Are You Retirement Ready?

Putting your Readiness Plan to the Test

Are you really ready to retire? Chances are it's a nagging question that many federal employees are willing to put off for another day. But, retirement planning and preparation are essential at any stage of your career.

For many federal family members, retirement is coming more quickly than you might expect. By September 2017, more than one third of federal employees are projected to be eligible to collect their end-of-career benefits.

No matter your age, it's never too late—or too early—to begin planning for retirement. As you prepare, it's important to understand what kind of planner you are, and where you might need to do a little more research. To get started, take this online test to find out and see if you’re “retirement ready.”

Based on your responses to the questions, you’ll get a report on your status: “Retirement Ready,” “Well on Your Way,” “Beyond the Beginning,” or “Just Getting Started.” You’ll also get a few tips on next steps in your planning process.

The course will help guide you through some of the biggest issues federal employees and members of the uniformed services face, determining investment and savings strategies, planning for health and long term care needs in retirement, and understanding Social Security benefits. Upon completion, you will come away with clear and defined goals and expert tips for a successful retirement.

Retiring successfully comes down to developing an effective retirement plan, which itself requires a bit of research and homework. Over the next four modules, you will hear from certified financial planners and federal retirement experts who will offer tips to get you started planning for your retirement. You will learn:

- What are your Thrift Saving Plan and investment strategies?
- Should you count on Social Security?
- Do you know the essentials of Medicare coverage?
- And, are you prepared for long term care needs?

Each discussion will also link to resources and tools that will help jump-start your retirement preparation.

What Are Your Investment and Thrift Saving Plan (TSP) Strategies?

Maximizing your savings and developing a savings plan are two important steps toward achieving a successful retirement. Today, we spoke with a financial planner and TSP expert, Karen Schaeffer with Schaeffer Financial, LLC. Using her strategic guidance, Karen lays out a number of tips to consider when investing in your Thrift Savings Plan.

How do you encourage federal employees to plan for savings?

Really, there's nothing better than Thrift. The idea is to put in as much as possible, and then round up and add a little bit more. Challenge yourself to look at your everyday spending, make some adjustments and stretch your TSP contributions. TSP is a use it or lose it opportunity. If you don't take advantage of your TSP for one year, there's no going back and adding to it for that year, and all potential compounding on those dollars is lost forever. You really just have to maximize the savings plan.

What do you say to someone who's devising a savings plan?

It's really about putting money in to your plan and understanding the investment options involved. You can afford to take some market risk if it's a long-term savings plan. There's a variety of plans in your TSP: The C Fund, the S Fund, and the I Fund. Those are the funds that are likely to help in the long run and will keep up with taxes and inflation. If federal employees don't like rebalancing their account, they can use one of the L portfolios, and their TSP will balance automatically.

Typically younger federal employees can't put in quite as much because of lower pay levels and other financial demands competing for the same dollar. The goal is to trend away from debt as quickly as possible and into savings. Once you get beyond the debt from student loans, car payments, or mortgages, you can begin saving more. It has become a noticeable trend that people are moving into retirement with significant amounts of debt. It is by far the biggest problem facing Feds today.

What are some more of those general trends?

The first problem is avoiding relying on debt throughout your whole career. It requires discipline to get ahead of the debt curve. The next problem is not saving enough and having unrealistic expectations about how long money can last. TSP.gov has great interactive calculators where Feds can compare scenarios to see just how long their TSP balance will pay out. And, the third issue is not investing for growth when you have the time to invest in growth.

Breakdown the variety of investment options in the Thrift Savings Plan.

There could be a huge difference between someone investing in the G Fund, which is basically a savings account, and someone investing in one of the growth options.

The fund options are pretty easy to understand. Feds have five investment choices: the G Fund, a money market fund that is guaranteed by the federal government. It's the safest of the TSP funds, but doesn't grow much. The other four funds are index funds. The F Fund a bond fund; and the C, S and I Funds, which are stock funds. These are more volatile, but have the largest potential for long-term growth. The brilliant thing about an index fund is that they're easy to understand and they're transparent, plus there are very low fees associated with them. The chore isn't so much about coming up with the perfect allocation for investment; the chore is to make sure the account is invested to meet the retirement needs successfully.

How do you talk about timelines or goals for retirement?

I'm not a fan of the one-size-fits-all rule. There's no dollar amount that will tell you what you need to retire. One person might be able to live on a Social Security check, while others might spend more. You really need to know yourself and accept your expected lifestyle demands. When you go into retirement after a full government career, your pension plus your Social Security (if applicable) should fund your basic day-to-day living expenses. Then, you can use the TSP plan and other money set aside for the irregular and bigger ticket items.

Feds need to develop a personal savings plan early and figure out their spending practices and habits. Don't try to get carried away with over ambitious goals. You need to be realistic and think of this as an incremental process. Bump up your TSP account gradually and eventually reach that maximum contribution amount.

Are there other investment options outside of the Thrift Savings Plan?

If someone is maximizing their contributions, which is $18,000 for anyone under the age of 50, and $24,000 when they hit 50, then the next best place is an IRA. Learning about IRAs is a great next step for those taking full advantage of their savings plan.

Also, for Feds who are not life-long career employees, IRAs and other investments are essential. These Feds won't have much pension if they've had short-term civil service employment (5-10 years).

Are You Counting on Social Security?

What to expect at retirement

According to the Social Security Administration (SSA), more than 59 million Americans will receive Social Security benefits in 2014, with payments totaling almost $863 billion. This number is only growing, as more and more baby boomers reach retirement.

Before you retire, it's important to understand your financial situation — and, for most Feds, this means understanding your Social Security benefits. Tammy Flanagan, the senior benefits director for the National Institute of Transition Planning Inc., has spent more than 25 years helping federal employees understand their retirement benefits. To this end, she's answered some common questions Feds have about their Social Security benefits.

To start: Please explain the FERS and CSRS retirement systems.

The Federal Employees Retirement System (FERS) and the Civil Service Retirement System (CSRS) are two different retirement programs offered to federal employees. CSRS was created in 1920, and is the older of the two programs, predating the Social Security program by 15 years. Consequently, Feds covered under CSRS do not pay Social Security tax.

While this saves them money in taxes, it also means that they are not eligible to receive Social Security benefits unless they have either previously had a civilian job under which they paid into the system or their spouse is eligible. And, even then, Feds covered under CSRS who are eligible for Social Security are still subject to the Windfall Elimination Provision (WEP) and Government Pension Offset (GPO), which essentially reduce the Social Security benefit they'd otherwise receive. The short version: If you're covered under CSRS, even if you're eligible for Social Security, do not expect to receive much money from it.

Roughly 95 percent of federal employees are covered under FERS, which was created in 1983. Which plan you fall under is essentially a matter of when you started working for the government. Feds covered under FERS pay Social Security tax, and thus receive the same Social Security benefits as non-federal employees.

When am I eligible to start receiving Social Security benefits?

Regardless of whether you are covered by FERS or CSRS, qualified recipients receive Social Security benefits as early as your 62nd birthday. It is important to note, however, that if you choose to take Social Security before the normal retirement age (the normal retirement age for Social Security is between 65-67) you will be subject to an earnings test, meaning some of your Social Security benefits will be withheld if you earn more than a certain amount of money. This requirement is waived when you reach your full retirement age.

Additionally, the SSA offers delayed credits for deferring your Social Security benefits. Each year that you defer your benefits beyond your full retirement age, you increase your eventual benefit by around 8 percent annually. For example, based on the typical eligible age of 67, if you were to wait until you are 70 to begin drawing on Social Security, your benefit will have increased by roughly 24 percent.

When should I start receiving Social Security benefits?

There is no "right" or "wrong" answer to this question—it's all a matter of preference and financial need. By delaying the receipt of benefits, you will eventually receive more money per disbursement. The risk here is that unless you can expect to live long enough to have the incremental increase offset the money you would have received had you not deferred your benefit, you may be reducing your overall amount of benefits received in exchange for more money per disbursement.

A good way to start answering this question is to ask yourself: Am I still working? Do I need the money? How long can I expect to live? And, is there anyone else who I am providing for, financially? By answering to these questions, you can begin to develop a plan that will bring you closer to knowing when it makes sense to start receiving Social Security benefits.

What can I realistically expect my income from Social Security to be and will the amount be livable?

This is a subjective question with a very personal answer as different people have different definitions of "livable." To give a quantified answer, the average income from Social Security is roughly $1200 per month. Keep in mind, Social Security was never meant to be anyone's sole source of retirement income. Think of it as supplemental income in addition to a pension and personal savings.

A more complete answer is that Social Security is a tilted system, designed intentionally to provide more income replacement for those who worked at lower wages than those who worked at higher wages. The rationale behind this structure is that those who have made more money in their earning years are expected to have saved more of their income. It is Social "insurance" really. The way insurance works is that everyone pays into it and not everyone gets an equal benefit out of it. Right or wrong, this is part of the formula used to determine your individual Social Security benefit.

Social Security was never meant to be your retirement plan—it's designed to be supplemented by employer pension and personal savings. The good news for federal employees is that unlike many private-sector employees, the majority of them have all three pieces. Feds have their Thrift Savings Plan, government pensions or annuities, and in many cases, Social Security benefits. This helps to develop a more complete and structured plan when looking toward retirement.

Expert Insights: The Need-to-Knows About Medicare Coverage

The key to a successful retirement is education. Understanding how Social Security works with your plan is what will aid in determining what you can expect to receive from it and how it fits into your overall retirement plan. With this information, you will be better equipped to develop a retirement plan that takes into account all of your contributing programs and makes sense for your individual situation. It is important to remember, the best time to retire is when you are both economically and mentally prepared for the transition. The sooner you develop a financial plan the more comfortable you can be making the mental one. You can use an online calculator to create different scenarios for claiming your Social Security retirement benefits. There is also a special calculator to estimate the effect of the Windfall Elimination Provision that will impact CSRS retirees and others who receive a pension from work not covered by Social Security.

Expert Insights: The Need-to-Knows About Medicare Coverage

Everyone has heard of Medicare, but it's not an easy program to comprehend and there are many options for Feds to choose from. Despite the fact that over 50 million Americans are currently enrolled in Medicare, an astounding number of questions still remain. And, as Feds find themselves approaching retirement age (age 65 an older), they must be prepared to make a series of insurance decisions that could have a long-term impact on their health coverage.

Tammy Flanagan, the senior benefits director for the National Institute of Transition Planning Inc., has spent more than 25 years helping federal employees take charge of their retirement by helping them develop an understanding of their benefits. She has developed a list of need-to-knows about Medicare coverage that will help you understand the variety of Medicare options and plan choices for your retirement.

Is enrollment in Medicare mandatory?

Medicare is a national insurance program administered by the U.S. government and intended for retirees and the disabled. Once you turn 65, you are eligible for Medicare—regardless of whether or not you are retired or currently working. While many federal health plans offer certain incentives for enrolling, enrollment in Medicare is not mandatory. You will not lose your existing Federal Employees

Health Benefits (FEHB) Program coverage if you do not choose to enroll.

Medicare offers several different plans--what are the different coverages?

Enrolling in Medicare is not as simple as checking "yes" or "no." In fact, there are four plans you can enroll in:

- Part A – Hospital insurance
- Part B – Medical insurance
- Part C – Medicare advantage
- Part D – Medicare prescription drug coverage

Determining which plan(s) to enroll in is a personal decision, based on your existing health coverage and your current medical condition. Also, you should make this decision based off if you are retired or still working. Medicare is primary if your health insurance is deducted from a retirement check, and Medicare is secondary, and less valuable, if your health insurance is deducted from a paycheck.

That said, what makes sense for most Feds? Upon turning 65, it makes sense for most federal employees to enroll in Part A, which covers nursing care and expenses associated with hospital stays. Keep in-mind this covers limited-skilled nursing care, not custodial care. Generally it's also a good idea for federal retirees to enroll in Part B, which covers things like doctors' visits. Most FEHB plans offer incentives for retirees who enroll in both parts A & B of Medicare. Check your FEHB plan brochure section 9 for specific information. There is a sizable late enrollment penalty associated with Part B, so it generally makes sense to enroll when you're 65 (unless covered by health insurance through you or your spouse's current employment) — even if you're in good health. That way, should you develop a medical condition later down the line, obtaining this additional coverage won't be prohibitively expensive.

If you are continuing your FEHB coverage, which is typically recommended for federal employees even after retirement, it is not necessary to enroll in Parts C and D. That's because your FEHB takes the place of Part C and most FEHB plans, and often provides better drug coverage than the Part D plan. Should your insurance situation change and you choose to enroll in Parts C or D later down the line, there are late enrollment penalties for part D but if you are covered by FEHB coverage you will be exempt from those penalties since FEHB is considered "credible" coverage.

Can your spouse still receive health coverage if you enroll in Medicare?

Medicare is not just for Feds. If you're at least 62 and have worked at least 10 years in Medicare-covered employment, your spouse can get Part A and Part B at 65. When you enroll in Medicare, your spouse also qualifies for Medicare through your coverage. If you are turning 65 before your spouse, they will remain covered under your existing FEHB plan and can receive Medicare coverage once they turn 65.

Don’t fewer doctors take Medicare patients?

A common complaint about Medicare is that it is difficult to find doctors who accept Medicare patients. Simply put, this is more a rumor than fact. The vast majority of doctors—up to 95 percent—accept Medicare. The best way to find out if your doctors accept Medicare is to go to www.medicare.gov and enter your zip code to pull up a list of participating doctors.

What final advice do you offer on Medicare enrollment?

Just as at any other major life event, it’s important for federal employees to do some homework before turning 65. Don’t assume that the same health plan you had before you turn 65 is going to be the best plan for you after that age. Instead, research what plan offers you the best coverage and what Medicare incentives—such as waived premiums, copayments and deductibles—are available to you. As you go about doing your research, be sure to keep in mind that Medicare is a long-term investment. Paying more in coverage early on might save you a lot of money down the line.

What Are Your Long Term Care Needs?

How to plan ahead for extended care when you retire

Considering your possible long term care needs is an important step in the planning and preparation for those approaching retirement. By definition, long term care is non-medical support services required for 90 days or more. Typically, these services are provided to those who need help with the activities of daily living such as eating, bathing, dressing, transferring or those suffering from a cognitive impairment, such as Alzheimer’s. The services associated with long term care are not those provided for curable health issues that are covered by health insurances such as FEHB, Medicare or Tricare.

Don’t Wait to Start Planning

While it may seem a long way off, it’s important to start building a plan for long term care when you’re approaching the middle to end of your career, just as you planned for your retirement during your career.

“We suggest that people start thinking about their long term care needs in their early 50s,” says Joan Melanson, the director of Program Promotion for the Federal Long Term Care Insurance Program (FLTCIP). “It may not seem logical since this is typically when you’re at the peak of health and thinking about the enjoyable aspects of retirement, but it makes sense to consider long term care issues when you put your retirement plan together. Without considering how you might finance your long term care needs, these costs can put a sizeable and unexpected hole into your retirement nest egg.”

Melanson suggests looking at a number of factors when considering your long term care situation:

- **Family** health history, longevity, and your current and future health picture
- **Location**, including both your current location and where you plan to reside in retirement. Consider how this might impact your family support system and whether family would be willing or able to provide care.
- **Lifestyle** needs and wants, including assets and retirement plans, as well as financial obligations like a mortgage or a grandchild’s tuition

Though it is difficult, Melanson says, to predict what your long term care needs might be and at what age you’ll need services, she suggests talking to family members and researching options in advance of a long term care event, before the actual situation occurs.

One solution to consider is the long term care insurance program designed for the federal family and overseen by the U. S. Office of Personnel Management (OPM). The FLTCIP is your federal benefit and offers a variety of plan options. Melanson suggests using the tools on the www.LTCFEDS.com website that illustrate the costs of long term care services by geographic area and the costs of coverage through the FLTCIP, determined by age of application and selection of benefits.

“You’re planning for the costs not covered by health insurance, Medicare or Tricare,” she says. “And we encourage people to start planning early, when you’re young. That’s when it’s most affordable, and you tend to be healthier, which is important since the program is medically underwritten.”

Long Term Care Insurance Designed for Feds

The FLTCIP is your federal benefit, Melanson says, but it’s also important to shop around and see what private plans have to offer. Premiums are impacted by age, but for the FLTCIP, the average enrollee is in their early 50s. At that age, the average premium cost is about $1,650 annually for solid coverage of $150 per day, three years in duration, with 4 percent compound inflation.

Flexibility with FLTCIP — Your Federal Benefits

OPM sponsors the Federal Long Term Insurance Program and currently more than 273,000 Federal civilians and annuitants, active and retired members of the uniformed services and qualified family members are enrolled in the program. One of the most significant benefits of this insurance program is the flexibility it provides, Melanson says. With most long term care insurance plans you can receive care at home, as well as approved facilities. The FLTCIP, however, allows for home care to be provided by the caretaker of your choice.

"You can receive care at home and that's what the majority of people want, but there are also assisted living care facilities, adult daycare and nursing home options," Melanson says. "And your caretaker options are flexible. With the FLTCIP, you can hire a licensed home healthcare professional or have a family member or friend provide the care and they can get reimbursed for doing it."

To better understand the Federal Long Term Care Insurance Program and its benefits, Melanson suggests doing some research by using the online consultant tool and calculators, all housed on the www.LTCFEDS.com website.

Another great way to educate yourself is by viewing one of the educational webinars, offered live or through a catalogued library, at www.LTCFEDS.com/webinars or by giving one of the FLTCIP program consultants a call directly: **1-800-LTC-.FEDS** or **1-800-582-3337**.

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