendar year for several reasons. They can maximize their annual leave accrual to add to their carry-over leave so they can get the largest lump-sum annual leave payout. They assure that the annual leave payout is received in January, which is the first year of retirement and for which their tax liability will be lower. In addition, depending on the timing of the federal employees’ pay increase, they may be able to be paid at a higher rate for their lump-sum annual leave. This would occur if the pay increase coincides with the end of the leave year. Under these conditions, the pay increase can also boost the value of the retiring employee’s basic FEGLI insurance and Option B additional insurance coverage.

18. Waiting until after retiring from the federal government to join NARFE. As hard as federal agencies try to educate employees about their benefits, there is a gap in knowledge and understanding of the part of many employees. NARFE can help bridge a part of that gap through its monthly NAEFE magazine; informational brochures; e-mail systems; chapter meeting presentation; and Chapter Service Officers, who are trained to assist members with retirement issues.

19. Making decisions without consulting a Chapter Service office, local NARFE Service Center volunteers or NARFE’s Retirement Benefits Services Department on benefits questions. NARFE can ease your way into retirement. Service Officers and other chapter members may be able to answer many questions you have prior to or at the time of retirement. Since personnel and human resource functions have been centralized in many agencies or regions, a NARFE chapter can be a source of information and can provide conduits through which information can be obtained.

20. Silencing your voice by not supporting NARFE legislative issues that have an impact on your future. Visit the NARFE web site (www.narfe.org) for more information on legislative issues.