

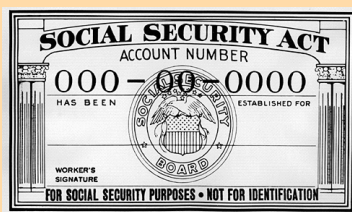
SERVING THOSE WHO SERVE

Quarterly Newsletter

September 2018

Choosing When to Withdraw Social Security

Deciding when to begin the disbursement of social security benefits can be one of the more important choices to make when it comes to retirement planning. There are several nuanced advantages and hindrances involved in each decision about the age at which someone initiates social security withdrawals. The earlier the payments start, the lower the monthly amount, but because the benefits last until death, a lower amount that begins years earlier may not be a bad thing for several individuals.



A good practice for managing such an impactful decision takes three main factors in consideration: cash flow needs, health and life expectancy, and whether or not the person is still working for wages. If there is any anticipation of experiencing a more restrictive cash flow after retiring, especially at the onset, taking the benefits earlier may make sense, especially if there is deliberation occurring around the possibility of taking out a loan, or tapping into retirement funds designated for

Health & Wellbeing:

Exercise The Brain with Sudoku

Crossword puzzles, word searches, and sudoku grids have been purported by researchers as methods to stave off mental ailments such as dementia. Sudoku may appear intimidating to those who aren't inclined towards arithmetic, but counting to 9 is all one needs to know how to do to complete a grid. Basically, in every horizontal row, every vertical row, and in every 3x3 square, there should be every digit from 1 to 9 with no duplicates.

The key is not just look at what digits are filled in already, but to deduce what information is missing. Try to fill out the Sudoku puzzle below this article. It is a fun, easy, and inexpensive way to keep the mind sharp.

8	9		5				1	
				2	3	8		5
			9	1			7	3
			3	5	4			8
		9		8		1		
5			1	9	6			
2	5			7	1			
1		4	2	6				
	7				5		4	1

CONTINUED ON PAGE 04...

Famous Fed:

Neil Armstrong, the first man to walk on the moon served in the Navy during the Korean war, but joined NASA as a civilian federal employee. Most astronauts came directly from the military. Neil died on Aug. 25, 2012 at the age of 82.

History Tidbit:

On November 1st, 1800, the White House officially opened its doors to become the residence of the United States' President. The first commander-in-chief to reside there was John Adams, although Thomas Jefferson soon replaced him. The original building was burned down on August 24th, 1814 during the War of 1812.



You are now entering the...

FED ZONE



Neil Armstrong

How FERS Employees Are Eligible to Earn the 1.1% Accrual Factor in the Computation of their FERS Annuity

A frequently asked question by employees covered by the Federal Employees Retirement System (FERS) is how a retiring FERS employee qualifies for the 1.1% accrual factor in the calculation of his or her pension. This column discusses the eligibility requirements for a retiring FERS or "Trans" FERS to earn a FERS annuity computed using the 1.1% accrual factor. A "Trans" FERS employee is a FERS-covered employee who previously was covered under the Civil Service Retirement System (CSRS) -with at least five years of service under CSRS- and switched to FERS most probably during one of the two open seasons- in 1987/1988, or in 1998.

It is important to first review the eligibility requirements and how, in general, a FERS annuity is computed.

How Is the FERS Annuity Computed?

In order to compute a retiring FERS employee's starting FERS annuity, one needs to know the retiring employee's: (1) length of service; and (2) high-three average salary.

Determining Length of Service-

A FERS employee's service computation date (SCD) for retirement incorporates the

employee's service time that is creditable towards both the employee's eligibility to retire as well as in the computation of the FERS annuity. Added to the length of service for FERS annuity computation purposes, is the employee's converted unused sick leave hours on the day of retirement. In general, an employee's SCD for retirement is the employee's hire date into permanent Federal service, adjusted back in time for deposits for qualifying temporary or military service, or forward in time for extended periods of leave without pay or breaks in service.

A "Trans" FERS employee's SCD for retirement is the date that the employee switched to FERS after working at least five years under CSRS. "Trans" FERS employees also get credit for unused sick leave hours as follows: The employee must find out his or her unused sick leave balance at the time of transfer to FERS and his or her unused sick leave balance on his or her retirement date. The lower of these two balances will be used in the CSRS annuity component calculation, while the difference of the two balances will be used in the FERS annuity calculation. The second step in calculating a retiring FERS employee's FERS annuity is to determine the employee's high-three average salary.

The final step in calculating a retiring FERS employee's FERS annuity is to obtain the appropriate accrual factor (1% or 1.1%).

If an employee retires before age 62 with any number of years of service, or if an employee retires at 62 or older with fewer than 20 years of service, then the formula for calculating the FERS annuity is:

$$1\% \times \text{high-3 average salary} \\ \times \text{total years and months of service}$$

If an employee retires at age 62 or older under an immediate ("regular") retirement (not an early retirement, deferred retirement, or a postponed retirement) and has at least 20 years of service (including CSRS service for a "Trans" FERS employee), then the formula for calculating the FERS annuity is:

$$1.1\% \times \text{high-3 average salary} \\ \times \text{total years and months of service}$$

Examples:

1.) Judith retired from Federal service at age 58 on Dec. 31, 2017. At the time of her retirement, Judith had 31 years and 9 months of service used in the computation of her FERS annuity. Assume Judith's high-three average salary is \$100,000, then:

Computation of Judith's starting FERS annuity:

$$.01 \text{ times } \$100,000 \text{ times } 31.75 = \$31,750$$

2.) Charles retired from Federal service at age 66 on Dec. 31, 2017. At the time of his retirement Charles had 20 years and 0 months of service used in the computation of his FERS annuity. Assume Charles' high-three average salary is \$100,000, then:

Computation of Charles' starting FERS annuity:

$$.011 \text{ times } \$100,000 \text{ times } 20.00 = \$22,000$$

The FEDZONE Articles was written by Edward A. Zurndorfer, who is a retiree of the Federal government. He is an IRS Enrolled Agent, Certified Financial Planner, Chartered Life Underwriter, Chartered Financial Consultant and Certified Employee Benefits Specialist. He

is the owner of EZ Accounting and Financial Services, an accounting, tax consulting and preparation, financial and Federal employee benefits consulting firm located in Silver Spring, MD. is also a seminar speaker at Federal agencies located throughout the country presenting Federal employee retirement, TSP, and Social Security benefits and financial and tax planning issues for Federal employees. He is a columnist for the Federal Employees News Digest, Inc. (FEND) bi-weekly newsletter, and the author of numerous Federal employee benefits publications for FEND. Raymond James is not affiliated with and does not endorse the opinions or services of FEDZONE or Edward A. Zurndorfer.

CONTINUED FROM PAGE 01...

later dates. If cash flow is sufficient to live comfortably post-career without the additional income, then waiting for the unreduced amount at full retirement age, or the boosted amount at age 70, could be more sagacious.

Breaking Even

Health and longevity play a crucial role when someone is making up their mind on when to withdraw social security. Many industry professionals have written about what age many people “break-even” on their lengthy investment to the federal program, and the morbid conclusion is that it all depends on when you die. Waiting until 70 to take the payments seems smart because of the annual 8% increase, but if that person dies at 71 after taking only 12 checks, the difference in income than if he or she began at 62 can be significant. A \$1,406 monthly benefit (2016 average) at 62 would equate to over \$165,000 received by age 71 (\$16,872 x 10 years). However, if the person in our example starts at 70 to get approximately \$2,320 a month, and passes away after 12 months, the dollar figure they’ve received overall would be \$27,840. The difference here is approximately \$140,000, which accentuates the importance of health and life expectancy when reaching a verdict on when to take this benefit. If the person in this illustration lives to 85 or older, though, then waiting until 70 may make sense. Either way, careful consideration of all options is an advantageous strategy.

Deciding to continue working or not after the age of 62, but before full retirement age, can cause a reduction in benefit amount through the earnings test, or cause adverse tax conditions, depending on how much you earn. After reaching full retirement age, a social security recipient can work for wages and draw their full disbursement. Other facets to consider when it comes to taking social security revolve around marital status, and for federal employees specifically, either the special retirement supplement or the windfall elimination provision.

The Special Retirement Supplement

For eligible FERS workers who retire prior to reaching the age of 62, there is an added level to social security they may need to consider. The Special Retirement Supplement (SRS) is a program

that borrows some features from social security, but despite a prominent misconception, it is not paid or administered by the Social Security Administration in any form. The Office of Personnel Management handles all of the operational procedures involved with the SRS. Here’s how it works: a FERS employee with 30 years of service is eligible to retire at their minimum retirement age (MRA), which is between 55 and 57, depending on the year of birth (very similar to social security’s “full retirement age”). Because 62 is the youngest someone can be before withdrawing their own social security benefits, the SRS acts as a bridge for those who leave service before then. The extra benefit ends once the retiree reaches 62, though, whether or not they elect to start or delay receiving the usual social security withdrawals at that time. Unlike normal Social Security benefits, there are no COLAs for the SRS, but there is an earnings test. So if the retiree starts a job outside of the Federal Government, their payment might be reduced or nonexistent depending on the amount of earned income they’re receiving.

Additional guidelines apply for specific classes of federal employees such as law enforcement officers and firefighters, who are usually subject to mandatory retirements before turning 60. Since the current president took office, there has been escalated talk of eliminating the SRS altogether. While an argument can be made that if a given retiree absolutely needs the money, they should just stay in service longer, the mandatory retirements imposed on some Federal workers, like Air Traffic Controllers, limit the breadth of such a debate. The SRS can be a vital component to the cash flow of a federal employee, who left service because regulations impose a mandated retirement before Social Security payments can be taken.

Windfall Elimination Provision

As of December 2015, there were 1.7 million social security beneficiaries impacted by the Windfall Elimination Provision (WEP). The calculated restriction on benefit amounts affects retirees who who receive a pension for work not covered by social security, such as federal employees under the old CSRS. Basically, because they didn’t pay into social security during the years of labor that generated the pension plan, any social security income triggered from another job is cut to a significantly lower

number. Without getting too technical, normal social security payouts include roughly \$770 (90% of the first \$856 dollars of someone’s “Average Indexed Monthly Earnings”, 2016). The WEP subtracts 40% from the 90% used in the usual formula, meaning the \$770 mentioned above would be reduced to \$428 (after subtracting about \$342). The statement of benefits received from the Social Security Administration will not indicate this possible reduction in a participant’s estimated payment, so the WEP has a tendency to catch some people off-guard. FERS employees, those who have 30 or more years of substantial earnings that did pay into the Federal program, and others under some more obscure exceptions are unharmed by the WEP. While Congress proposed a bill in 2015 that would’ve eliminated the WEP, the National Association of Active and Retired Federal Employees (NARFE) raised concerns that postponed the legislation indefinitely.

A last item to consider in regards to social security benefits is the earnings test. For Feds specifically, it is important for FERS workers who earn the Special Retirement Supplement (SRS) because a similar rule applies there as well. Essentially, someone who takes either the SRS, or takes social security prior to their full retirement age, cannot earn a certain amount (\$17,040 in 2018) and collect their full payment. For every 2 dollars earned over the limit, 1 dollar is slashed. Note that pension income and investment income do not count toward the earnings test- it strictly based on earned income. Also of significance, the lost amounts are returned to the worker through a higher monthly payment after reaching full retirement age, but this is not a lump sum. The refunded money is distributed proportionally over several years, so the beneficiary would have to live long enough to recoup the full amount.

*-Until Next Time,
Benefits Ben*

Fun Fact:

More Presidents were born in Virginia than any other state. There were 8: Washington, Jefferson, Madison, Monroe, Harrison, Tyler, Taylor, & Woodrow Wilson

AGENCY SPOTLIGHT

Office of Government Ethics

Acronym: OGE
Established: 10/26/1978
Located: Washington, DC
of Employees: 66

Leading Director:
 Emory A. Rounds, III

Mission:
 "Provide overall leadership and oversight of the executive branch ethics program designed to prevent and resolve conflicts of interest."

source: oge.gov

<u>Upcoming Seminars</u> (2018)			
<u>Rockville, MD</u>	<u>Arlington, VA</u>	<u>Washington, DC</u>	<u>Columbia, MD</u>
<i>Tues. 10/16</i>	<i>Thurs. 10/18</i>	<i>Wed. 10/17</i>	<i>Fri. 10/19</i>
<i>Tues, 11/13</i>	<i>Thurs. 11/15</i>	<i>Wed. 11/14</i>	<i>Fri 11/16</i>
<i>Tues. 12/11</i>	<i>Thurs. 12/13</i>	<i>Wed. 12/12</i>	<i>Fri. 12/14</i>



15245 Shady Grove Rd, Suite 240 Rockville, MD 20850
 301.216.1167 - 855.437.STWS (7897)- 301.216.1160 (fax)

www.stwserve.com

Securities offered through Raymond James Financial Services, Inc. Member FINRA/SIPC. Investment advisory services offered through Raymond James Financial Services Advisors, Inc. Serving Those Who Serve is not a registered broker/dealer and is independent of Raymond James Financial Services.

Disclaimer

The information contained in this report does not purport to be a complete description of the securities, markets, or developments referred to in this material. The information has been obtained from sources considered to be reliable, but we do not guarantee that the foregoing material is accurate or complete. Any information is not a complete summary or statement of all available data necessary for making an investment decision and does not constitute a recommendation. Any opinions are those of the professionals at Serving Those Who Serve and not necessarily those of Raymond James. Expressions of opinion are as of this date and are subject to change without notice. There is no guarantee that these statements, opinions, or forecasts provided herein will prove to be correct. Investing involves risk and you may incur a profit or loss regardless of strategy selected. Diversification does not ensure a profit or guarantee against a loss. Individual investor's results will vary. Past performance does not guarantee future results. Prior to making an investment decision, please consult with your financial advisor about your individual situation. The hypothetical examples are for illustration purpose only and does not represent an actual investment. Actual investor results will vary.

Serving Those Who Serve is not sponsored, funded, or endorsed by the TSP, OPM, or any other Federal Government Agency.