# Eleven Common Mistakes Federal Employees Make Claiming Their Retirement Benefits

## How to Avoid These Mistakes and Achieve Your Retirement Dreams

**By Dave Baker**

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INTRODUCTION

# My Professional Background and Why I Do What I Do

Nearly 30 years ago, as I was getting my start in the financial planning business in the great city of Detroit, I had colleagues who told me the biggest opportunities were Ford, General Motors, and Chrysler. They were big companies, and they all had HR departments. Any financial planner who managed to get in those doors would have access to tens of thousands of employees.

But as my network grew in the city, it turned out I had quite a few friends who were federal employees. I'd ask them how their pensions were looking, and whether they had an HR department that was helping them with it. What I'd nearly always get in response was a blank stare. And there's a reason. I learned that some departments of the federal government, like the Post Office, have no functioning HR department. Others have an HR department, but it refers people to and reports to what they call the Office of Personnel Management (or "OPM"). And the OPM doesn't have licensed financial planners. So when employees asked questions about their pensions, they might get a form to fill out. But they wouldn't get guidance on investment options. Employees were left to make decisions for themselves.

I considered this an opportunity. If I could point federal employees and veterans toward financial freedom, hopefully I could prevent them from having to start a new job after retirement – simply because their retirement "plan" may not have had a plan at all. I started learning everything I could about federal government pensions, and in addition to the various securities and insurance licenses I obtained, I added two designations that are specifically geared toward federal employee benefits programs.

One of those designations is called the Chartered Federal Employee Benefits Consultant (ChFEBC℠ for the people in the industry). This certification exam, developed by a fantastic women-owned company in conjunction with the OPM, is extremely in-depth. The underlying book is 13 chapters 310 pages deep and is pulled directly from the OPM materials. Knowing how important it is to have experts in the financial services industry, the OPM has provided access to their materials, and even invites this women-owned company to give seminars inside the OPM and at various agency HR departments. I've included the Table of Contents from this ChFEBC℠ course in Appendix A.

I also became certified through a competitor's course, one designed by the Federation of Federal Employee Benefit Advocates. Their certification is entitled the Federal Retirement Consultant, or FRC℠. In order to obtain and maintain this certification, individuals are required to demonstrate "a commitment to high standards, continuing education, professional ethics, and trust."

In most cases, financial planners believe they are sufficiently educated and experts on the topic of they are certified through just one of these two primary certification companies. However, I chose to do both. I enjoy the educational aspect of learning from both, the courses are sufficiently different such that they provide me with more information than what I would have had with just one, and frankly, I believe I'm a better consultant because of the dual certification.

Both designations have challenging exams, and both require annual re-certification. In the case of the ChFEBC, the test is 50 questions, which no one knows in advance. If you don't pass, you have to wait until the next certification. You also have to take annual exams to recertify. That will keep you fresh!

With the FRC℠, we take an equally difficult exam, and then must complete detailed, certified continuing education every year.

As I've worked in the industry, I've learned that anyone with one of these designations is regarded as an expert. Far more than any agency or the OPM, these people understand benefits and can guide employees on making decisions. I've found that having taken both exams, I can serve as even more of a resource. And if there's ever another designation or certification offered – there currently is not – I'd take it. I enjoy learning about these things!

Aside from these two certifying bodies, I've also read probably everything that exists on federal retirement benefits. As for written materials, there's first and foremost the federal employee benefit "Almanac." It's essentially the Bible of employee benefits, and I've gone through it cover-to-cover. You can also read a lot online at the tsp.gov website, home to the Thrift Savings Plan, the "retirement savings and investment plan for Federal employees and members of the uniformed services." And frankly, the OPM points employees and veterans there quite often. But the problem with both of these resources is you really need to spend a lot of time reading before you can get familiar with them, and the OPM doesn't offer training. Moreover, some of the language really is best interpreted by a financial planner. And again, OPM doesn't offer anyone with that skillset.

With my training and my specific focus on federal employee benefits, and with my additional fiduciary certification, which holds me to an even higher standard, I am able to offer very specific answers to federal employees' questions. When things change, which is rare for federal employee benefits, I make sure I know the changes inside and out. (To give you an idea of how antiquated the rules and benefits are, the Federal Employee Group Life Insurance ("FEGLI") program was developed in 1954 and has not been changed since.) The changes don't occur very often, but you can bet that when they do, I'll not only be one of the first to know, I'll also be tested on them – since I get recertified every year.

Aside from the two certification agencies, there's very little out there to "teach" the federal benefits and retirement options. I've literally had to learn everything myself, so I know the rules and benefits quite well. This has become my niche, my area of expertise as a financial planner, and it's how I help guide federal employees and veterans toward and through their retirement ages.

### The Unnecessary Hurdles Federal Employees Face

Unfortunately, federal employees face numerous obstacles in their retirement planning. First, federal code states that each agency must have a federal employee benefits education program developed and implemented, and that education program must be given a minimum of three times during an employee's lifetime: career outset, mid-career, and pre-retirement. However, the vast majority of employees are reporting that this isn't happening. And no one seems to be doing anything about it.

Second, the code also states that outside (non-governmental) sources can be used for that education – perhaps recognizing that internally planning the education program isn't always the best solution. Yet all efforts from our end to help federal agencies put an education program in place have been blocked. In fact, the individual post offices and federal agencies are blocking anybody from talking to us regarding their federal benefits. It's absolutely frustrating. We know there is a tremendous lack of knowledge, yet we are being stifled from helping those most in need.

And that means federal employees are missing out on critical advice. Qualified financial planners are not able to sit down with them, find out what their individual goals are, and develop a customized personal financial plan. No one is helping them decipher what their benefits will cover and not cover in retirement. And no one is strategizing how to cover the lapses of benefits, including what investment game plan will help them meet their retirement goals despite the lapses.

Finally, I'm told that employees wait on hold as long as an hour and a half to talk to someone in OPM or their own HR department, only to find out they can't get answers to their questions. The OPM might quote "chapters and verses," but because they aren't financial planners, and certainly not fiduciaries, they aren't able to interpret how that might apply specifically to the individual calling. Federal employees end up frustrated and uninformed. Some of the most highly educated federal employees and veterans – we're talking surgeons, doctors, and engineers – had no idea what their benefits were simply because they couldn't get answers. From my experience, even the highest levels in the administrations are uninformed.

That lack of information and inability to get guidance is truly alarming, because I know for a fact that many of the career-long benefits drop off at retirement, and most employees are not prepared for the consequences. That's why we see so many federal employees forced to find jobs after retirement. No one at OPM or any other HR office guided these employees on how to truly prepare.

## There's No Cookie-Cutter Template that Works

One of the reasons additional certifications are required is because federal employees don't fall under the same retirement benefits package or solution. There's no "cookie-cutter" template that anyone (who is qualified) can use as a one-size-fits-all solution.

This is in part because the federal agencies are so widespread in benefits and disciplines. You have both civil and governmental employees that span everything from FBI agents to air traffic controllers, NASA engineers to local firefighters, military troopers to Department of Defense administrators, etc. etc. So not only do you have to learn about the benefits for every type of federal agency imaginable, you also have literally hundreds of specific job classifications that are unique, such as high-risk jobs.

High-risk jobs are those held by employees who are subjected to dangerous employment conditions. These employees are rightfully given shorter requirements to qualify for federal benefits. In essence, if your life is on the line, the federal government doesn't expect you to work 30 or 40 years. Instead, it's often 25 years and you're out. This adds many different nuances to the federal benefits, including who qualifies for it, and who doesn't.

There's also a civil service program in addition to the federal employee retirement service program. These people also have federal benefits, despite not being your traditional federal employees. So, whether you're a firefighter, an FBI agent, a postal person, or an air traffic controller, there's a federal benefits and retirement package for you, and I've trained myself on what the benefits are for each type of employee, how the disability programs work, how the pension programs work, and how insurance is affected – meaning how a surviving spouse or children may be affected by the employee's benefits should that employee die early. In truth, the vast number of plans and variations make the entire learning curve very deep and intense. It's one of the most difficult things I've ever taken on, but that also makes it rewarding.

### My Unique Approach – Research, Reference Manuals, and Retiree Experiences

Over the years, I've collected every resource, certification, and course I could find on federal retirement benefits and strategies, and I've condensed them into a large reference manual. I keep it at my fingertips and refer to it in situations where the questions get super technical, since I want to make sure I present the client with the most up-to-date and accurate information. Between this and the resources I have access to due to my certifications, I am able to answer questions quickly. In some cases, I'll even go back and contact some of my trainers to get their input as well. While I am confident that I know *nearly everything* that can be known about federal benefits, I don't believe in hindering a client by not asking questions of others when the topic might be more nuanced.

CHAPTER ONE

# Misunderstanding the Minimum Age Requirements for Retirement

I'm often asked about the biggest mistakes people make when planning for retirement. In my decades of experience, the biggest mistake I've seen is not understanding the minimum retirement age requirements and what they mean. If you don't know those requirements, the consequences could be huge.

So, let's start Chapter One by overcoming *Mistake Number One*. Let's understand federal retirement minimum requirements.

There are essentially three different tiers and three minimum ages. The tiers are broken down into how long you worked for the government, and that gives you the minimum age you must achieve before retiring with full benefits. The three tiers are:

| **Number of Years of Employment** | **Minimum Age to Retire** |
|---|---|
| 30+ | 57 years old |
| 20+ | 60 years old |
| 5+ | 62 years old |

### No Matter What You Do, Don't Retire Early

Be wary of the double requirement. The mistake I see way too commonly is someone thinking "I've worked 30 years, I'm done!" And that's just not the case. They still have to be at least 57 years old.

And if you don't hit the minimum age, you get penalized 5% for each year until you reach age ***62***. Forget about that magic number 57. It's gone – even for those who worked 30+ years. And if you worked 20+ years but retired before age 60, the same issue applies. That magic number 60 is gone. This is where many people get caught up. This small detail has a huge impact.

Let's work out some scenarios to illustrate this point. Say you started working for the federal government at age 26. You are now 56. You fall into the first category above – at least on the left column. You think, "Wow! I've worked for 30 years; I should just retire this year. Benefits kick in at 57 anyway."

**That would be a disastrous decision.**

There's no grace period. And retiring just one year (or even one week) shy of 57 years old won't just cost you 5% in benefits, as some people think. You'd lose 5% for *each year* between when you retired and when you hit the age of 62. Remember, by retiring at 56 instead of 57, you kissed that 57-year-old number goodbye. Now the calculations revert to 62.

The same applies to the person who has worked 20+ years, but retires before 60. Forget about the 60-year number. It just became 62 when calculating benefits lost.

So, in our first scenario, where you worked thirty-plus years but retired before you hit 57, you have now lost six years (age 62 – age 56) of benefits *times* 5%. Your "early" retirement just cost you 30% of your retirement benefits. Thirty percent! I can't imagine a more disgruntled retiree!

And the rules are not really forgiving. Let's say you are 56 years old, and just two weeks from your 57th birthday, when you retire. It doesn't matter that you put in your 30 years. You're still subjected to the same calculation: you didn't wait until you were 57, so you will lose 5% *per year* of your benefits, calculated from your actual retirement age of 56 until the age of 62, or a whopping 30%.

Given this harsh scenario, I'm often asked if there are any exceptions. There is one, but it is limited. If you served in the military, you can use some of that time to count toward your 30 years. But that assumes you didn't take the benefits the military offered upon your discharge.

### The Military Exception

The military exception deserves a scenario to better understand it. Let's say somebody signed up for two tours with the Army. They spent eight years in active duty. By the time they are looking at civilian life, they're in their mid-20s or older.

Upon their discharge from the Army, they're presented with an option of, "here's a lump sum you've accumulated. Or you can leave it invested with us and it will grow at some unknown but notoriously low rate." Most 20-somethings are going to take that lump sum and go out and buy a car, put money down on a house, or something like that. So any equity that they've built up in the system is gone.

Let's say they go on to work in a federal agency. They put in another 20 years. And to get to the 30-year bracket listed above, they say, "Hey! I served my government for eight years back in the prime of my life. What's that worth?"

The answer is *nothing* – at least as it counts toward your employment by the federal government. You effectively cashed out your retirement benefits for service when you took that lump sum shortly after discharge. Because of that lump sum payout, your years of service no longer count toward federal employment.

But not all is lost. The government allows you to go back and buy your lump sum payout back, with interest, if you want those eight years of service back. That would put the retired serviceman at 28 years instead of 20. And depending on the interest rate attached to their buy-back – it varies based on when you were discharged – it may be worth it.

**Reviewing Benefits as a Whole**

Obviously, the benefits of federal employees and military personnel can get complicated. And when you combine the two, and then add on Social Security benefits, the computation of when it is best to retire is not the least bit straightforward.

In order to best assist federal employees with their planned retirement, and *when* they should retire, we frequently use an optimization calculator. For example, if the employee retires at the age of 62, and then starts to take Social Security, the Social Security benefits are reduced *permanently*. That's because Social Security benefits don't maximize unless you wait until you are 67 to start taking them.

That leaves many retirees in a conundrum: wait longer before retiring, retire but wait several years before starting Social Security benefits, or take the benefits immediately after retirement, with the understanding that the benefits are reduced. It's difficult to appreciate how this will impact you at every stage of your retirement if you don't have someone calculating your annual income from all sources and through all scenarios.

In conclusion, it's imperative to retire without any surprises. In order to do that, you need to understand what benefits you will have, and what you sacrifice at any given stage. My goal is to make sure every federal employee knows exactly what retirement looks like, when they want to retire, and how to best prepare for it.

CHAPTER TWO

# Screwing up the Social Security Special Retirement Supplement

In Chapter One, we touched briefly on Social Security. But aside from losing some Social Security benefits by starting the benefits earlier than age 67, there are other aspects that necessitate explanation.

One of those aspects is the Social Security special retirement supplement and it is one of the eleven mistakes federal employees can make by not understanding it. This "bridge" is also known as the Social Security supplement. So, let's dive in to when that bridge applies, and what you need to know.

The Social Security special retirement supplement is designed for people who have met their Minimum Retirement Age ("MRA") requirements, but they're still under the age of 62. At age 62, we are all eligible to receive Social Security benefits. But if you are a federal employee, you've met your MRA requirements, *and* you're under age 62, you will be eligible for approximately 75% of what your Social Security benefits would be at age 62. And once you turn 62, those benefits stop, whether you elect to take Social Security or not. This benefit that is offered between your retirement and age 62 is referred to as the Special Retirement Supplement.

### The Special Retirement Supplement Also Has Requirements

Here's the issue: if you don't meet your MRA, you don't get that bridge, either. I've had people who hear through the grapevine – often from other employees who offer advice, but don't know the details – that they don't need to worry about meeting their MRA of 30 years and 57 years old / 20 years and 60 years old. "Ah, forget it. I don't care about that. I'm going to get my bridge payments to hold me over."

Unfortunately, this is another grave misunderstanding. If you don't meet your MRA, there is no supplement. And without the benefits of the supplement, you have years before you see a single penny from Social Security. I've met employees who make huge decisions about retirement without understanding this critical aspect, and it is tragic.

For example, I met with someone who was six months shy of 60 years old. She had 23 years of governmental experience, and all of it was creditable service. She thought because she had exceeded age 57 and had 20 plus years, she was good to go; she was going to retire and live within her means, with some help from those Social Security bridge payments.

I explained to her that first and foremost, she wasn't going to get her full pension. After all, she needed to wait until she was 60 years old to be eligible for that. She goes, "Well, that's okay, I'm going to get my supplement.

I then informed her that this was another misunderstanding. "No, you're not. You also lose those if you don't wait until you are 60 to retire."

Once again, the federal retirement age minimums must be met to be eligible for these benefits. She had the requisite number of years (at least 20, which qualifies her under the second tier), but she hadn't yet turned 60. If she would stay on and retire after 60, she could get those two years of the bridge payments.

But unfortunately, I'm telling my younger clients that they shouldn't even rely on that. Right now, Congress is considering eliminating the special retirement supplement altogether, and it is very likely that they will.

**Eligibility to Retire**

Benefits under FERS are payable to workers at age 60 with 20 years of service, or at age 62 with 5 years of service. Benefits are also available after 30 years of service at the "minimum retirement age" (MRA).

| If you were born | Your FERS MRA | If you were born | Your FERS MRA is |
|---|---|---|---|
| before 1948 | 55 | in 1965 | 56 & 2 mos. |
| in 1948 | 55 & 2 mos. | in 1966 | 56 & 4 mos. |
| in 1949 | 55 & 4 mos. | in 1967 | 56 & 6 mos. |
| in 1950 | 55 & 6 mos. | in 1968 | 56 & 8 mos. |
| in 1951 | 55 & 8 mos. | in 1969 | 56 & 10 mos. |
| in 1952 | 55 & 10 mos. | 1970 or after | 57 |
| 1953-1964 | 56 | | |

CHAPTER THREE

# Losing Your Life Insurance

Another mistake I see way too often is federal employees letting their life insurance benefits lapse for one reason or another. Unfortunately, that mistake can make the difference of hundreds of thousands of dollars.

Let's envision another scenario. Alice has been working for the government her entire life (often affectionately called a "lifer"). She is automatically enrolled in basic life insurance, known as Federal Employees' Group Life Insurance (or "FEGLI"). Alice also has the option to buy additional group life insurance, one of three options characterized as Option A, Option B, or Option C.

When you're young, this group life insurance is extremely cheap for federal employees. It may very well be the best deal out there. However, once you hit age 50, the costs start to double every five years. By the time people are ready to retire, whether it's age 60, 62, or 65, whatever the case may be, it becomes prohibitively expensive. So this is a conversation I hope to have early on in people's careers. But some things are also critical at the stage of retirement.

As employees approach retirement, they can submit paperwork requesting a 75% reduction in life insurance – effectively making their basic life insurance coverage free. And that's a no-brainer. But it isn't the most common mistake retirees make.

It's the other life insurance decision that happens at retirement that is critical: electing the optional insurance, which can be $300,000 of insurance. If you don't elect it, it goes away completely. Maintaining this insurance after age 50 and into retirement can be quite costly. This might be a really good time to evaluate what you actually need and shop around for better pricing.

## Three Options in Detail

Let's go over the three options: A, B, and C. Option A is a straight $10,000 death benefit, for which employees pay pennies on the dollar. This is an extremely cost-effective option, and if nothing else, I suggest taking this option at a minimum. You get a lot of bang for your buck, but you have to opt in. It is not automatic. And once again, it goes away completely if you don't opt in.

Option B is what we call "the multiplier," where employees can get anywhere from one to five times their base pay. Keep in mind base pay is not the same as what employees take home. But most employees will know the difference. And for each five years of employment, the multiplier goes up. It's just like standard-term life insurance; every five years, the rate increases.

However, there is a catch. Under Option B, once a retiree turns 65, that benefit starts reducing at a rate of 2% a month. At twelve months out (age 66), the retiree will have lost 24% of the death benefits. And after 50 months – shortly after the retiree turns 69 – it's gone. Finally, there's Option C. This is geared toward the federal employee that wants to provide for his or her family. In this case, you can buy insurance that covers the spouse and children. And that insurance is sold in "units." Employees can buy anywhere from one to five units for a spouse and between one and five units for children.

The units vary depending on whether you are purchasing for your spouse or child. For your spouse, units are sold in increments of $5,000.

Therefore, if you maximize your spouse's coverage under Option C, you can buy five units, or $25,000 worth of coverage that benefits your spouse upon your death.

In the case of children, the units are sold in increments of $2,500. Maximizing the coverage at five units means your children will receive $12,500 each upon your passing. Interestingly, it doesn't matter if it's one child or 20 children, it's the same cost to the retiree.

But once again, just as with Option B, the benefits under Option C – at least those benefitting your spouse – start to diminish at age 65. Over the course of 50 months, the benefits will go down 2% per month, and will disappear at 50 months.

One small difference is the benefits for the children. Those last until each child turns 22.

## How to Claim Federal Employee Life Insurance Benefits

When federal employees are approaching their retirement, they fill out Form 3107 to notify OPM of the date. Typically, employees are either sent a booklet to fill out or a link to take them to a website to fill out, depending on the agency.

When it comes to FEGLI, the basic insurance, most people elect to take the free coverage, because it gives them some insurance at no additional cost to them. If they choose that option, their insurance benefits are reduced by 75%, and to confirm that everyone understands the implications, the retiree must check the selection that says, “I want the 75% reduction.”

The other option is that the employee elects to have the full benefit of options A, B, or C, rather than the reduced benefit. However, the options are usually quite expensive. In most cases, the employee would be better off going to the open market to price insurance elsewhere, unless they are uninsurable for some reason. In those rare cases, I recommend considering the federal life insurance options (A, B, or C).

### Other Options

If an employee is considering third-party options on the open market, I always recommend talking to a financial planner who can help guide the employee through options that exist based on the goals the employee has.

For example, the employee may want to have some sort of estate planning done, so that they can leave something behind for their kids or grandkids. Or perhaps they purchased a new home later in life and have a lengthy mortgage ahead of them that they don't want to leave to their spouse without some financial help.

Of course, there are dozens of other factors to consider, like what their pension provides, whether there are Roth IRAs to convert, investments, funeral expenses, income replacement for the surviving spouse, etc. The list of considerations is so long that it really is best to consult someone in the industry. That person can help the retiree identify what gap they may have between the income they expect after retirement and the lifestyle they hope to have. We also have calculators that can look into the future under various scenarios to see if the current income structure continues to provide the lifestyle desired in each scenario. Finally, we can calculate what the surviving spouse will be left with under each scenario.

Financial planners can also discuss how to roll some of the invested money into a "safe money bucket" so that market downturns or other unforeseen circumstances don't wipe out their hard-earned savings and investments. We also consider inflation, taxes, and additional ways to grow the principal safely. Ultimately, it is up to the employee, but by sitting down and reviewing all the options and potential scenarios, the employee will always be able to make better decisions.

Finally, it is my hope that everyone starts thinking about these things and planning accordingly, well before retirement. In an ideal world, the employee starts planning well before age 50, since life insurance and other costs start to go up exponentially after that. I go into some of those costs in the next chapter.

CHAPTER FOUR

# Not Collecting the Monthly Annuity at the Right Time

**Rule #1: Retire at the End of the Month**

Here's another factor that so many people overlook: you should always plan to retire at the end of the month or at the end of a quarter. Why? Because of the payroll cycles. Let's look at an example.

Bob is approaching retirement. For his entire career, he has been paid bi-weekly, or every two weeks. But once he retires, he will shift to monthly checks. This is standard, and not something Bob gets to decide.

That shift, by itself, is a pretty big adjustment. For the first time in probably decades, Bob is going to have to budget his finances on a monthly basis instead of every two weeks. That one check will need to be set aside and drawn out to last the next 30 days.

But guess what happens if he retires at the beginning of the month. The wait for his first post-retirement check is not just a month, but nearly two. Why? Paychecks and retirement checks always come in arrears, and employees get paid at the end of their payroll cycles. If you don't start your retirement until the beginning of the month, you won't get paid until the *end* of the next month. Bob will have waited nearly two months to get paid – for absolutely no reason, other than that's how the payroll calendar works.

### Rule #2: Double- and Triple-Check Your Paperwork

Worse yet, imagine if the paperwork was not filled out completely, or at least someone thinks it was not. Now, if that error takes another week or more to fix, Bob could be bumped into some future pay period. I've seen some cases take three to six months to resolve.

These scenarios are more common than you might think. Unfortunately, the OPM office is overwhelmed and understaffed, and if an OPM employee sees what they think is a mistake or something that isn't a textbook-accurate response on a submitted form, huge delays ensue. Let's say the OPM employee sees a perceived error on page 7 of a 30-page document. That employee drafts a letter and it goes out via regular (snail) mail next week. The retiree responds the following week. And then the OPM employee finally turns to page 8 and beyond, and happens to find a second perceived error on page 25. The process repeats.

I've seen this happen! It can cause complete panic and major financial pain for retirees!

I've also witnessed scenarios where the OPM employee most likely thought, "well, the book doesn't contemplate how this retiree answered the question, so I don't know what to do." The form goes to the bottom of the pile, and you just hope the employee chooses to deal with it the next time it surfaces.

Perhaps six or more weeks without pay is something most people can handle without it causing a crisis. My response is, barring very compelling reasons like medical reasons, why set yourself back? That's more bills you will have to catch up on. But the situation gets far worse if there is a perceived error in your paperwork, or you simply fall between the cracks. Do you really want to add six or more weeks to the significant delays you will already have?

## Do These Two Things to Avoid Surprises

To avoid these two potential issues, I offer two pieces of advice to my clients. First, at least six months before you plan to retire, schedule your "debriefing appointment." This is what OPM calls the meeting (it's typically a 90-minute phone call) where you go over the forms, paperwork, and steps that will need to be completed in order to start receiving your retirement pension on time. Because OPM is so busy, this is best planned for six months prior. Unfortunately, most people neglect to do it until it is too late, and this leads to incorrect or confusing language being submitted to OPM. A trained and certified expert can also assist with this, and I help with these things regularly.

Second, make sure you anticipate how the monthly payroll calendar is set up before you schedule your retirement and that way, once again, you will hopefully have no surprises. Pick a day late in the month that takes into consideration when your payroll period ends, and confirm the timing with OPM, if you aren't working with a financial planner or professional.

If it is reasonable for your retirement timing, I'd further suggest scheduling your last day at the end of the quarter, or even the end of the year. In my experience, those timeframes mean OPM isn't as busy calculating pay dates for the rest of the quarter or the rest of the year, and they process your information even faster. That's when I have seen the best results.

CHAPTER FIVE

# Losing Health Insurance Benefits During Retirement

Here's another situation to watch out for. You are approaching retirement, and you want to take advantage of the government's health plan. It is good, after all. Very good.

I don't usually need to convince government employees why it is good, but here is why I say it is so good. In total, the federal government has over 250 well-subsidized plan choices, and typically at least 10-15 plans are customized for that employee's locale, meaning they include many of the local doctors, clinics, and hospitals in their networks. You can also hop between plans every year. Need maternity benefits this year? Great. You can choose a plan that favors that and go back to another plan next year.

The health plans are so attractive a lot of people come to work for the government after they have retired from another job in the private sector. If they put in their five years with Uncle

Sam, they can have health insurance for the rest of their life, and chances are, their pension will cover the entire cost, even if their employment was limited to just those five years.

### The Five-Year Rule

The problem is, if you've been on your spouse's health plan or your previous employer's health plan during any of those five years, whether it was years ago or perhaps even now, your enrollment in the retirement health plan will be jeopardized.

In order to be eligible for health insurance at retirement, federal employees have to have been enrolled in and actively buying or participating in one of the offered health insurance plans for *five years* prior to retirement. So in the example above, if you're on a spouse's health insurance plan and it's outside the federal government, and now you're getting ready to retire and you want to get the federal employee health insurance plan, you can't just sign up for it and then retire. You haven't met the five-year minimum. This is one of many reasons I like to meet with potential retirees at the five-year period *before* they plan to retire. It's absolutely essential to make plans then.

**Suspend, but Don't Waive, Health Insurance**

As the world's largest employer, the federal government's group health insurance plan is large. And just like when they are full-time employees, retirees are given the opportunity to switch insurance plans every year at open enrollment. And sometimes it makes sense to try different plans, especially if there is a change in health circumstances.

Regardless, when retirees are contemplating how to use their insurance alongside Medicare, they often make the group health insurance their primary insurance, and Medicare the secondary insurance. That frequently gives them the most benefit. However, on rare occasion, they may want to make the Medicare Advantage Plan their primary insurance. In this case, I always advise that they ***suspend, not waive***, their group health insurance. That's because if they waive their health insurance, it's gone forever. And as we've said, that insurance is too good to waive. If they suspend but do not waive the health insurance benefits, they can always unsuspend them later – at the next open enrollment.

## Let's Be Clear: You Don't Have Disability Insurance

Another catastrophic event for retirees when it comes to health and benefits is the unlikely, but real chance that the employee has a disability.

I can say this from experience, some people have a stroke or heart attack and just don't see it coming. In most cases, while it isn't easy, you can hope to return to work in six months or so. But that's not always the case.

Under the federal government's benefits plan, there is no disability insurance as we commonly know it. They don't have short-term disability; they don't have long-term disability.

Here's what happens instead. Let's say the unforeseeable happens, like that stroke I'm familiar with, or perhaps your doctor says you need hip surgery. First, Uncle Sam is going to require you to use up your sick time – which may be substantial if you have worked there for years and barely used it – or it may not be much if you have regularly had illnesses or only worked a short time.

After your sick time is used, next up is your vacation time, commonly called "leave time."

And thus far, you are still getting a check. However, in contrast to people who have true short-term disability benefits, you are eating up your vacation and sick days.

But let's say Dan uses up both his sick time and vacation time, and he still isn't able to return to work. This is when traditional long-term disability might kick in. In Dan's case, what happens next is the government tells Dan to go on "leave without pay," which is just as it sounds: Dan doesn't work, but he also doesn't get paid.

This is where some people start to get pretty uncomfortable in their circumstance, for obvious reasons. Unfortunately, Dan's choice is clear: he either magically gets well, or he continues to try to recover, except now he has no paycheck coming in.

Eventually, if Dan is out long enough on this "leave without pay," the government will initiate what they call "disability retirement." For a lot of people, that may not sound like a bad deal. If you've worked for any other major corporation, retiring on disability (utilizing long-term disability insurance) usually means you will get a sizable disability check for the rest of your life. And if you somehow recover, you can probably get your job back. Some people even "stack" their incomes and work a second job while getting the disability check.

**Federal "Disability Retirement" = No Job, and Diminishing Benefits**

That's not the case for the federal government. First, "retirement" means you are no longer a federal employee. You've been retired. You will be replaced, and you cannot get your job back.

You also face a drastic reduction in your income. Under the disability retirement rules, your first year of disability payments are calculated by taking the average of your three highest years of *base* income and multiplying that number by 60%. Recall that "base" means no bonuses and no overtime. Just your base pay. For anyone I've ever talked to, that's a huge cut.

And it gets worse from there. At year two, the retirement payments drop to 40% of your previous base pay. When I talk to people at this stage, they are usually not in good shape. Financially, they are taking a hit, and of course physically, they have few options as well.

In some rare circumstances, someone in this predicament can find a different job in the private sector. (Keep in mind they've already replaced you at your government job.) And that's when Uncle Sam dings you in the third way: if you ever find a job that pays you more than 80% of your existing (very small) disability retirement payments, the government will cut those off, too. It's truly a terrible plan and set of rules. You couldn't sell a disability plan with terms that terrible. That's why it's not a disability plan at all.

Let's see how that would play out for Dan. Let's imagine Dan was making a solid $50k base pay working for the largest employer in the world – our federal government – but he suffers from a stroke. He's out on sick leave at first, and he uses up his 20 days of sick leave.

Dan's now one month into his stroke, and he's not ready to go back to work yet. So he starts using his vacation time. He has 20 days of that. At the end of those twenty days, he's approaching two months, and he's still not ready.

Dan now goes on "leave without pay" and loses all income. His wife may try to pick up extra shifts or get a second job, but losing Dan's $50k is nearly impossible to overcome.

Finally, Dan is told he no longer has his job, and he applies to be put on Disability Retirement status. Assuming $50k was his average base pay using the calculation above, Dan starts to draw $30k before taxes for his first year of "retirement." Once year two hits, that pay goes down to $20k.

At this point, Dan's income is less than most entry-level workers. Dan starts to look around at what jobs he can perform, and that list is small. He finds one, though, and starts at some measly rate like $10/hour. That causes him to lose his "disability" pay of $20k. Unless Dan's wife can change their fortunes, Dan and his family are financially handicapped for the rest of their lives. I've witnessed people in this predicament be forced to cash out their entire retirement accounts. It's truly devastating and life-changing to find yourself in this situation.

Even worse is if Dan didn't happen to have his health insurance active for five years prior to his incident. By retiring, it means his health insurance policy will also be lost.

## Consider Private Disability Insurance

One lesson here is you should never rely on the federal government to have you covered when it comes to the possibility of a disability. I encourage all of my federal employee clients to look into third-party short-term and long-term disability insurance.

There are rare cases where it probably doesn't make sense. For example, I had a client that had accrued around 4,000 hours of sick time by the time he approached retirement. If something happened in his last months that was disabling, his sick time would more than cover his time away.

But that's not most people. I have other clients that like to take vacations, go on ski trips, take snowmobile trips, etc. And they'll have sick days here and there, too. I'd consider these people a higher-risk category, and they should therefore consider short-term disability insurance.

CHAPTER SIX

# Not Capitalizing on the Thrift Savings Plan ("TSP")

I briefly mentioned the Thrift Savings Plan in my introduction. I want to cover why it is a mistake for federal employees to not take advantage of this plan.

As a federal employee, you're automatically enrolled in the TSP. Up until 2010, you could opt to invest up to 3% of your income into your TSP, but starting in 2010, employees were *automatically* enrolled at a rate of 3%. That meant 3% of an employee's pay automatically went toward their TSP, so that they can use it at retirement. The government also matched that amount, so TSPs contributions were at a rate of 5% (matching is capped at 5%) of the employee's pay.

In October of 2020, that changed and new employees started to be automatically enrolled at 5%, with the government matching 5%. So unless an employee affirmatively declines this plan, 5% of their pay will go into their TSP and the government will chip in another 5%.

There was another change in 2017 that is worth pointing out. Prior to that time, by default, all TSP funds went into the "G Fund," which stands for government treasuries. But starting in 2017, they began putting those TSP contributions into one of their Lifestyle Funds, commonly called an "L Fund." Each of the L Funds is a mixture of the TSP's various other funds, and the government attempts to direct your investment toward the L Fund that they determine would be most effective for your age and retirement plans. This is the government's way of trying to keep up with what the private sector is doing when they offer more aggressive investment funds to younger employees.

And in general, these are all good moves by the federal government. That's part of why they have a 93% participation rate by their employees. They have automated it, and for the most part, employees leave it and forget about it. While agencies do allow employees to modify the investments or make changes as they continue in their career, I believe these automated decisions are nearly always best for the employee.

## Make Sure You Are Maximizing Your TSP Investment

One thing that is not automatic is changing your TSP investment rate from 3% to 5%. If you were hired before October 2020, you were hired under the 3% rate of investment schedule, and that means the government is only matching 3% as well. You are leaving “free money” on the table.

If you are one of these employees, and that’s the vast majority at this point, then I highly recommend you make that modification to your TSP investment plan. Uncle Sam has an extra 2% per year that he will give you, and that will make a significant difference as it snowballs throughout your career.

## The Prudent Man Rule

In pension and benefits planning, there has always been a policy called the “prudent man rule.” It essentially means pension providers strive to invest for their employees as if they were a prudent man.

The government has never claimed to follow the prudent man rule, but if you get to know their pattern as I have, you will see they have usually operated in the best interest of their employees.

By automating the TSP investments, Uncle Sam has effectively told employees, “Look, in order for you to have a good retirement, you need to be doing this. And, oh, by the way, as a father figure, we’re going to set you up on that automatically, and if you don’t like it, you need to go in and change it yourself. We are doing what’s in your best interest. If you don’t want that, we’re going to force you to sign a paper saying you don’t want it.” The only thing they didn’t do was automatically increase all of the 3% contributors to 5%. So that’s what I tell my clients to do.

CHAPTER SEVEN:

# Not Understanding TSP Investment Options and Tax Mistakes

In the previous chapter, we mentioned the G Fund and the L Funds. Let's go into detail as to what those funds actually consist of, what other funds exist, and why some might be better for you than others.

## The Original Five: G, F, C, S, and I

### The G Fund

The G Fund, which stands for the Government Securities Investment Fund, consists of non-marketable government treasuries. These treasuries are not even traded, so you basically cannot lose your money. There's no stock market crash that is going to impact your portfolio. And in the case of federal employees, the majority are fiscally conservative by nature. So they tend to lean toward this fund if not coaxed appropriately.

The problem with the G Fund is you won't make gains very quickly. Historically, the G Fund averages a 2% rate of return annually. So if the inflation rate in the US is 3%, and you invest in the G Fund because you don't want to ever lose money, you're up against inflation risk. Even though you don't have the risk associated with the stock market, you have inflation risk, which means your investments aren't keeping up with the pace of inflation. Plus, we all know that inflation is way higher than 3% currently, and we don't know when that will come back down to a reasonable number.

**The F Fund**

Another fund option is what they call the Fixed-Income Index Investment Fund, or the "F Fund" for short. This fund consists of 30% corporate bonds and 70% government securities. According to the TSP website, F Fund investors are rewarded with the opportunity to earn higher rates of return over the long term than they would from investments in short-term securities such as the G Fund. But don't let the "fixed-income" name mislead you. Just this past year, the returns on the F Fund have actually been negative, and employees invested in it have lost money, in contrast to every other option out there.

The F Fund is made up of a mixture of the treasuries that are in the G fund, as well as high-grade corporate bonds. What most people don't understand is the F Fund does not consist of the actual bonds. Rather, you are buying into a bond index.

Here's what that means. When you have a bond, you have a certain element of guarantee associated with it. But when you are buying into a bond index, it fluctuates daily, because the index is tied to the market.

For this reason, the F Fund can lose money, and it lost money in 2021. So while they call it the Fixed-Income Fund because it has a nature of bond element to it, keep in mind you aren't buying bonds. You're buying into a bond index, which does fluctuate and can lose money.

**The C Fund**

There's also the Common Stock, or C Fund, which largely follows the S&P 500. This fund tends to have some of the highest returns lately, but that's because the S&P 500 has been doing so well for so many years. The top ten holdings of this fund (as of 12/31/2020) are Apple, Microsoft, Amazon, Facebook, Tesla, Alphabet Class A, Alphabet Class C, Berkshire Hathaway, Johnson & Johnson, and JP Morgan Chase.

### The S Fund

There's also the Small Cap Stock Index Investment Fund, or S Fund, which includes 200 small- to mid-sized companies. The S Fund's investment objective is to match the performance of the Dow Jones U.S. Completion Total Stock Market Index, a broad market index made up of stocks of small-to-medium U.S. companies not included in the S&P 500 Index.

The S fund is not as simple as you would think it is. It's not the Dow Jones. It is a Dow Jones element that has 200 individual companies in it. So, the Dow Jones Index itself is only 30 companies, but this particular Dow index is made up of 200 companies that are not included in the C fund. Because of this, it is a higher-risk option than just investing into the C fund. It's like a sub-index tied to the C fund. The two funds work very nicely together because you don't have any duplication of companies.

### The I Fund

Finally, there's the International Stock Index Investment (I) Fund. The I Fund's investment objective is to match the performance of the MSCI EAFE (Europe, Australasia, Far East) Index.

According to recent figures from TSP.gov, here's how the annual returns of each of those funds have compared in the last 10 years. 2021 figures are as of December 2021.

| | 2021 YTD | 1 year | 3 year | 5 year | 10 year |
|---|---|---|---|---|---|
| **G Fund** | 1.38% | 1.38% | 1.53% | 1.96% | 1.93% |
| **F Fund** | -1.46% | -1.46% | 4.81% | 3.66% | 3.13% |
| **C Fund** | 28.68% | 28.68% | 26.02% | 18.44% | 16.57% |
| **S Fund** | 12.45% | 12.45% | 23.80% | 15.27% | 15.06% |
| **I Fund** | 11.45% | 11.45% | 13.87% | 9.90% | 8.38% |

### The L Funds

As mentioned earlier, the L Funds are each a unique mixture of these five funds. Established and managed by BlackRock, the world's largest investment company, the L Funds are pre-set allocation funds that BlackRock directs on behalf of employees based on their ages and projected retirement schedule. In my opinion, these are really good funds, managed by really good people. In the vast majority of cases, I think an employee is in good hands if they just go with the L Fund that is assigned based on age and retirement goals.

### The Active Trader

Of course, there's always that person who thinks they can time the market better or do better research on their own. And for that type of a person who is actively managing their TSP every day and watching the financial markets every hour or every other hour, then L funds are not the best choice. L Funds are leave-it-and-forget-it. The active manager will instead have the option to actively trade what I call the Original Five: the G Fund, the F Fund, the C, S, and I Funds. In most cases, they'll go for the star of the show, the C Fund. But the TSP gives active traders like this the option to go in and change things on a moment's notice, and there are a few here and there that choose to do this. I typically do not seek these types of investors as clients, because they often don't heed the advice of others and believe instead that they can outperform the rest of us. And that's OK! I wish them the best in their investments! The door is always open if they find out differently.

**The Employee Approaching Retirement**

I'm frequently asked what fund or funds are best for the employee who doesn't want to lose everything right before they are set to retire. Remember, federal employees are a fiscally conservative bunch, so this is a common concern.

The default for most is to throw all their money into the G Fund. They know it is about as secure as they come. And frankly, if they're within a year of retirement, I'm not discouraging people from putting their money into the G Fund. But I coach them and tell them that this is not the long-term solution. This is just protecting your money so that you don't lose a bunch right before you retire.

However, for comparison purposes, I do tell them about the L Fund called the Income Fund. This gives employees some exposure to the other funds, but not a significant risk. The majority is still safe in the G Fund, where so many of them find comfort.

## CHAPTER EIGHT
# Not Understanding the L Funds

Now that we have an understanding of the various funds, let's spend time better understanding the L Funds, which I believe are the unsung heroes of the TSP fund options.

When clients ask me how they should invest the majority of their TSP funds, I nearly always recommend the L Funds. As mentioned earlier, the L Funds have stable, safe investment options, as well as some that are more aggressive and better suited for those starting their careers. The funds, therefore, allow for a diversified portfolio no matter where you are in your career or investment strategy. And each one is configured for a different stage of investing.

Moreover, BlackRock has created an L Fund for every five years of retirement status. There's an L 2025 Fund, an L 2030 Fund, an L 2035 Fund, etc. So for those who want to pick something and stick with it, requiring little to no oversight, I advise picking the L fund that is closest to your retirement year and letting BlackRock do the work for you.

### Background

BlackRock developed L Funds in 2007 for reasons that are not as altruistic as you would think. They certainly didn't say, "Well, we believe that federal employees need to have these options."

Rather, the funds were developed to cover their own butts, giving employees additional options for compliance reasons. But justification aside, it just so happens that it's a win for everybody. The funds do provide excellent choices for federal employees, especially in comparison to the choices they had prior to 2007.

### L Fund Compositions

The funds are composed simply of various combinations of the original five funds: G, F, C, S, and I. No matter what, each fund is a combination of those five. The farther you are from retirement, the more the funds favor C S and I Funds, with a little bit of F and G Funds. And the closer you get towards your actual retirement date, the exposure to the C S and I Funds gets less, and exposure to the F and G Funds, primarily the G Fund, increases. BlackRock also tends to avoid the F Fund because they're not big fans of the fund any more than I am. But they use the G Fund a lot in their expansion of safety.

Just as it should be, if your retirement is farther out, for example if you have an L 2040 Fund or something, your associated L Fund is more aggressive. For those just starting their careers, their L Funds are going to have next to nothing in the G Fund, and almost everything's going to be invested in the C, S, and I Funds. As you progress farther toward your retirement date, BlackRock automatically changes the investments within the L Funds to get more and more conservative.

Those looking at retirement right now have an L 2025 Fund and an L Income Fund to choose from. Those are composed almost entirely of G and F funds, with small investments in the C, S, and I Funds.

As the TSP website describes, the L Income Fund is for participants who are currently withdrawing from their TSP accounts. The L 2025 Fund is for participants who plan to withdraw sometime before 2027.

### What Not to Do

The biggest mistake I see employees make is thinking their L Fund isn't already balanced. I'll hear people say "Well, I've got this L Fund, and then I have some of the C Fund as well, and I added some of the G Fund to be safe." This is often a result of them reviewing their performance returns and deciding they need to shift things to favor which part of the L Fund just overperformed, or what some other employee told them they were doing.

What they don't understand is their L Fund is already structured to give them the diversity they need in their portfolio, for precisely where they are in their investment stage. They are unbalancing it by chasing whatever return they see for that quarter.

I find myself reminding these people that BlackRock is the world's largest investment company for a reason; I'd let BlackRock do the asset allocation for them.

CHAPTER NINE

# Not Taking Advantage of TSP Rollover Opportunities

We haven't yet discussed rollovers, and it's an important topic to cover, since it can offer so many options that most government employees have never seen.

When properly executed, a rollover is a nontaxable event where money is taken out of the employee's TSP and converted, or rolled, into a self-directed Individual Retirement Account ("IRA"). When money is transferred from the TSP to an IRA, the IRS recognizes it as basically a lateral move. You've taken from one investment vehicle and transferred it to another.

Why would an employee choose a rollover? *In a word, options*. When the money is invested through the TSP, you have a few options. But IRAs open you up to a whole new world. You now have 1000s of options. And that's when we can really customize a person's retirement. Even with the new rules coming out Summer 2022 regarding having up to 5,000 funds to choose from within the TSP, most employees will have information overload and not know what the best options actually are. That's why working with a retirement specialist is so important.

**When to Initiate the Rollover**

It's important to understand there are really only two times you can execute a rollover. The first time is when you have reached the age of 59 and a half – they call this the "in-service withdrawal." When that happens, you've met the IRS guideline of distribution from a qualified plan, and you are given the rare, tax-free opportunity to convert your TSP investments into an IRA. And you should.

The second time a rollover can be executed without penalty is when there's a "break in service." A break in service is defined as retirement, or in the case of military personnel, it's when you "retire" from your tour of duty. The bottom line is you were an active employee on an active payroll, and now you are not. That's a break in service. When that happens, no matter what age you are, you can move your money out of the TSP into your own IRA.

Regardless of the triggering event, we recommend that you do the rollover as soon as possible. And the reason for that is it gives you so many more options. I have said earlier, and I'll readily admit here, that the TSP has some very efficient funds. But it doesn't compare to the thousands of options you have when you take advantage of all the opportunities in the Securities and Investment world. The private sector truly has the TSP options beat.

**Rollovers Make Retirement Planning Easier**

When you do a rollover, retirement planning gets easier. And that makes your retirement plan better. But we never recommend a rollover without going through a complete analysis of your financial picture and future goals. We always do an analysis first, and then we go through what your options are and what makes the most sense.

I know everyone believes they have thought about retirement long enough that their retirement plan must be solid. And in most cases, people do a fairly good job with their plans. But I've never seen a perfect plan at the outset. That's because life doesn't go exactly as planned. There are always deviations or hurdles of some sort. You also can't be expected to know all of the retirement options out there. That's not your job. It's mine!

With an IRA, we can accommodate deviations that have happened, and we can plan for those that haven't. We can customize your plan to what your retirement goals are, and we can give you the best tools of all of the thousands of options that exist. Let's say you want guaranteed income with more flexibility. With an IRA, I can get you that. Or maybe you need more growth for now. I can make that happen in an IRA more than I can with the TSP plans. That's why I am quick to endorse doing an analysis first, but more often than not, we end up rolling your TSP investment into an IRA. It's so much easier to get you where you want to be, because we have so many more tools and options.

## Inflation Matters Now More Than Ever

As I write this, we are seeing unprecedented inflation, and that makes me even more worried about the long-standing plans people have made for retirement. Many of the assumptions that were made three years ago no longer apply. Unfortunately, COVID has brought in a whole new era of accelerated inflation, and costs of everyday goods are going through the roof. It's no surprise that pensions are unable to keep up with that inflation.

We all know we can't just print money. Retirement plans have to be reviewed to see if they can keep up with the "new" cost of things. And in the many cases I've evaluated, they can't. Investments need to be re-aligned, and we need to re-think how to navigate an entirely new world.

**Be Wary of Guaranteed Income Option**

Finally, I know the government uses just a single insurer for all of their benefits through TSP. And I find that unfortunate, since that insurer sends TSP balance updates throughout an employee's career that suggest the employee will receive X amount of dollars for as long as they live. Many employees rely on that number, and often consult it as evidence that they have planned for everything they need.

The problem is the insurer doesn't tell you (and it's not even in the fine print anymore) that you will give up all rights to your TSP life savings in exchange for that guaranteed income. So, while that compensatory number may seem to take care of all of your worries, you are actually drawing down and giving away your TSP. And any beneficiaries, like your family, will no longer receive anything you had previously left for them.

The sad fact is that's the option that most people take because that's what's been promoted on their TSP statement for as long as they've received it. They know the company's name. It's the only name they've ever seen in their official documents. And they trust that communication enough that they give up their entire investments. Ultimately, they never come to realize that they can get the same security – a guaranteed lifetime income – without giving up control of their entire life savings. They were misled, and there's no recourse.

## CHAPTER TEN
# Not Having a Comprehensive Plan

I often equate a financial plan as being the same as a fingerprint. No two are the same. If you don't have a plan that is designed for *you*, you don't have a comprehensive plan.

That's because everybody's different. Everybody's needs are different. Everybody's savings are different. Everybody's lifestyle is different. There's no such thing as one plan being sufficient for more than one person. At least, that's if you want a *good* financial plan.

These days, retirement plans need to consider more factors than they ever have. A good plan reviews where you are today, what your net worth is, what your assets are and where they are invested, and what your liabilities are. Then the plan considers where the market is headed. What is the prediction for inflation? What are your plans to combat it? How do you address unforeseen circumstances? How much will you need just to maintain your lifestyle?

When someone retires, they rarely change their habits. The old rule of thumb was you could retire on 60% of what you used to make as a full-time employee. That's simply not true anymore, and I'm not sure it ever was.

Baby boomers currently want to keep doing more. They want to experience more. And that means they need to have around 85 to 90% of their income available so they can maintain the lifestyle that they're used to throughout retirement.

When we do a retirement plan, we do a complete inventory to make sure we have a very clear understanding as to what assets we are working with and what income we can expect. We look at what is in checking, what's in savings, what's in a brokerage, and what's in an IRA, Roth or otherwise. Is there a 401k? What is in the TSP? How much will you get for your pension, and when will that change? What are your legacy plans? What do you want to leave for a surviving spouse and children? Are there college costs you want to cover?

We then look at health insurance and life insurance, since lack of insurance or poor insurance can derail even the best-made plans. We even look at the available Medicare plans and look at which ones are best for the individual.

Finally, we chart out the plan into the future, since pensions can change as the employee hits 62, and Social Security benefits can change depending on when you start taking them. And in our discussions about the future, we talk about the unforeseen. What happens if you or your spouse needs long-term care? What if someone needs assisted living or a retirement home? Once again, any of those events can wreck even the best-made retirement plans. We bring it up so that we can plan for the worst-case scenarios but hope for the best.
That's the estate planning part, and it gets us through all of the different aspects of a solid, holistic financial plan.

# The Most Common Mistakes

**Ignoring Inflation**

The most common mistake I see is short-sighted income planning, and it happens all the time. What most people do is look at what their pension will be, what their Social Security will be, and what their TSP will supposedly pay out. And they see that TSP payout number on their annual statement each January. They add up those three, and compare the total to their current monthly expenses.

The first and most common problem is that doesn't account for prices in 20 years. There's a nasty little gremlin out there called inflation, and he gets fatter every year. Whatever things cost when you are 65, I can guarantee they will cost more when you are 75 and 85. So when we counsel people through their retirement plan, we make sure we look at how their assets can cover the increases in costs in 10 and 20 years.

**Not Diversifying Your Assets**

The next most common mistake is taking your money out of your TSP and putting it all in one financial product. By doing so, you have limited income options, and more risk.

What we suggest instead is breaking your investments up into "buckets." One bucket can be drawn from now, and another bucket can be used for growth at this stage, and then used for income in 10, 15, or 20 years. The goal of that second bucket is to outpace inflation, so that it is a larger bucket to draw from when we finally get to it.

That's where a lot of people miss the boat. They either put all their money into an immediate position where it's really going to only help them now or maybe over the next 10 years, or they put everything in a growth bucket, and get penalized when they take it out earlier. The growth bucket should be left to *grow,* and the more that people draw from it – particularly when the market is down – the more they hurt their own future. Once money is taken out and positions are sold to fund the short-term lifestyle, your growth opportunity is inhibited.

**Not Planning for Taxes**

Most people don't plan for taxes because they've heard they don't need to. "You won't be in a high tax bracket anymore." "You've deferred your taxes so that you can pay less."

The problem is, that isn't true if you are spending the same amount, and that applies to pretty much everyone. If you were living off of $50k before, you're likely going to need $50k drawn out now, which means your income for tax purposes will still be $50k. And as I said earlier, you should *expect* that number to go up, because we know inflation will go up.

I also expect taxes to go up. Our state and federal governments have funded so many new programs in the last few years that we know the money is going to have to come from somewhere. And we happen to be at historic lows for tax rates at the moment. Will taxes go up? I am certain. Will they go up during your retirement? Not only would I bet on it, you would be foolish not to plan on it.

How can you "plan" for the unknown tax rate of the future? That's easy. Pay them today, and shift your investments to a tax-free growth position. When you pull them out later, you won't pay a dime in taxes. That's what I encourage our clients to do.

That's not easy advice to follow. Most people don't like the idea of seeing their investment dip now because they had to send money to Uncle Sam. But if you look at the alternatives, it is the best thing you can do. Taxes aren't going to go down in ten years. There's absolutely no one predicting that. If we are lucky, they may be close to what they are right now, but I think the grave likelihood is they will be multiples higher. And that will hurt anyone pulling from their tax-deferred accounts at that time.

CHAPTER ELEVEN

# Not Working with a Qualified Professional Who Understands Federal Benefits

The last, but definitely not the least impactful mistake I see government employees make is working with a retirement professional who doesn't understand government benefits. I know the industry, and I have realized few of my colleagues understand federal benefits. I would never encourage them to help a federal employee.

First, most financial planners don't realize that when a federal employee passes age 62, they have a 10% multiplier added to their pension. That fact alone changes all of the calculations! And it would be scary to plan your retirement with someone who doesn't understand your pension payout.

The second mistake most financial planners make is not understanding the TSP plans. As I wrote earlier, TSP plans can be quite competitive, and any advisor who defaults to "you should get your funds out of the TSP" is doing you a disservice. It's not always best to stay with TSP, but their plans are competitive enough that they should be considered. Plus, their fees are extremely low. There are only a handful of products that can beat what TSP offers, and many advisors don't even have access to those products. So I'd run from anyone who tells you your TSP plan is bad and you should shift everything to their company's product. That's just self-serving, bad advice.

Finally, federal employees need a financial advisor who understands Roth options for your TSP. For the private sector, some high-earning people don't qualify for a Roth IRA because they make too much money. Financial planners will often know about this. But what they won't realize is the Roth TSP does not have that income limit. So even a highly compensated federal employee can divert a ton of money toward the Roth side of the TSP.

To be specific, the private sector is limited to a $6,500 annual contribution. But if an advisor doesn't understand federal Roth TSPs, they won't know that this limit doesn't apply to federal employees. Instead, federal employees can contribute up to $20,500 a year *tax free*. And that's a huge difference. The more money that a federal employee has in the Roth TSP in retirement, the better off they're going to be, because they're going to be in a higher tax rate environment by the time they do retire. Because of these relaxed rules, I've met many federal employees with substantial Roth TSP accounts. And I'm proud of them! They were disciplined, and they took advantage of one of the few benefits offered by the federal government.

## How to Get More Information

If you want more information on how to avoid these 11 mistakes, as well as how to engage someone with federal employee benefits knowledge, I encourage you to contact our firm. We can do a deep analysis on your retirement assets and financial plan, and we can provide recommendations as to how to maximize your Social Security benefits.

# Appendix A: The CFEB Certification

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