eBook

Federal Employee Benefit Maximization Guide

"An investment in knowledge pays the best interest."

Ben Franklin 1787

Publisher
Federal Employee Advocates
Presented by Kris Keush

There are those that plan...

...and those that don't

Message from the Publisher

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.

Our Free Resources

- **Monthly Webinars: www.federalwebinars.com**
- **TSP Video: www.federalemployeeadvocates.com/tspvideo/**
- **TSP Calculator: www.federalemployeeretirement.com**
- **FR 80 Calculator: https://www.federalretirementcalculator.com/**
- **Roth IRA Video: https://www.federalemployeeadvocates.com/rothiravideo/**
- **Our 200 Articles and whitepapers.**

The information contained in this eBook and our Free Resources, should not be relied upon without consulting with Kris Keush, who is your Federal Employee Advocates Approved Advisor.

Table of Contents

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. According to the Employee Benefit Research Institute (EBRI), 40% of Americans will run out of money during their retirement. This eBook was created to help you not be one of those 40%-ers. The more time you invest in understanding how to maximize your federal benefits and gain knowledge on how to expand your retirement sources of income, the more prosperous and secure your federal retirement will be.

In 45 years of helping federal employees better plan for their retirement, we have not seen one instance where a federal employee voluntarily retired, and did not have enough money to retire at that time. But, running out of money after they retired is a different story and we have seen plenty of those stories.

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%-to-8% 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%

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 six times 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 alternatives 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 and that is only if you qualify. Since Medicare does not truly cover long-term care costs, it does not pay for assisted living expenses.

   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 2034, the Trust Funds will be totally depleted ie no more Social Security and with the country in over $30 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 $30 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. The news media will try to convince you that we are in the second Great Depression. After that 10-year period of time in our history, many thought our world as we knew it was over. But consider the tremendous advancements that have taken place in our world since that terrible time.

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.

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.

Average Life Expectancy How many years will you need your retirement income to last?	
Male 45: 32.16 Years	Female 45: 36.31 Years
Male 50: 27.85. Years	Female 50: 31.75 Years
Male 55: 23.68 Years	Female 55: 27.31 Years
Male 60: 19.72 Years	Female 60: 23.06 Years
Male 65: 16.05 Years	Female 65: 19.06 Years
Male 70: 12.75 Years	Female 70: 15.35 Years
Male: 75: 9.83 Years	Female 75: 11.95 Years
Your pension and SS alone probably will not be enough for you to retire on, so you need other sources of income to last at least this many years beyond your retirement.	

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 TSP Matching Funds are all three of those wrapped up in a 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 $20,500 and if you are over 50 years of age you can add an additional $6,500 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 $20,500 maximum every year, up to $6,500 per year, until that virtual pot is depleted. The good news is that Catch Up extra $6,500 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 5-10 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 earned only 1.38% in 2021, .97% in 2020 and during the past 10 years has averaged under 2.00% In essence the G Fund 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.

Below is a sample TSP Fund Allocation grid that was published when we saw the market heading on a downward trend in December 2019. The Headers were predicated on the Risk Tolerance level a federal employee was willing to endure at that time. We find that younger federal employees tend to lean towards an Aggressive risk tolerance and federal employees within 12 years of retirement having a lower risk tolerance level.

Fund	Low Risk	Medium Risk	Agressive
C	3%	9%	20%
S	3%	9%	20%
I	0	0	11%
L	15%	20%	20%
F	39%	42%	19%
G	40%	20%	10%

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, 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 72 you will have to take RMDs (Required Minimum Distributions) so Uncle Sam can get some tax money.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. We created a video that explains the pitfalls of this option https://www.federalemployeeadvocates.com/tspvideo/

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 like 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:

12

Pension Eligibility:

If you are a Special Category federal employee you should contact your Federal Employee Advocates Approved Advisor so they can direct you to 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 then below you will find the MRA chart:

If you were born:	Your MRA is:
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
Between 1953-1964	56
In 1965	56 and 2 months
In 1966	56 and 4 months
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

EXAMPLES:

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 2022, for every $2.00 you earn above $19,560 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 $51,590, 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 Security.

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 $6,500 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 2.00%). 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 2%?

*** 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.

Federal Employee Roth TSPs – The Good, The Bad & The Ugly

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 72 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

"How many millionaires do you know who have become wealthy by investing in savings accounts? I rest my case." Robert G. Allen

"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

Chapter 7

Looking Under The Hood Of Your Health Benefits

Many federal employees choose their health plan by throwing a dart at the wall and hoping that it lands on the right spot. This is not the approach I would recommend. During open season, federal employees have the opportunity to review their health benefit options. Although benefits change within the plans and premiums continue to increase annually, many federal employees leave their health insurance choices to chance and never look at a plan other than the one they have. The reasons can vary. Maybe they are content with the current plan, and they simply do not want to expend the energy or time looking at other choices. This chapter is focused on the process of comparing health plans and breaking them down so you can compare and understand the variety of plan choices.

The following are standard rules that apply to all plans:

- During open season, which is usually the second Monday in November through the second Monday in December, federal employees and retirees may enroll in, change, or cancel their existing health plan. They can also choose to enroll in, change, or cancel their dental and vision coverage. And, in order to participate in the flexible savings account for the following year, employees must state how much they want to contribute for the year.

- All federal health plans are required to have a no pre-existing condition clause. This allows federal employees to move from one plan to another during open season each year without being concerned about any existing health conditions. Each plan must take your enrollment no matter what your health condition. This continues even when you are retired.

- Each plan also is required to have a maximum out-of-pocket limit for the year. If you reach that limit, you will not be required to pay any further expenses, co-pays, and deductibles due to this limit. The amount of the out-of-pocket limit varies from plan to plan, so you will want to be sure you understand the maximum amount you would have to pay out of your own pocket for the plans you are considering.

Here are some standard definitions you may want to become familiar with:

FEHB – Federal Employee Health Benefits

FEDVIP – Federal Employee Dental and Vision Insurance Plan

PCP – Primary Care Physician

FSA – Flexible Savings Account

HSA – Health Saving Account

HMO – Health Maintenance Organization

PPO – Preferred Provider Organization

FFS – Fee-For-Service Plan

HDHP – High Deductible Health Plan

IOU – What you see if you don't have good insurance

Traditional Types of Health Plans

HMO--Health Maintenance Organization.

This is coverage where you choose a primary care physician from a list of member physicians to provide your general health care. Any visits to a specialist must be referred by your Primary Care Physician (PCP). There is typically no coverage for out-of-network care with the exception of emergency care. You are not required to pay a deductible, but there are often co-pays associated with office visits and prescriptions.

PPO--Preferred Provider Organization.

This is a group of contracted providers who you can select from. You do not have to name one particular provider to be your primary care physician and can visit any doctor as long as they are on the preferred provider list. These plans vary by state with many different options available around the country. You are not required to stay within the network, but the insurer will pay more if you do. Typically, your insurance company might pay 80% and you would pay 20% if you went to someone on the preferred provider list. If you went out-of-network, the insurer might only pay 70% and you would have to pay 30%. There are usually deductibles required each year and you can also expect to pay copays which are often larger than in an HMO.

FFS--Fee-For-Service.

The Fee-for-Service plans are offered nationwide and all federal employees have access to them. The line between a PPO and Fee-for-Service plan is fairly blurry. Like the PPO, you can choose your provider from an approved list. Your reimbursement is normally 80% of covered expenses which are considered reasonable and customary as determined in the contract between the provider and the insurance company.

Comparing an HMO to a PPO or FFS:

You have less flexibility and more restrictions in an HMO, which results in lower premiums but possibly higher out-of-pocket expenses. The more choices and control you have, the more it costs you. Should you choose a traditional plan? Much of this decision is driven by how healthy you and your family are. Your health will be a guiding factor in choosing the best coverage for you. Traditional coverage is designed for people with fairly significant health issues. If you have a chronic condition, see a specialist more than 3 times a year, and are on several on-going medications, then a traditional plan may be for you. Although there are usually higher premiums associated with traditional plans, you will also be likely to have more of your health expenses covered during the year. As with all the health plans offered through FEHB, there are annual out-of-pocket maximums that limit how much you would have to pay in any given year.

Consumer-Driven Health Plans:

These are recommended for those who have fewer health issues than those mentioned for traditional coverage. You might have a minor ongoing condition such as allergies or acid reflux for which you take one or two prescriptions occasionally. If you see a specialist, it might only be once or twice per year. Consumer-Driven Health Plans typically have a set amount of coverage that they pay before you are required to pay anything; a reverse deductible if you will. As an example, the insurer might pay the first $2,500 in expenses on a family's coverage. You would then be responsible for the next $1,500 and then the insurance company would pick up 90% of the charges and you would be responsible for 10%, up to an out-of-pocket maximum of $6,000. Any amounts you do not use out of the insurer's first $2,500 can be rolled over to the next year, provided you stay in the same health plan. So, if you only needed $2,000 of coverage this year and stayed in the same plan; next year, the insurer would pay the first $3,000 of your expenses ($500 from this year plus $2,500 for next year).

These plans are for those who are generally healthy:

(HDHP)High-Deductible Health Plan is a fairly new offering for the federal government. Less than 2% of federal employees are enrolled in these plans. We believe this is not because they are not viable options, but because employees simply don't understand the benefits. If you do not have any known medical issues and only go to the doctor for routine physicals or the occasional flu, and you don't have any ongoing prescription needs, this might be a great choice for you. High-Deductible Health Plan can be expected to have lower premiums with higher deductibles. For any of you who remember what they used to call catastrophic insurance where you only had coverage for a major health event, but you could afford to pay for other day-to-day healthcare expenses; that is essentially what the High-Deductible Health Plan does.

(HSA)T**he High-Deductible Health Plan** comes with a Health Savings Account. The HSA associated with the High-Deductible Health Plan is different from the Flexible Savings Account (FSA). The biggest complaint about the FSA is that it is a use-it-or-lose-it option. The HSA funds roll over from one year to the next, regardless of whether you stay in a High-Deductible Health Plan or not. Another difference is that the HSA funds earn tax-free interest where FSA funds do not. We'll cover more on FSAs later in this chapter. The funds are completely portable, meaning that if you retire or leave federal service, the funds are yours to take with you and spend on healthcare expenses in the future. The custodian of the HSA will provide you with a debit card which you can use to pay deductibles, copays and other health-related expenses. You can continue in a High-Deductible Health Plan in retirement until you reach age 65 and become eligible for Medicare. The funds you accumulate in your HSA during your working years can be utilized for healthcare expenses in retirement, including premiums on your federal employee health benefits after age 65.

The HSA acts as a healthcare IRA. The funds are even inheritable by your heirs. How do you get funds into your HSA? There are two ways. The first is to contribute funds each month. This can come directly out of your checking account to go, pre-tax, into the HSA. The second way is that the insurer gives back a portion of the premium you pay directly into the HSA. You receive a rebate from the premiums you pay, actually reducing your overall health care costs. You must be in a High-Deductible Health plan to have an HSA.

The only exclusions from participating in the HSA are:

- You cannot be enrolled in Medicare.
- You cannot be enrolled in a non-OPM health plan.
- You can't have accessed benefits through the VA in the past 3 months.
- You cannot be enrolled in Tri-Care or Tri-Care for Life.
- It will limit how you can participate in an FSA (you can't contribute to the FSA for healthcare expenses, but you are still allowed to use the FSA for dental and vision.)

Some common expenses you can pay out of your HSA include:

- Out-of-pocket expenses like deductibles and copays
- Dental expenses
- Vision exams
- Contacts, glasses
- Hearing aids and batteries
- Chiropractors
- Acupuncture
- Qualified long-term care premiums

Using the HSA's tax-free capabilities is the only way to get a federal tax break on your long-term care premiums. SO, WHAT'S THE DIFFERENCE? We've talked about types of plans and how your health can help determine your best option, but what about things like levels of service and how much control you have over your own healthcare? The following chart shows four areas you should consider when making your decision.

	HDHP	PPO/FFS	HMO
Red Tape /Paperwork	Lots	Some	Almost None
Emphasis on keeping you out of the hospital	Cost incentives	Pre-approval	Non-hospital treatment first
Choices of doctors, hospitals and other providers	Some are network only; others pay something for out-of-network	In network Reduces cost; out-of-network provides increase costs	Must use in-network providers; no coverage for out-of-network
Use Case Management	Limited	Limited	Substanstial

In terms of paperwork, an HMO is the easiest to deal with, while the High-Deductible Health plan involves more paperwork and pre-authorizations. The High-Deductible Health plan provides incentives to the plan participant in taking responsibility for their care, while the PPO and Fee-for-Service plans require pre-authorization, and the HMO endorses non-hospital treatments. All three types of plans require you to utilize their preferred providers to different degrees. It's your responsibility to understand what is required by the plan to avoid unnecessary out-of-pocket expenses for yourself.

Each of the High-Deductible Health Plans and the PPO/FFS have limited case management capabilities. This means you will be responsible for managing more of your overall health care. For example, if you're having surgery, you'll need to be sure that not only the hospital and surgeon are on your insurer's preferred provider list, but that the anesthesiologist and any other medical professionals who might consult on your case are on that preferred list as well. The strength of HMO's is their case management ability. You don't have to be concerned about whether a specialist is on a preferred provider list because if your primary care physician has referred them, they must be within the system. This is done to contain costs.

Speaking of costs, how important is cost to you? Of course, we all want to pay as little as possible for health insurance, but is it your most important concern? While you are working, your share of the insurance premium is paid with pre-tax dollars—called premium conversion. Once you retire, you no longer receive this benefit and must pay your premiums with after-tax dollars. The federal government continues to pay their proportionate share, approximately 72%, for both you and your spouse even after retirement. This is one of the best benefits you get for your years of public service. Your spouse can continue on your coverage as long as you live, but if you want to ensure that their coverage continues even if you pass away first, you'll want to be sure and take a survivorship benefit on your federal annuity for them.

This election at retirement allows you and your spouse to be covered by federal health benefits as long as you both live, with the federal government paying 72% of your premium and you paying 28%. Often two federal employees will be married to each other, and each take self-only health coverage. The premiums for two self-only policies are less than family coverage. This seems like a cost-effective plan. However, keep in mind that each employee must meet the plan's maximum out-of-pocket limit if there are two separate plans. This is of particular interest as employees/retirees age and tend to have higher overall health care expenses. You are eligible to continue your health benefits in retirement if you retire on an immediate annuity and have been enrolled in the FEHB for at least five years either as an employee or family member. You do not have to be enrolled in the same health plan the entire five years, but continuously enrolled in any FEHB plan.

A common misconception is that your spouse must be enrolled for five years prior to your retirement. This is not true. If your spouse has other coverage, they can enroll in your plan either after a life-changing event or during any open season. A pitfall to avoid here is that if your spouse continues to work after you retire and keeps their own health coverage thinking they'll get on your plan when they retire, and then the federal retiree passes away before the spouse has a chance to retire. The spouse loses the access to those health benefits because they were not covered by the FEHB at the time of the retiree's passing. Even if you take the survivor benefit to enable your spouse to continue health benefits if you pass away first, and if the spouse is not covered by FEHB on the day you die, they are unable to get FEHB coverage. Your overall health care expenses include more than just your share of the premium. You also must take into consideration what your maximum deductibles could be, as well as any copays for doctors, hospitalization, and prescriptions. In the case of the High-Deductible Health Plan, you also get a rebate from the insurance company, so you get to deduct that amount from your overall expenses.

Look at the following illustration comparing out-of-pocket expenses for an employee insuring self only:

Self Only	HDHP	Standard
Limit state in plan's summary of benefits	$5,000	$4,500
Hospital, physician, drug copays	Included	$2,560
Specialty drug	Included	$4,000
Premium minus savings account	$88	$1,992
Actual limit to you	$5,088	$13,402

As you can see in this table, it's possible to pay much higher expenses in a standard level plan than the high-deductible health plan, especially if you have to meet the full deductible in each plan.

Dental and Vision

In 2006, the federal government added separate dental and vision benefits to your health benefit offerings. Some health plans include a small provision for dental coverage, but it is usually limited so you might want to have additional coverage. The coverage is available to all current and retired federal employees through FEDVIP. It is offered on a group basis which reduces the cost of the premiums, but the government does not subsidize any portion of the premium. One of the issues with the FEHB is that you must choose between self or family coverage. If you are married with no children, you pay the same amount as the co-worker who is married with four children. The dental and vision programs allow you to choose between self only, self + one, and self + family to make the premiums fairer. As in the health plans, pre-existing conditions are covered, although you'll want to check the limitations for things like orthodontics, crowns and bridge work. You also get to pay your premiums with pre-tax dollars just like your health insurance. You can choose dental only, vision only, both, or neither. NOTE: You do not have to be enrolled in the FEHB to participate, although you must be eligible for the FEHB.

The dental and vision coverage are the secondary payers if you have coverage under your FEHB. An example is, if available your health coverage would pay first, then your FEDVIP coverage. Then if you're enrolled in the FSA, you could use those funds to pay any remaining amounts due. When comparing dental benefits, you're looking to find the best coverage that, used in combination with your health coverage and FSA, will provide the most benefit for you and your family.

FSA – Flexible Savings Account

The Flexible Savings Account is not actually part of your health insurance coverage, but the open season is the same as the health plans. You must re-enroll and choose your contribution amounts to the FSA each year. You may contribute up to $2,850 each year in pre-tax dollars to be used for health expenses. Depending on your tax bracket, this effectively allows you to get a 20-40% discount on health-related expenses because you are paying for those expenses with pre-tax dollars. You can use the funds to pay medical expenses such as co-pays, deductibles, dental and vision care, prescription and non-prescription drugs. Remember, your ability to contribute to the health portion is limited to use for dental and vision care if you are enrolled in the High-Deductible Health plan and the HSA. You can also set aside $5,000 in pre-tax dollars to pay for dependent care for children under the age of 13, parents or other relatives dependent on you for their care and listed on your tax return. The biggest complaint about the FSA is that if you don't use your contributions from the previous year by March 15, you lose them. You can drive down the street in early March and in any drug store you will see signs like "Spend your FSA $ here". You can spend left-over funds on band aids, aspirin, contact lenses and solution, among other things.

Final Considerations

Choosing Your Plan: If you're going to compare the health plans available in your area, you'll want to start by choosing from the HMO/PPO/Fee-for-Service options and choose which ones you want to review. Can you live with the limits of an HMO? If you want a little more control, you might move toward a consumer-driven health plan or High-Deductible Health plan. How healthy are you and the members of your family? Do you have any specialist needs? Remember, the healthier you are, the lower options of the consumer-driven and High-Deductible Health Plans become. You'll also want to consider what health services are important to you. Think about well child checkups, chiropractic care, mental health, emergency services, preventative screenings and hospitalization. There are probably only a few of these services that are important to you, and these needs will change over the years, which is why you'll want to review your health coverage at least every three years.

Medicare

We'll close out this chapter with a short overview of Medicare and how it integrates with your federal employee health benefits. One of the most common questions we hear is what to do about Medicare and my federal employee health benefits when I turn 65. There are four components to Medicare:

Medicare Part A

Medicare Part A is the hospitalization coverage portion of Medicare and is free to anyone who has paid into the Medicare system for at least 40 quarters (or ten years). Because all federal employees were required to begin paying into Medicare in March of 1986, even if you're in CSRS, you should be covered here. Because it is free to you--you've paid in 1.45% while you're working--you'll want to sign up for this coverage at age 65. Your FEHB insurer wants you to sign up as well, because it helps take some of the burden off them. You'll sign up for Medicare Part A when you turn 65. You have 7 months--that's three months before your 65th birthday, the month of your birthday, and three months after your 65th birthday--to enroll. Whether you're still working or not, you'll want to sign up for Medicare Part A because you do not pay anything for this coverage. If you are still working at age 65, your FEHB will remain the primary payer until you retire, when Medicare will take over as the primary payer.

Medicare Part B

Medicare Part B has a cost of $170.10 (for 2022) per month and if you opt for this coverage at age 65 (or when you retire, whichever is later), it becomes your primary insurer and your FEHB acts as a Medicare Supplement. If your modified adjusted gross annual income is greater than $85,000, your premium increases on a sliding scale. This is known as means testing. If you have the means to pay more, you're charged more for Medicare Part B. Many federal employees question whether they need Medicare Part B. Keep in mind that unless you're turning 65 soon, much of what you're reading here could change by the time you get there.

The general pros and cons of choosing Medicare Part B are as follows: on the positive side, you'll have broader access and stand to have a greater portion of your health care expenses paid for. If you're in an HMO within your FEHB, you won't have to worry about those out-of-network costs being covered. Medicare would pick that up. If you choose Medicare Part B, you will pay at least $96.40 more per month in premiums (in addition to your then current FEHB premiums). Health care expenses for a couple enrolled in Blue Cross Blue Shield would be more than $7,000 per year before ever going to the doctor. If you're healthy, you could save about $2,300 per year by simply keeping your FEHB only.

The downside of Medicare is that if you choose Medicare Part B, Medicare becomes the primary payer (they pay the first dollar expenses). Having Medicare become the primary payer means that you have to go to a physician who accepts Medicare. Many physicians are no longer accepting Medicare because it is a time-consuming process to file the paperwork, which results in lower payouts than the typical insurer would pay, and it often takes longer for Medicare to pay them. You may also have to give up the physician you've gone to for years if you choose the Medicare Part B option. Unfortunately, more and more doctors are not taking Medicare. If you are already retired when you turn 65, the rules are the same for enrolling in Medicare Part B as for Part A. However, you may still be working at age 65 so that, hopefully, you won't have to make the Medicare Part B decision until up to 8 months after you retire. If you do not enroll during this timeframe, you may still enroll during any open season which runs from January 1 to March 31 each year. However, you will incur a 10% penalty for each year past the enrollment deadline. You'll want to carefully evaluate your Medicare Part B options at age 65, so hopefully, you won't have to reconsider it in the future. The 10%/year penalty increases your premium permanently. Since most federal employees are satisfied with their FEHB coverage, they simply keep that coverage at age 65.

Medicare Part C

Medicare Part C is also known as Medicare Advantage and acts like an HMO for Medicare participants. You must have Medicare Part A and Part B to participate in Medicare Part C.

Medicare Part D

Medicare Part D is the prescription drug program enacted by President Bush in 2003. Depending on the prescription drug provisions of your FEHB, you may not need this coverage. As long as you have some prescription coverage within your FEHB, you are allowed to pick up Medicare Part D during any open enrollment without a penalty.

As complicated as this part of your package may seem, understanding your options here can save you thousands of dollars over your career and into retirement.

The government health plan is among the best in the country because of the variety of options you have to choose from each year, and the fact that they subsidize your premiums by 72% for life.

You can see what an important benefit the FEHB provides in your overall benefits.

Chapter 8

Looking Under The Hood Of Your FEGLI

Now let's get into a more detailed discussion concerning your Federal Employees Group Life Insurance, also known as FEGLI. Life insurance is an important component of your benefits package. We have found that this is the most misunderstood part of the benefits program. You need to have a thorough understanding of this very important coverage. All career employees can take part in the FEGLI coverage. Interpretation of the FEGLI code is the best starting point. This is how you determine what coverage you have chosen. Keep in mind that postal employees are the only federal employees that receive Basic Life coverage at no cost.

The FEGLI code begins with the letters IN followed by a number, a letter (or number 9) and then a number. The number following the IN indicates your age group, and the corresponding rates for each insurance:

1 = under 35	4 = 45.49	7 = 60-64
2 = 35-39	5 = 50-54	8 = 65-69
3 = 40-44	6 = 55-59	9 = 70 and over

The next letter, or number 9, indicates which options you have elected.

A - Ineligible	P - BL, A, Bx3
B - No Benefits	Q - BL, C, Bx3
C - BL	R - BL, A, C, Bx3
D - BL, A	S - BL, Bx4
E - BL, C	T - BL, A, Bx4
F - BL, A, C	U - BL, C, Bx4
G - BL, Bx1	V - BL, A, C, Bx4
H - BL, A, Bx1	W - BL, Bx5
I - BL, C, Bx1	X - BL, A, Bx5Y - BL, C, Bx5
J - BL, A, C, Bx1	Z - BL, A, C, Bx5B
K - BL, Bx2	L = Basic Life
L - BL, A, Bx2	A = Option A
M - BL, C, Bx2	B = Option B
N - BL, A, C, Bx2	C = Option C
O - BL, Bx3	

The final number 0, 1, 2, 3, 4, or 5, shows the number of units selected with Option C, if any. If you did not elect Option C coverage, this will be a zero. NOTE: Since postal workers receive Basic Life coverage at no charge, their pay stub may not have an IN code if they did not elect any additional coverage. The Basic Life coverage will appear on their annual Statement of Benefits, though it does not appear on the paystub.

Basic Life Insurance Coverage

As we mentioned, postal workers get this coverage at no charge. All other branches pay $0.15 per $1,000 of coverage. Basic Coverage is calculated using your Base Pay. You can calculate your Basic Coverage by taking your Base Pay - round it up to the next thousand, add $2,000 and that equals Total Basic Coverage. Consider this simple example. Bob has a base pay of $45,300. His Basic Coverage would be: $45,300 (Base Pay) $46,000 (Rounded Up) + $2,000 equaling $48,000 which is his Total Basic Coverage. As you get pay raises and COLAs, your Basic Coverage will also increase. You use the exact same calculation, with your new base pay after each raise. Your Final Expense Benefit and your Basic Life Insurance includes a little-known and seldom-claimed final expense benefit. If you retire prior to age 65, your Basic Life Insurance will remain in effect until age 65. For the next 38 months, it will reduce by 2% each month until the benefit reaches 25% of the original amount. Example: If Bob earns $52,000 at retirement, his Basic Insurance coverage is $54,000 until age 65. Over the next 3 years and 2 months, his coverage will reduce each month until it reaches $13,500 (25%). Most federal employees are not aware of the fact that this coverage stays in effect for life. Because most employees and their beneficiaries are unaware of this final expense benefit, it goes unclaimed in many cases. To take advantage of this added benefit, inform your executor and your beneficiaries of this information. Put a note with your will, final papers and insurance documents. Beneficiaries should call the Retirement Information Office at 1-888-767-6738 for assistance.

Extra Benefit--Your Basic Coverage has an additional feature called the Extra Benefit. The Extra Benefit is basically a bonus on your Basic Coverage for being under the age of 45. Employees who are under the age of 45 will get a multiple of their Basic Coverage depending on their age. The ages and the applicable multiples are listed below:

<35 = 2.0
36 = 1.9
37 = 1.8
38 = 1.7
39 = 1.6
40 = 1.5
41 = 1.4
42 = 1.3
43 = 1.2
44 = 1.1
45 = 0.0

Let's look at an example to show you how the Extra Benefit would work. Let's take Bob again who has a Basic Coverage of $48,000 from our previous example. Let's also assume Bob is 39 years old, which qualifies him for the Extra Benefit. Bob's Extra Benefit would be calculated by taking his Basic Pay and multiplying that amount by the Extra Benefit Factor of 1.6 from our previous chart: Basic Life Coverage: $48,000 Extra Benefit Factor: x 1.6 Total Basic & Extra Benefit: $76,800. It's important to understand that when Bob turns 40, his Extra Benefit will be reduced to 1.5 and continue to reduce as he gets older until he turns 45 and will have no Extra Benefit. The current insurance company who has the life insurance contract through the government is willing to give you this additional Extra Benefit at no cost because you are younger and less likely to pass away. For all federal employees, the Cost of Basic Coverage is $0.15 per thousand dollars of coverage. An employee with $50,000 of Basic Coverage would pay $7.50 a pay period for that insurance. Remember, Extra Benefit insurance is at no additional cost.

Living Benefits Act

The next area of your FEGLI coverage is the Living Benefits Act. Very few federal employees are aware of this part of their benefits, but it is a critical subject and worth covering. The Living Benefits Act was passed in 1995. It was intended to benefit employees diagnosed with terminal illnesses. Under the Living Benefits Act, if an employee is diagnosed with a terminal illness and has 9 months or fewer to live, the employee can access his or her full Basic Coverage plus any applicable Extra Benefit at the time of diagnosis. This coverage allows ill employees to receive their benefits while they are living. This valuable coverage can allow employees to spend their final days with family and spare their loved ones the financial concerns that often accompany a terminal illness. Unfortunately, this coverage is very rarely used because most employees are unaware of this option. Please make your loved ones aware of this valuable coverage and if you have coworkers who could use this coverage, bring it to their attention.

Optional Insurance

Options A, B and C each add a different benefit to the FEGLI package. Employees can choose to add these when they are hired. These benefits may be reduced or canceled at any time but can only be added or increased during an open season which OPM occasionally offers, or following a qualifying event such as marriage, divorce or birth of a child.

OPTION A: This coverage is something you elected to pay for when you were hired. Option A is a very straightforward coverage under your FEGLI. It provides a $10,000 death benefit to beneficiaries in the event of the employee's death. Like most FEGLI insurance, the price does increase every 5 years, but because the overage is so small, the cost is usually not an issue. Some employees refer to this coverage as a very affordable burial policy.

OPTION B: This life insurance option is very popular among federal employees. This option allows employees to take anywhere from 1 all the way up to 5 times their base pay in additional life insurance if they choose to pay for it. In most cases, this decision is made when the employee is hired. A simple example would be if Bob has a $50,000 base salary and he took 5x Option B he would have an additional $250,000 of life insurance coverage. The cost of this coverage is based upon your age.

A list of prices per thousand dollars of insurance coverage (rates effective as of January 1, 2019) is listed below. As you can see the cost rises dramatically at age 50 and beyond.

Federal Employees' Group Life Insurance (FEGLI) Program Rates:

Option B Premium per $1,000 of Insurance Age Band	Biweekly	Monthly
Under 35	$0.02	$0.043
35–39	$0.03	$0.065
40-49	$0.08	$0.152
50-54	$0.13	$0.238
55-59	$0.23	$0.433
60-64	$0.52	$0.953
65-69	$0.62	$1.170
70-74	$1.14	$2.080
75-79	$1.80	$3.900
80 and over	$2.40	$5.72

As you can see from the chart, rates increase as you age. They don't increase very quickly until age 50, and then things get very costly, very fast. The reason they increase is because the employee did not have to take a physical to get this additional coverage. The only thing the insurance company knows about you is your age, so that is the basis they use to increase coverage. As you get older, you are more likely to pass away so they charge you more.

*Special Note: You want to look for life insurance in the private sector, which could be more cost effective and offer more benefits. Almost any insurance plan you find in the private sector will provide a level death benefit and level premiums as well. For example, using rates available in the private sector, a healthy 40-year-old male will pay $250 in annual premiums for $250,000 of coverage and that price will be locked in for 20 years. Under FEGLI rates, to get that same $250,000, a 40-year-old employee will pay $390 in annual premiums for 5 years, $585 each year for the next 5 years, $910 per year between the ages of 50 and 54, and a whopping $1,820 each year from 55 to 59 years of age. At age 60, under the current FEGLI rates, that amount will more than double. Currently, in the private market, a healthy 50-year-old male can lock in rates for 20 years on $250,000 for annual premiums of around $625. As a general rule, if you are healthy, you are better off getting your life insurance with a private company and protecting yourself from the increases the federal program allows. If you are unable to obtain approval from a private company, keeping the federal life insurance until you cannot afford the price may be your best option.

Very few people in the federal government understand the details of their life insurance program. The cost of not understanding how the program works can cost the employee thousands of dollars in premiums they wouldn't have paid if they had known what you just learned. If you just figured out that you may be paying too much for your federal insurance, check and see what a private company could do for you in terms of a replacement policy.

OPTION C: This is your Family Coverage provision and is an optional coverage you elect to pay when hired on with the government. Family Coverage is life insurance on your family where you will be the beneficiary should one of your family members pass away. Family Coverage is offered in units. An employee can take 1-5 units of Family Coverage. Each unit represents $5,000 on your spouse and $2,500 on each dependent child. Dependent children are defined as unmarried children under the age of 22, and unmarried foster and adopted children living with you in a parent-child relationship under the age of 22. Let's look at an example of an employee who took 5 units of Family Coverage. With 5 units, the spouse will be covered for $25,000 and each dependent child will be covered for $12,500. It is important to note that there is no limit to the number of dependent children covered under your Family Coverage. Another important aspect of Option C is you cannot drop part of the coverage. For example, if your dependent children leave, you cannot drop the coverage on your children and keep the coverage on your spouse. When it comes to Family Coverage, you either have it or you don't.

We hope this eBook helps you plan for as we call it a “Bullet-Proof Federal Retirement”. The more you learn about your federal benefits, the better you can maximize them. We will leave you with a few more famous quotes from well known people.

“Money isn’t everything until you get married, get divorced or have to buy stuff.” Vince Bono

“A nickel ain’t worth a dime anymore.” Yogi Berra

“Too many people take no care of their money till they come nearly to the end of it. “ Johann Wolfgang von Goethe

“Formal education will make you a living; self-education will make you a fortune.” Jim Rohn

“I made my money the old-fashioned way. I was very nice to a wealthy relative right before he died.” Malcolm Forbes

“The real measure of your wealth is how much you’d be worth if you lost it all.” Vince Bono

“The question isn’t who is going to let me; it’s who is going to stop me.” Ayn Rand

“If you have trouble imagining a 20% loss in the stock market, you shouldn’t be in stocks.” John Bogle

“My formula for success is rise early, work late and strike oil.” JP Getty