eBook

Federal Employee Benefit Maximization Guide

"An investment in knowledge pays the best interest."

Ben Franklin 1787

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FEA

Message from the Publisher

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There will be things in this eBook that you might find to be a bit disturbing, but we ask that you don't shoot the messenger, and keep in mind that for every problem addressed here, Federal Employee Advocates has a solution, and we never charge federal employees for anything we do to help them plan for a better retirement, or as we like to say "Retire Forever'!

The information in this eBook is updated annually, so please consult your Approved Federal Employee Advocates Approved Advisor to help guide you through any content that was updated, but yet to be published.

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Chapter 1

It’s All About the Money

When it comes to your federal retirement, it’s all about the money and whether you will have enough of it to retire and most importantly stay retired.

In my 50 years of helping federal employees better plan for their retirement, I have never seen an instance where a federal employee voluntarily retired and did not have enough money to retire at that point in time. But, running low on money after they retired is a different story and I have seen thousands of those stories.

According to the Employee Benefit Research Institute (EBRI), 40% of Americans will run out of money during their retirement.

According to Forbes: Almost half of American households will run short of money in retirement.

According to the Social Security Trustees: The Social Security Fund will run out of money before 2035. Most experts believe that Social Security benefits will be reduced in 2028.

According to Harvard: 66% of all Americans who reach age 65 will at some point need long-term care for up to three years and with an average nursing home stay being $6700 a month, this could have significant consequences for people not in the top "2%".

According to Investment News: 63% of retired Americans Worry More About Running Out of Money than Death.

FR 80-The Federal Retirement 80% Rule

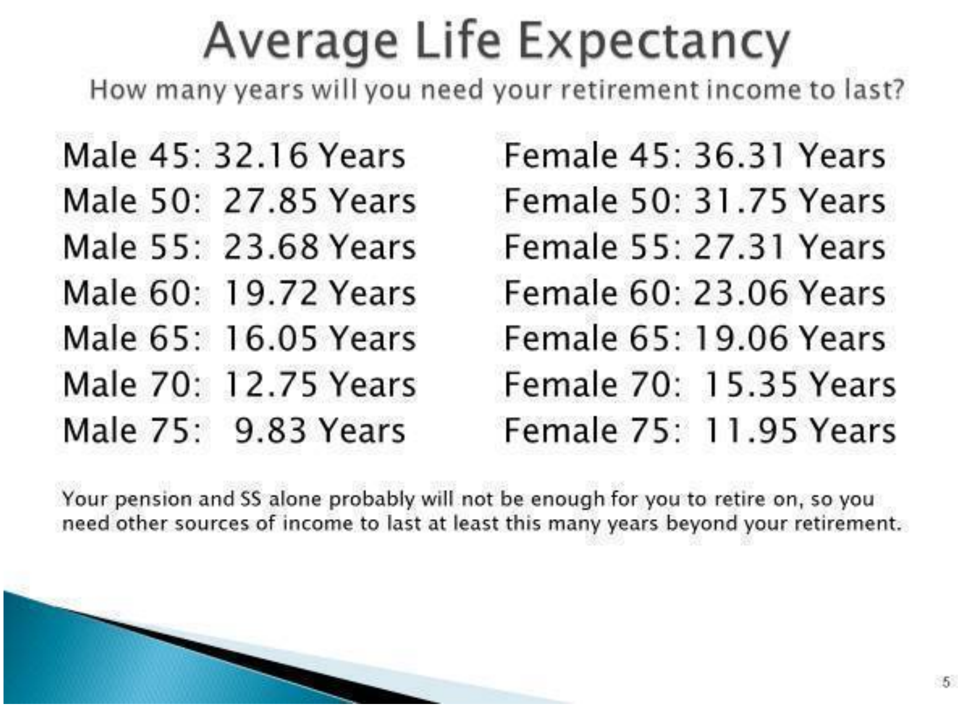
We understand that you have a wonderful pension and if you are under FERS, you have a Social Security check on top of that, BUT will that really be enough to retire and stay retired? The premise of FR80 is that on the day after a federal employee retires, they should have an income of at least 80% of what they earned on the day before their retirement.

The most common question we get is "why not 100%" and the answer is quite simple. Once you are retired, you will no longer be contributing to Social Security or Medicare, which accounts for 7.65% towards that 20% differential. Add to that the fact that you will no longer be able contribute towards your TSP, and that could add another 5% towards the 20%. And most federal employees we surveyed stated that they will downsize a bit once they are retired.

Below is a chart that shows you how close to the 80% mark you will be (based solely on your pension), depending on the number of years of federal service you will have at retirement. A FERS federal employee with 30 years of service at retirement will be at either 30% or 33% (33% if they were 62 years old at the time) towards that 80% mark. If you add in approximately 25% for Social Security, that federal employee is only at 55% or 58% towards the 80%, leaving quite a gap in their financial safety at retirement. While CSRS federal employees seem to have a big advantage, most CSRS don't have Social Security, so it's pretty close if you add in the 25% Social Security unless of course you are CSRS with over 35 years of service at retirement.

CSRS	FERS
20 Years: 36.25%	20 Years: 20% or 22%
25 Years: 46.25%	25 Years: 25% or 27.5%
30 Years: 56.25%	30 Years: 30% or 33%
35 Years: 66.25%	35 Years: 35% or 38.5%
40 Years: 76.25%	40 Years: 40% or 44%
42 Years: 80.00%	Will never reach 80%

Life expectancy is a very important element in planning for your retirement, if you want to retire and stay retired. If you are only at 56% towards that 80%, then your savings and TSP have to last you for as long as you live. At age 65, that number is 16 years for a male and 19 years for a female. That's a long time for your savings and TSP money to last, and if you keep your money in the C, S, I, F or L Funds after retirement, that money could go down significantly with just one stock market correction



Here are just five of the many examples of how a federal employee could run out of money during retirement:

1. **TSP Funds & "Managed Money":** A lot of federal employees keep their money in their TSP after they retire or give it to a financial institution to manage. Contrary to what you may think, the TSP Funds are not managed to maximize gains or minimize losses; they are administered. This leaves your retirement at risk unless you are in the G Fund, which earns less than the inflation rate.

   if you are within 12 years of retirement or during your retirement, keeping your money in a place that can lose money like the TSP Funds and/or "Managed Money" for that matter, is not a prudent thing to do. There are alternative and your Approved FEA Advisor can fill you in.

2. **Health Issues:** The older we get the more likely we are to have health issues, and as we all know Medicare and conventional health insurance, have very limited coverage for Nursing Home and In-Home Care, and that is only if you qualify.

   On average, the cost of a private room in a nursing home is $106,000 per year. If you retire with a $400,000 nest egg, and according to www.LongTermCare.gov 20% of people in the United States will need that care for longer than five years, it could wipe out your entire nest egg and put you in debt as well.

   Can this happen to you? If you believe what is on www.LongTermCare.gov, someone turning age 65 today has almost a 70% chance of needing some type of long-term care.

3. **Social Security:** The Social Security Board of Trustees now estimates that based on the current law, in 2035, the Trust Funds will be totally depleted and with the country in over $36 Trillion in debt and climbing, don't count on Uncle Sam for help.

4. **The FERs Supplement: For** those of you planning on retiring at your MRA, the FERs Supplemental retirement benefit is up for renewal/ cancellation every year and it has survived quite a few close calls since its inception. With $36 Trillion in National Debt and climbing, the FERs Supplement offers $6 Billion Dollars in so called "savings" even though it will really save very little and cause a great deal of financial pain to those impacted.

5. **Inflation:** For anybody living on a "Fixed Retirement Income", inflation is their mortal enemy. Inflation erodes "buying power". The COLA increases you receive from Social Security, by design barely keep up with the artificially low inflation number you read about yet alone the real inflation number that exists. In April of 2022 the listed number for inflation was

> 8.5%, but if you filled up your tank then, the price of gas was up 40% from a year earlier. The same applied to food, appliances, cars, building materials, and the cost of rent or buying a home.; 8.5%, really?

There is no one-size-fits-all system when it comes to the complexity of properly preparing for your federal retirement. A good plan for one federal employee may not be good for another, which is why we encourage all federal employees to be proactive. We can assure you that virtually all of the EBRI 40%-ers were not Proactive but rather Reactive, which gets you in a place you don't want to be after you retire; GOING BACK TO WORK!

Your finances and most aspects of your life are controlled more by what is going on in your head than anything else. Two financial concepts for you to think about are the general financial world and your financial world. We have very little, if any, control over the general financial world (bailouts, income tax rates, inflation, rates of return); but you do have control over your financial world. There are many people getting along just fine financially in down economic environments and there are those who do poorly in the best of economic times. The easy way out is to blame the "economy", and why wouldn't we? After all, we are constantly bombarded with negative scare tactic media. It is easy to succumb to the constant negative rhetoric.

Since you have control over what you watch and listen to, you can also take control of how you perceive and act on those things. The economic times we are currently living in is a time that presents tremendous opportunity for many people, but especially for those who make the most of what is available to them. Our history has shown that triumph has come out of hard times and adversity. These triumphs and historical events should give you a feeling of hope about the future.

Earl Nightingale once said, "If the grass is greener on the other side, it's probably getting better care.". Be proactive, and give your retirement planning better care! We are here to help, and we never charge federal employees for anything we do on their behalf.

Chapter 2

Looking under the hood of your TSP

Any federal employee who is under FERS, is doing themselves a great disservice if they are not contributing at least 5% of their salary into their TSP. There are a few old sayings like “nothing in life is free”, “there is no such thing as a free lunch” and “it’s too good to be true”, but the TSP Matching Funds are the antithesis of all three of those wrapped up in one big financial windfall over time.

If you contribute 5% of your salary into your TSP, the federal government will match that as follows: They automatically contribute 1% every year, plus 3% for every 3% you contribute and then 1% for every 2% you contribute after that. Folks, that is Free Money, and a lot of it!

The current maximum yearly amount you can contribute to your TSP is ***$20,600*** and if you are over 50 years of age you can add an additional ***$6,000*** under the

“Catch Up” provision. Basically, if you haven’t contributed 5% to your TSP in a given year, that money goes into a virtual pot, and you can increase your annual TSP contributions above the *$20,600* maximum every year, up to ***$6,000*** per year, until that virtual pot is depleted. The good news is that Catch Up extra *$6,000* contribution is subject to the Matching Funds, up to 5% of your salary.

Making the right “percentage allocation” between the TSP Funds could add 33% to your account value over time, but before you change any of those allocations, you should be fully aware of how each fund earns money for you, and the risks involved with each fund.

G Fund: The G Fund buys a nonmarketable U.S. Treasury security that is guaranteed by the U.S. Government, so it can’t lose money.

F Fund: Government, corporate, and mortgage-backed bonds. Attempts to match the performance of the Barclays Capital U.S. Aggregate Bond Index

C Fund: Attempts to match the performance of the S&P 500

S Fund: Attempts to match the performance of the Dow Jones U.S. Completion TSM Index

I Fund: Attempts to match the performance of the MSCI EAFE Index

L Funds: Invested in the G, F, C, S, and I Funds. The closer you are to the Fund Expiration Date (2030, 2040, 2050), the more it is weighted to the G Fund. The Further out the Expiration Date, the more it is weighted to the C, S, and I Funds)

Now that you know how the TSP hypothetically earns money (if you haven’t noticed the term “attempts to match”) in five of the six funds, let’s look at Five Undisputable Facts:

1. Fact: During the past 10 years the I Fund earned 50% less than the C&S Funds.

2. Fact: The I Fund has lost money in years where the C & S Funds have made money.

3. Fact: The G Fund has earned 2.65% during the past 10 years and in essence does lose money because it does not keep up with inflation and there are “lost opportunity costs” associated with owning it.

4. Fact: The C & S Funds have a huge downside exposure because they are “Administered” and not “Managed” to maximize gains and minimize losses.

5. Fact: The L Fund has significant amounts in the C, S, I, F and G Funds.

When can you withdraw your TSP money:

Effective September 15th, 2019, the TSP Modernization Act allows federal employees over 59 ½ who are actively working, four withdrawals every year, on a Quarterly basis.

Once separated from federal service the withdrawals are unlimited but must be 30 days apart.

What can you do with your TSP Money:

- If you are 59 ½ and actively employed, you can withdraw money subject to the TSP Modernization Act, but be careful! If you take it directly, because unless it is from a Roth, you will be paying taxes on that money. However, if you transfer it directly to another Qualified Plan, there should be no taxable event.

- After you leave federal service: You can Leave your money in the TSP and either let it grow or take withdrawals. Be mindful of the fact that at age 70 ½, if you were born before July 1st 1949, you will have to take RMDs (Required Minimum Distributions) so Uncle Sam can get some tax money (about 4% of your TSP Account Value). If you were born after that, the RMD age increases to 72, 73 or 75 depending on the year you were born.

Also remember the inherent downside risk associated with all six of the Funds, including the G Fund.

- Swap out your TSP money for a MetLife guaranteed income annuity, this is where you need to be very careful, because once you make this election, it is irreversible.

Here is just a summary of the three most common misnomers:

1. When you look at your TSP statement for what your guaranteed lifetime income would look life if you made the election on that day, it might not even be remotely close the actual amount it will be on the day you retire because the amount is predicated on your TSP Account Value on the day you make the election. So today you might be looking at a guaranteed $3000 per month but six months from now if the stock market goes down 40% and your TSP Account Value losses that much, your guaranteed income just might be $1800 a month and not the $3000 you thought it would be.
2. The money will no longer be yours, so if you need it for anything such as an emergency, Nursing Home Care, or to take a vacation, you will have to look elsewhere. It always perplexes us why a federal employee would work 30 years and then permanently hand over their retirement nest egg to a third party.
3. If the market goes up after you make the election, because you will no longer own your own money, you will not participate in that upside.

Roth TSP

Your decision about a Roth TSP Vs. a traditional TSP is a choice of when you pay income tax on your TSP contributions and earnings. You can pay taxes either when you earn and contribute the money or when you withdraw it. The entire concept behind a Roth TSP is this:

Say you put $5000 a year into a Roth TSP every year. Unlike the traditional TSP, you will pay the taxes up front on your Roth. What is the benefit to you? When you take money out of your Roth TSP, the taxes have already been paid and the assumption is that the money you eventually withdraw will be far greater than the original money you put in. If over time you put $100,000 in your Roth TSP and eventually withdraw $200,000 over time because it grew, there would be $100,000 in withdrawals you never had to pay taxes on.

Chapter 3

Looking Under The Hood Of Your Pension

Pension Eligibility:

If you are a Special Category federal employee you should contact your Federal Employee Advocates Approved Advisor so they can direct you one of our Special Category Experts.

These are the qualifying ages and corresponding number of years of service at retirement that are necessary for federal retirement benefits to be paid with “no strings attached” or reductions in payments.

For CSRS
Age 55 and 30 years of service at retirement
Age 60 and 20 Years of service at Retirement
Age 62 and 5 Years of service at Retirement

For FERS
Minimum Retirement Age and 30 years of service at retirement
Age 60 and 20 Years of service at retirement
Age 62 and 5 Years of service at retirement
Minimum Retirement Age Plus 10
If you are under the FERS system and have met your Minimum Retirement Age, you can receive your pension with just 10 years of service at retirement, but there is a catch. For every year that you are under age 62, your pension will be reduced by 5%. However, if you retire but don't start collecting your pension until age 62, there will be no reduction. This is not an "all or none" rule i.e. if you take your pension at age 59, the reduction will be 15% not the 25% that exists if you started taking your pension at age 57.

If you don't know what your MRA is below you will find the MRA chart:

If you were born	**Your MRA is**
Before 1948	55
In 1948	55 and 2 months
In 1949	55 and 4 months
In 1950	55 and 6 months
In 1951	55 and 8 months
In 1952	55 and 10 months
In 1953-1964	56
In 1965	56 and 2 months
In 1966	56 and 4 months

If you were born	**Your MRA is**
In 1967	56 and 6 months
In 1968	56 and 8 months
In 1969	56 and 10 months
In 1970 and after	57

Your Pension Calculation

The calculation for FERS and CSRS pensions are illustrated below. We have created an online FR80 calculator here www.federalemployeeretirement.com so you can bypass this and just go there.

For FERS if you are 62 years of age and have 20 or more years of service, the formula is:

1.1% X the number of years of federal service X Your High Three

If you don't meet both criteria above, the 1.1% drops down to 1.0%

-Examples-

FERS federal employee with 20-years federal service and age 62 at retirement with a High Three of $100,000:

1.1% X 20=22% X $100,000 = $22,000 Annual Pension

If that 62 year-old federal employee retired at age 61 instead of age 62:

1.0% X 20=20% X $100,000 = $20,000 Annual Pension

If that 62-year old federal employee retired with 19 years instead of 20:

1.0% X 19=19% X $100,000 = $19,000 Annual Pension

For CSRS Employees

1.5% of your High Three for your first 5 years of federal service

1.75% of your High Three for your next 5 years of federal service

2.0% of your High Three for every year of federal service thereafter

Example

CSRS Federal Employee age 62 with 20 years of Federal Service at Retirement and a High Three of $100,000

1.5% X $100,000 = $1500 X five =$7,500

1.75% X $100,000 = $1750 X five = $8,750.00

2.00 % X $100,000 = $2000 X ten = $20,000

$7500 + $8750 + $20,000 = Annual Pension of $36,250

- Pension Taxation

Your pension will be taxed to the extent that the government contributions impact your monthly payments (for most of you that's over 95%). There is no Income Test.

FERS Special Supplement

Your FERS annuity supplement is paid in addition to your pension and is only available once you reach your MRA and actually retire. It ends when you reach age 62. It is also available if you retired involuntarily before attaining your (MRA) or voluntarily because of a major reorganization, or reduction in force. However, you still will not be eligible until you reach your MRA. If you receive a deferred benefit, a disability benefit or an immediate MRA+10 benefit, you will not be eligible for the annuity supplement.

If your annuity has a Civil Service Retirement System (CSRS) and a Federal Employees Retirement System (FERS) component, you can still receive an annuity supplement. However, you must have completed one full calendar year of service subject to FERS computation rules.

The FERS Supplement payment formula is simple: Take the amount of Social Security you would receive at age 62, divide that number by 40 and then multiply that number by 30. If you Social Security Benefit at age 62 would be $1000 a month, divide 40 into that ($25.00) then multiply that by 30 ($750.00).

Like social security benefits, the FERS annuity supplement is subject to an earnings test. It is reduced if you earn more than the social security exempt amount of earnings in the immediately preceding year. The supplement is reduced by $1.00 for every $2.00 of earnings over the minimum level. It is possible that the supplement could reduce to $0.

Earnings for the year consist of the sum of wages for service performed in the year, plus all net earnings from self-employment for the year, minus any net loss from self-employment for the year. The FERS basic benefit is not considered earnings for this calculation.

Chapter 4

Looking Under The Hood Of Your Social Security

This Chapter could just as easily have been 50 pages as it could be the existing two pages it is. That's because there are numerous moving parts.

- Income Reduction: The Minimum Age to start collecting social security is 62, but there is an earnings test which can significantly lessen your payments.

  If you *have not* reached your "Social Security Full Retirement Age" (see chart below) and start collecting Social Security in ***2025,*** for every $2.00

you earn above ***$23,400*** your benefit will be reduced by $1.00. Your pension income is not included-only Wages & Business income. This reduction also holds true for your FERS Special Supplement. Once you achieve your "Social Security Full Retirement Age", there are no reductions, regardless of your income.

In the year you reach your "Social Security Full Retirement Age", you can earn ***$59,500*** without any reduction of benefits. For every $3.00 over that amount, your benefit will be reduced by $1.00.

- Age based reductions: If you retire & start collecting Social Security before your "Social Security Full Retirement Age", your payments will be reduced by approximately 6.25% per year for every year you start collecting before your "Social Security Full Retirement Age. Assuming your Social Security FRA is age 66, collecting at age 62 causes a permanent 25% reduction (6.25% x the four years until your FRA). If you started collecting at Age 64, the reduction is 12.5%. It's not an "all or none" proposition.

- Age based increase: If you retire & start collecting at age 70, your payments will be approximately 32.5% more than if you retired & collected at your FRA, again assuming your Social Security FRA is 66.

Birth Year
SS Full Retirement Age
1943-1954 66 years old
1955 66 and two months
1956 66 and four months
1957 66 and six months
1958 66 and eight months
1959 66 and 10 months
1960 and later 67 years old

Social Security Taxation

Single Taxpayer: If your "Income" is between $25,000 and $34,000, you may have to pay income tax on up to 50 percent of your payments. (not a 50% tax). Income for this test includes your "Adjusted Gross Income", Non-Taxable Interest, and 50% of your Social Security payments.

If more than $34,000, up to 85 percent of your benefits may be taxable (not an 85% tax).

Married filing jointly: If you and your spouse have a combined income that is between $32,000 and $44,000,

you may have to pay income tax on up to 50 percent of your benefits

If more than $44,000, up to 85 percent of your benefits may be taxable.

Your income for the purposes of meeting the above criteria includes your

Adjustable Gross Income, tax-exempt interest income and half of your Social.

Chapter 5

Staff Articles From Our Blog

"Crucial Stages of Federal Employee Retirement Planning"

When it comes to preparing for retirement, there are eight "stages" that every Federal employee should know about. Knowing what each milestone age means will help you, plan for your retirement more efficiently. Hopefully this will help you be prepared, maximize your benefits and avoid potential financial mistakes in your TSP.

Age 50 – Statistically this is the age most people begin serious retirement planning. It is never too early to start planning and hopefully you have begun saving and planning many years before age 50. At age 50 though is where I find most people really get serious about it. Due to the fact that not everyone planned efficiently or were able to save prior, the IRS has allowed people 50 years old or older contribute more to their retirement plans. This is called the catch up provision. Federal Employees who reach this age and beyond are able to contribute an additional

$6,000 to their TSP. If you haven't saved much in your TSP you may want to take advantage of this option.

For Federal Employees who are special provision such as Law Enforcement, Air Traffic Control or Firefighter, this is the age you can retire with 20 years or more of service. Also with new legislation that just passed, special provisions will be able to access their TSP penalty free if you retire the year you turn 50 or older. So you would be able to pull from your TSP (not IRAs) without paying the 10% penalty.

Age 55 – For most Federal Employees age 55 is when you would be first eligible to retire with a full unreduced annuity if you have 30 years of service.

For CSRS you can retire at age 55 with 30 years of service. For FERS if you have 30 years, you can retire at your Minimum Retirement Age between age 55 and 57 depending upon your year of birth (see chart below). If are eligible to retire at your MRA, you are also eligible for the FERS Supplement. If you aren't able to retire at this age, retirement is growing ever closer. This is an age to consider are you able to contribute even more to your TSP?

Another milestone that age 55 brings is the potential to access your TSP without the 10% penalty. If you retire or separate from service the year you are turning 55 or older, you can access the TSP without paying an additional 10% penalty. Retirement accounts like IRAs have a 10% penalty until age 59.5 for most withdrawals. Another important thing to consider at age 55 is your Life Insurance options. At age 55 your FEGLI Option B premium is going to double from the previous age band. This is the time to consider a few questions. Do I still need life insurance? If so, how long do you want to have life insurance? Do you want life insurance in retirement or just during your working years? Have I looked at all my life insurance options including outside individual policies?

Age 59.5 – The infamous age of fifty-nine and a half is when you are able to access all of your retirement accounts such as your TSP and IRAs without paying a 10% withdrawal penalty. If you're still working, at 59.5 years old Federal Employees also have access to a TSP benefit called an Age Based In Service Withdrawal. You can pull out the money and pay taxes on it, or you have the option to roll your TSP into another retirement account like an IRA.

Age 60 is when Federal Employees are able to retire with 20 or more years of service. If you're FERS and thinking of retiring at age 60, make sure you have someone calculate what you would receive at age 62 before you decide to leave at 60. In some cases, holding on for two more years could be worth several hundred dollars more pension benefit per month due to a higher computation. Knowing those figures will help you decide the best age to retire.

You can ask yourself if it is worth hanging on for two more years to get a higher pension for the rest of your life. If you retire at age 60 with 20 or more years of service under FERS, you will also be able to draw the FERS special supplement until age 62.

At 60, your FEGLI premiums are a little more than double what they were in the previous age band. Remember, they doubled at age 55 and now they have doubled again. If you did not look at your life insurance options at age 55, this might be a time to take a very close look at your life insurance choices, and make sure you look at your survivor benefit options also as you are likely close to retirement.

At Age 62 a lot happens and needs to be considered. A Federal Employee is able to retire at age 62 with five or more years of service.

If you're a FERS employee and you have 20 or more years of service, then you get a slightly higher computation of 1.1% instead of 1% for each credible year of service. That might not sound like a lot and in some cases it isn't, but in some cases it can be a significant amount. For example, if you have 30 years of service when reaching age 60 that means 3% more of your High-3 for the rest of your life.

Age 62 is also when a Federal Employee is first eligible for Social Security. For FERS Social Security is a big part of your retirement. Although you're eligible to take Social Security at 62 you do not have to take your benefit. You can delay your Social Security until an older age and receive a higher benefit. What I recommend to everyone is to go to www.ssa.gov and create an account. On their site you will be able to see what benefit you would receive at each age, and that will also assist in your planning.

At age 65, most Federal Employees are eligible for Medicare and you will automatically be enrolled in Part A of Medicare. There is no premium for Part A, if you paid Medicare taxes over your career. Part B is the part where you will have to pay a premium if you elect to get it. See www.medicare.gov for current premiums for Part B.

One of the most common questions I get when my clients reach this age is why do I need Medicare when I already have FEHB?

If you elect Medicare Part A and Part B, then Medicare becomes your primary insurance and your FEHB is your secondary. In many cases, your current FEHB plan will have even lower out of pocket costs to you. For example, there could be lower or no cost for deductibles or co-pays. There are a few important disclaimers here though. The first is if you are retired and you elect not to get Part B of Medicare, you will pay a penalty later on if you elect to receive it at an older age.

Secondly, if you're still working at 65 or older with health coverage, you can elect not to get Part B and acquire it when you retire with no penalty.

Our final disclaimer is one I see too often, if you want to keep your FEHB with your Medicare do not sign up for another Medicare Health plan like Medicare Advantage or Part D prescription coverage. Almost all of those automatically kick you out of your FEHB, so only sign up with one of those plans if you're sure that is what you would like. An even safer route is to speak with someone who knows your options before making an important decision.

Age 66 is potentially your Full Retirement Age with Social Security, depending on your year of birth. Your full retirement age is when you can receive a higher Social Security benefit but also when you do have not have a wage earnings test. That means if you do not plan on retiring or you have earned wages from somewhere, you are able to earn whatever you want without reducing your Social Security.

"Should You Take A TSP Loan"

The TSP allows participants to take loans from their accounts – but is this is good idea? Is it sound financial decision-making to borrow from your retirement account? Unfortunately, the answer to the TSP loan question is not a simple "yes" or "no" but rather an emphatic "maybe" – so let's look a little closer to see when it makes sense to borrow from your TSP and when it doesn't.

First, a little background. You can borrow the amount you have contributed to your TSP, plus the earnings on your contributions, up to a limit of $50,000. A simple way to estimate how much you can borrow is 50% of your TSP account balance or $50,000 – whichever is less. If you already have an outstanding loan, or have had one in the last 12 months, the amount you can borrow is reduced by the amount of these loans.

You pay interest on your loan at the rate the G Fund is paying (currently 4.00%). When you pay interest on your loan, it goes back into your account. It does not go to the TSP. This is a widely-held misconception, but the fact is that the interest you pay on a TSP loan you pay to yourself (your TSP).

When you take out a TSP loan, you set up a repayment plan that can be as long as 5 years. Payments are made through payroll deduction. If you leave your job for any reason, your loan must be repaid in full within 60 days, or the unpaid balance will be reported as a taxable distribution. If you are under the age of 59 ½, you will also be subject to a 10% early withdrawal penalty.

So, when does it make sense to take a loan from your TSP?

I advise people to take TSP loans when it is part of a carefully thought out plan, or strategy. A few examples of appropriate uses of TSP loans:

- To pay off high interest rate credit card debt
- To make a deposit or redeposit to your federal retirement
- As an alternative method of financing a car purchase
- As an alternative to a hardship withdrawal

The key distinction that makes these situations reasonable times to take a TSP loan is that the loan is being used as a tool – not as a method of living beyond your means.

A TSP LOAN SHOULD NEVER BE USED TO BUY "STUFF" – THINGS YOU DON'T HAVE TO HAVE, THINGS YOU CANNOT AFFORD WITHOUT BORROWING.

Each of the examples above use a TSP loan to build on someone's financial plan: Paying off high interest rate credit card debt is an important step in reclaiming one's financial independence. Rather than paying interest rates of 20% or more to a credit card company, why not pay yourself back at 4%?

*** Anyone using this plan MUST be committed to not running up their credit card balances again. If they do, they are in a worse place than when they started – with credit card debt and a TSP loan.

Making a deposit or redeposit to your federal retirement can boost your retirement annuity significantly. If you do not have the funds elsewhere, borrowing from your TSP is a sound option.

Financing a car purchase with a TSP loan makes sense if you can borrow from your TSP for less than you can borrow elsewhere. Just don't fall into the trap of buying "more car" because the money is convenient (and the loan officer – you – is sympathetic).

Taking a loan instead of a hardship withdrawal preserves your ability to put the money back into your TSP. When you take a hardship withdrawal, you cannot repay the money back to your TSP. It is gone from your retirement account forever. If you borrow from your TSP, rather than taking a hardship withdrawal, you can repay the money so that you don't deplete your retirement account.

There are other ways to use TSP loans that make sense. This is not an exhaustive list. The important consideration is that you use a loan as part of a plan for building your financial future – not just to cover lifestyle expenses that you cannot otherwise afford. A TSP loan should never be "spent". A TSP loan should be used as part of a plan to advance your financial situation.

There are a few drawbacks, or risks, to taking a TSP loan. Before taking any TSP loan, consider whether the benefits you will receive outweigh these drawbacks and risks:

NOTE: If you hold money in the G Fund, you can borrow this money with no opportunity cost because you will earn the same rate on your loan as you would on the G Fund.

Separation from Service: Perhaps the biggest risk of taking a TSP loan is the fallout if you leave federal service before you finish repaying the loan – whether it is your idea to leave or someone else's. If you leave federal service while you have a TSP loan outstanding, the entire balance of the loan must be repaid within 60 days or it will be reported as a taxable income. If you are under the age of 59 ½, you will be liable for a 10% early withdrawal penalty.

Of course, right after you lose a job, repaying a TSP loan may be the last thing you can afford, and additional tax liability the last thing you need. This "piling on" effect makes repaying your loan, or paying more taxes, a particularly tough pill to swallow.

Giving an Alcoholic a Drink: If you use a TSP loan to pay off credit card debt, you MUST be committed to NOT running up your credit card balances again. The risk here is giving credit cards with zero balances to someone who has abused them in the past. There are strategies for dealing with this situation – canceling the credit card accounts altogether, cutting up the credit cards themselves, keeping the cards in a can of water in your freezer, etc. You just have to be absolutely sure that you do not abuse the cards again. If you do, you will be in worse shape than before you took the TSP loan: you'll have the credit card debt again – plus the TSP loan.

Paying the Interest on the Loan with After Tax Dollars: This really isn't a big issue, but because opponents of retirement plan loans bring it up, I will address it. When you repay your TSP loan, the dollars you use are after-tax dollars – money you have already paid taxes on. When these dollars go into your TSP account, you will have to pay taxes on them when you withdraw them. This amounts to paying taxes on the same dollars twice – the first time before you used the dollars to repay your TSP loan and the second time when you withdraw the dollars from your TSP account.

The point is accurate, but the impact is much smaller than the benefit you receive from the loan in the first place. In other words, if you use your TSP loan to pay off credit card debt, you will save a lot more on reduced credit card interest than this double taxation issue will cost you.

The TSP added a Roth option in 2012, but for many, there are still more questions than answers.

The Roth TSP is primarily a tax consideration. It is not a new investment option. Money goes into a Roth on an after tax basis – meaning you pay taxes on the money and then it goes into the Roth TSP. By comparison, money goes into the traditional Roth before it is taxed. The net result is that, if you change your TSP contributions from traditional to Roth, your net paycheck will be smaller because you pay taxes on the money that goes into the Roth TSP, but you do not pay taxes on the money that goes into the traditional TSP.

The benefit of contributing to the Roth TSP vs. the traditional TSP is that you do not pay taxes when you withdraw money from the Roth TSP while you do pay taxes when you withdraw money from the traditional TSP. Simply put, with the traditional TSP, you enjoy tax savings now, but you pay taxes later; with the Roth TSP, you pay taxes now, but you enjoy tax-free distributions in the future.

One way to think about the tax considerations of the Roth TSP / traditional TSP is paying taxes "on the seed" compared to paying taxes "on the harvest" – paying taxes today on the initial contributions vs. paying taxes in the future on the contributions plus all the growth in the account. With the Roth TSP, as long as you comply with the account rules (which are not particularly intrusive), all the growth in the account is tax free.

If you decide on the "pay me now" tax consideration of the Roth TSP, there are several logistical aspects of the Roth to be aware of:

• Contribution limits are the same for traditional and Roth, and you can divide your contributions between traditional and Roth any way you want.

• Regardless of how you allocate your contributions between traditional and Roth, the agency automatic and matching contributions are always into the traditional side.

• You cannot transfer money from the traditional TSP to the Roth TSP.

• Your investment options are the same for both traditional and Roth balances, and whatever allocation you choose for your account is the same for both traditional and Roth.

• The traditional and Roth portions of your TSP are held in the same account but tracked separately for tax purposes.

• You can take loans, in-service withdrawals and partial withdrawals from both traditional and Roth TSP. All loans and withdrawals come proportionately from both sides.

As the Roth TSP is currently structured, there are two issues that make it fine for accumulation while you are working but not efficient for taking distributions in retirement – making a Roth IRA preferable:

1. All distributions are taken proportionately from both the traditional and Roth sides of your TSP account. This means that the Roth TSP cannot be used as a tax planning vehicle – as a Roth IRA can be used.

2. When you reach age 70 ½ and Required Minimum Distributions (RMD's) come into play, the TSP will take RMD's from Roth balances the same as traditional balances.

Combining these issues with the restrictions that TSP places on distribution options (for traditional and Roth), it is almost always preferable to rollover TSP balances that include a Roth component. A rollover allows you to determine whether distributions come from a traditional or Roth account, enables you to avoid RMD's on Roth balances (one of the primary benefits of Roth accounts which is, unfortunately, not available through Roth TSP) and provides unlimited flexibility in how you take distributions.

At the end of the day, the Roth TSP is a great, tax-free accumulation vehicle, but it comes up short when it is time to take distributions. If you decide to use the Roth side of your TSP, you should plan on rolling your TSP into an IRA when you retire in order to give yourself maximum flexibility and efficiency.

"Protect Your Spouse"

For married couples, both *Survivor benefits* and *Spousal benefits* are options that may be well worth considering. Without proper planning, when one spouse predeceases the other, there can be a *precipitous drop in income for the surviving spouse*. For instance, it is not uncommon to see declines of income between 35-50%. This impact on the surviving spouse years later could be significantly magnified when considering the long-term, down the road effect of inflation and taxes. More to the point - even including government employees who have guaranteed **FERS**/**CSRS** pensions; this is an insufficient basis upon which a lifetime income plan should be built, whether single or married. Unlike the **FERS** or **CSRS** maximum survivor pension of 50% and 55% respectively, Social Security has a maximum protection for surviving spouses of 100%, *if* certain criteria are met. This is worth considering when looking at a big picture view of protecting your loved one or yourself with a well-designed and fortified, 20-30 year retirement plan.

Let's examine how Social Security Spousal benefits work, since many couples do not even know they exist. ***Spousal* benefits for married couples**: one spouse is entitled to 50% of the other spouse's full retirement age (FRA) benefit at their full retirement age. For example, take a married couple who has reached their FRA at age 66 (FRA is determined based on the year you are born), if one spouse has “filed and suspended” for a $2,500 monthly Social Security benefit, the other spouse could claim a $1,250 monthly Spousal benefit while delaying to increase their own benefit. Divorced couples can also be eligible for spousal benefits.

Once retired, everyone knows there are no “do-overs”; the retirement landscape can be a scary place to walk. Given today’s roller coaster like rides of the stock market and TSP accounts, global uncertainty and the risk of outliving at least some of one’s money, proper planning is essential.

By considering one’s Social Security options in combination with your FERS / CSRS retirement annuity and TSP and possibly other retirement accounts, one can potentially unlock hidden value and dramatically increase one’s retirement income.

Chapter 6

Noteworthy Financial Quotes

- I will tell you the secret to getting rich on Wall Street. You try to be greedy when others are fearful. And you try to be fearful when others are greedy.

  Warren Buffett

- Buy when everyone else is selling and hold until everyone else is buying. That's not just a catchy slogan. It's the very essence of successful investing.

  J. Paul Getty

- I never attempt to make money on the stock market. I buy on the assumption that they could close the market the next day and not reopen it for ten years.

  Warren Buffett

- Empty pockets never held anyone back. Only empty heads and empty hearts can do that.

  Norman Vincent Peale

- Every time you borrow money, you're robbing your future self.

  Nathan W. Morris

- Rich people have small TVs and big libraries, and poor people have small libraries and big TVs.

  Zig Ziglar

- Never spend your money before you have it.

  Thomas Jefferson

- The stock market is filled with individuals who know the price of everything, but the value of nothing.

  Phillip Fisher

- A successful man is one who can lay a firm foundation with the bricks others have thrown at him.

  David Brinkley

- Live as if you were to die tomorrow. Learn as if you were to live forever.

  Mahatma Gandhi

- If your ship doesn't come in, swim out to meet it!

  Jonathan Winters

- The only place where success comes before work is in the dictionary.

  Vidal Sassoon

- If plan A fails, remember there are 25 more letters.

  Chris Guillebeau