

THE PURPOSE OF THIS SEMINAR...



Give you a clear understanding of how your federal benefits are interrelated with financial and retirement planning strategies.



PENSION & BENEFITS

COMPUTATION OF ANNUITY FOR CSRS/ CSRS OFFSET EMPLOYEES



Years of Service		Percentage towards CSRS Pension
First 5 years	x	1.5 percent of high-3 average salary
Second 5 years	x	1.75 percent of high-3 average salary
Additional years over 10	x	2 percent of high-3 average salary

- Computing the offset comes by dividing the total years of offset service by 40 x the total Social Security benefit at age 62
- **Re- Deposits:** If a CSRS employee wants to find out if it makes sense to **buy back time**, they should fill out form **SF 2801-1** to start the process

COMPUTATION OF ANNUITY FOR FERS EMPLOYEES



If UNDER age 62, or 62 with less than 20 years of service				
1 percent	x	Years of service	x	Average high-3 salary

If age 62 or older with at least 20 years of service				
1.1 percent	x	Years of service	x	Average high-3 salary

Re- Deposits: If a FERS employee wants to find out if it makes sense to **buy back time**, they should fill out form **SF 3107-1** to start the process



FERS COLA

- Often **does not** keep up with inflation
- Does not start accruing **until age 62**
- Tracks the Consumer Price Index (CPI) but works differently than CSRS COLA

CPI Index	FERS COLA
0-2%	Receives CPI Increase
2-3%	Receives a 2% increase
3% and up	Receives CPI minus 1%

Ideal days to retire: End of the month. End of the year retirement could help taxation of Lump Sum Payout

FERS MINIMUM RETIREMENT AGE (MRA)

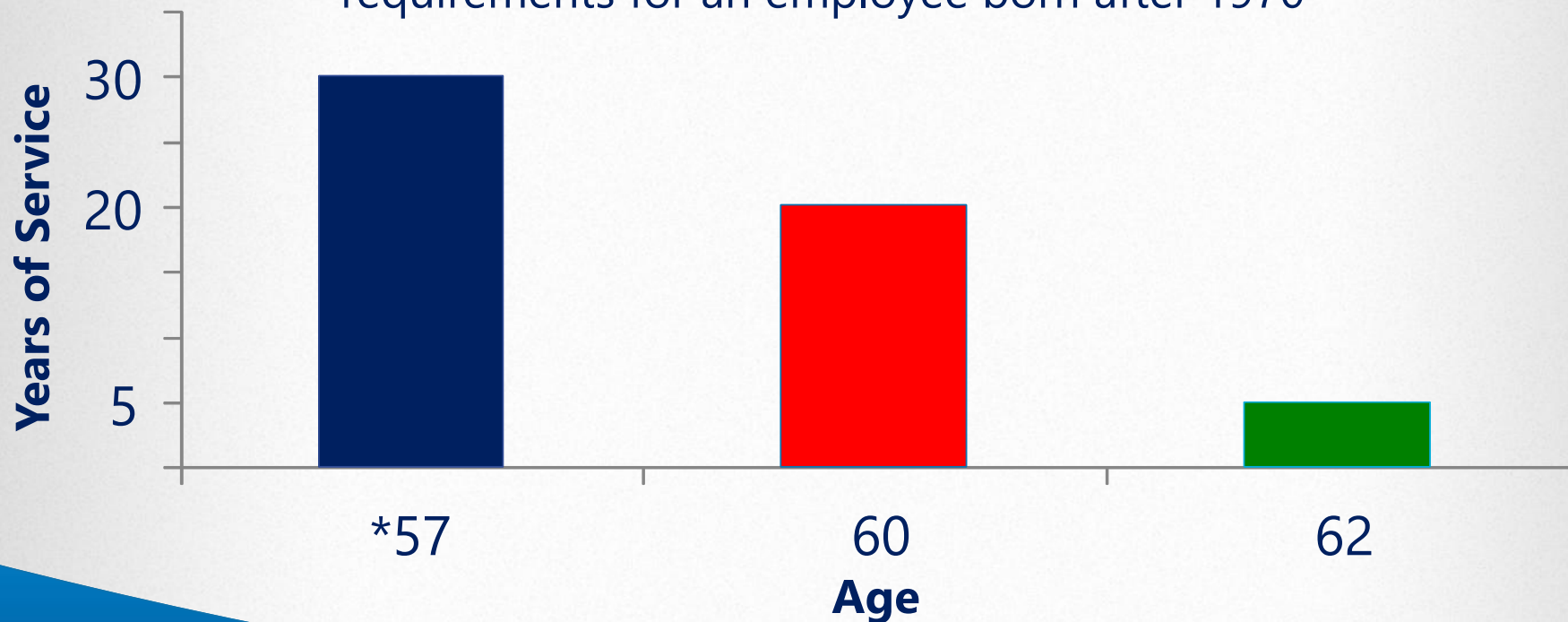


If you were born	Your MRA is
Before 1948	55
1948-1949	55.2 - 55.4 months
1950- 1951	55.6 - 55.8 months
1952	55.10 months
1953- 1964	56
1965 - 1966	56.2 – 56.4 months
1967 - 1968	56.6 – 56.8 months
1969	56.10 months
1970 or later	57



MINIMUM RETIREMENT AGE (MRA)

Chart depicts applicable minimum retirement ages and service requirements for an employee born after 1970



*Note: MRA can be as early as 55 if born before 1948



VOLUNTARY EARLY OUT

● CSRS

- 2% reduction per year prior to age 55

● FERS

- at MRA with at least 10 years of service will have 5% permanent reduction for every year that a FERS is under age 62
- By electing to postpone annuity till age 62 the annuitant will not have a 5% reduction
 - If pension is **postponed**, employee would also suspend their FEHB and FEGLI when they leave. **However**, they would be **eligible to re-enroll** when they apply for the FERS annuity at age 62

POSTPONED VS DEFERRED RETIREMENT



Postponed Retirement

- **Eligible** for MRA+10 retirement at separation, but didn't want reduction
- Leave federal service, leave FERS contributions in system, but will wait to draw pension later
- You **CAN** start up FEHB again in retirement (if you we're eligible)

Deferred Retirement

- **NOT** eligible for MRA+10 retirement at separation, but had at least 5 years
- Leave federal service, leave FERS contributions in system, but will wait to draw pension later
- You **CAN NOT** start up FEHB again in retirement



THRIFT SAVINGS PLAN



TSP: THRIFT SAVINGS PLAN

- Contribution limits for 2020
 - \$19,500 annual
 - \$6,000 catch-up age 50 or over
- 100% will be allocated to the G Fund if no selection is made
- Employees who retire or separate from service in the calendar year in which they turn 55 or above can withdraw money out of the TSP starting at age 55 without the normal 10% penalty
- Permits loans up to \$50,000
- Can allocate between Roth and Traditional TSP



TSP LOANS

- Maximum loan amount is \$50,000 if the TSP balance is at \$100,000 or more, otherwise the max is 50% of the TSP Balance
- Types of loans:
 - General purpose loan (max term is 5 years)
 - Primary Residence loan (max term is 15 years)
- Interest rate= **G-Fund rate** at time of application

TSP LOAN REPAYMENT



- Interest paid is credited back to your TSP account
- After repayment, an employee must wait 60 days before applying for another loan of the same type
- If the employee separates from service they must repay loan within 90 days or it will be reported as taxable income. If **under the age of 59 ½** they will suffer an early **withdrawal penalty**

TSP AGENCY MATCHING



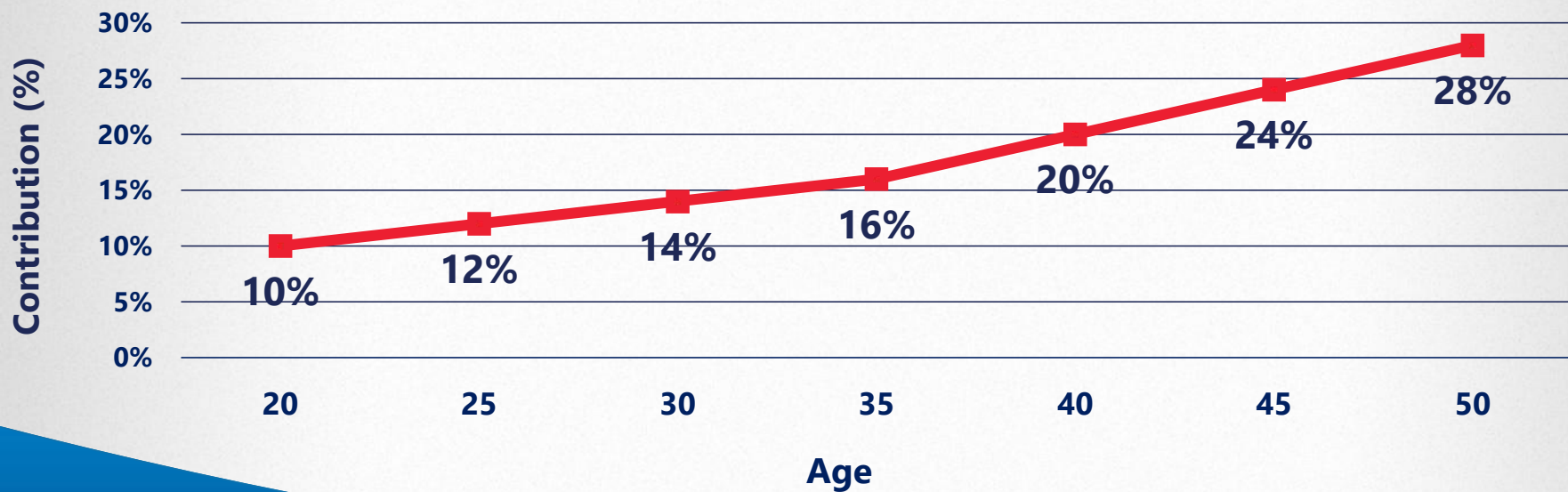
Employee Contribution	Agency Match
0%	1%
1%	2%
2%	3%
3%	4%
4%	4.5%
5%	<u>5%</u>

Note: If you reach the deferral limit **before** the last pay period of the year, you will **not** receive all the matching contributions to which you would otherwise be entitled to

HOW MUCH SHOULD I CONTRIBUTE TO MY TSP?



Based on the age a federal employee begins funding their TSP assuming retirement at age 62 (These numbers include match)



TSP FUND CHOICES



Fund	Investment Information
G Fund	Unique Government Securities fund, not available to the general public and back by the full faith and credit of the US Government
F Fund	Tracks the Barclays Capital Aggregate Bond Index
C Fund	Tracks the S&P 500 index
S Fund	Tracks the Dow Jones US completion TSM index
I Fund	Tracks the MSCI EAFE index
Lifestyle Funds	Adjusts to become more conservative each quarter towards a target retirement date as it approaches the L income fund near retirement

HOW SHOULD I ALLOCATE MY TSP?

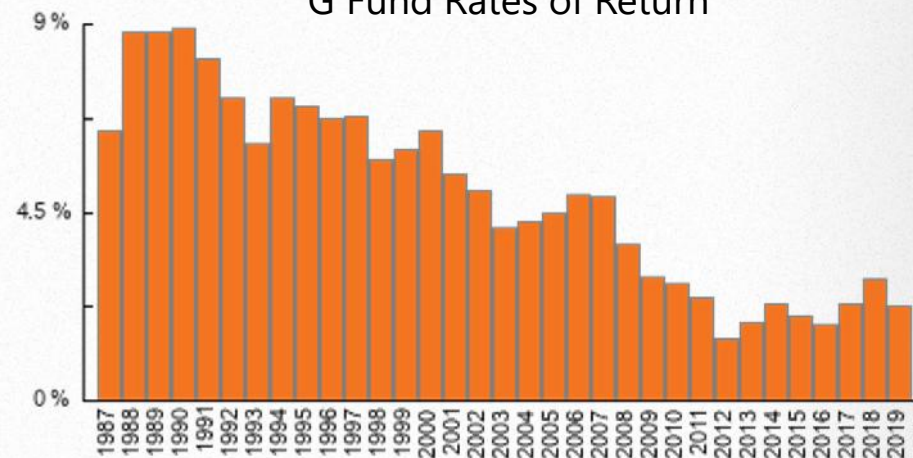


Age	% Stocks	% Bonds
20	100	0
30	90	10
40	80	20
50	70	30
60	60	40
70	50	50
80	40	60
90	30	70
100	20	80

PURCHASING POWER RISK



G Fund Rates of Return

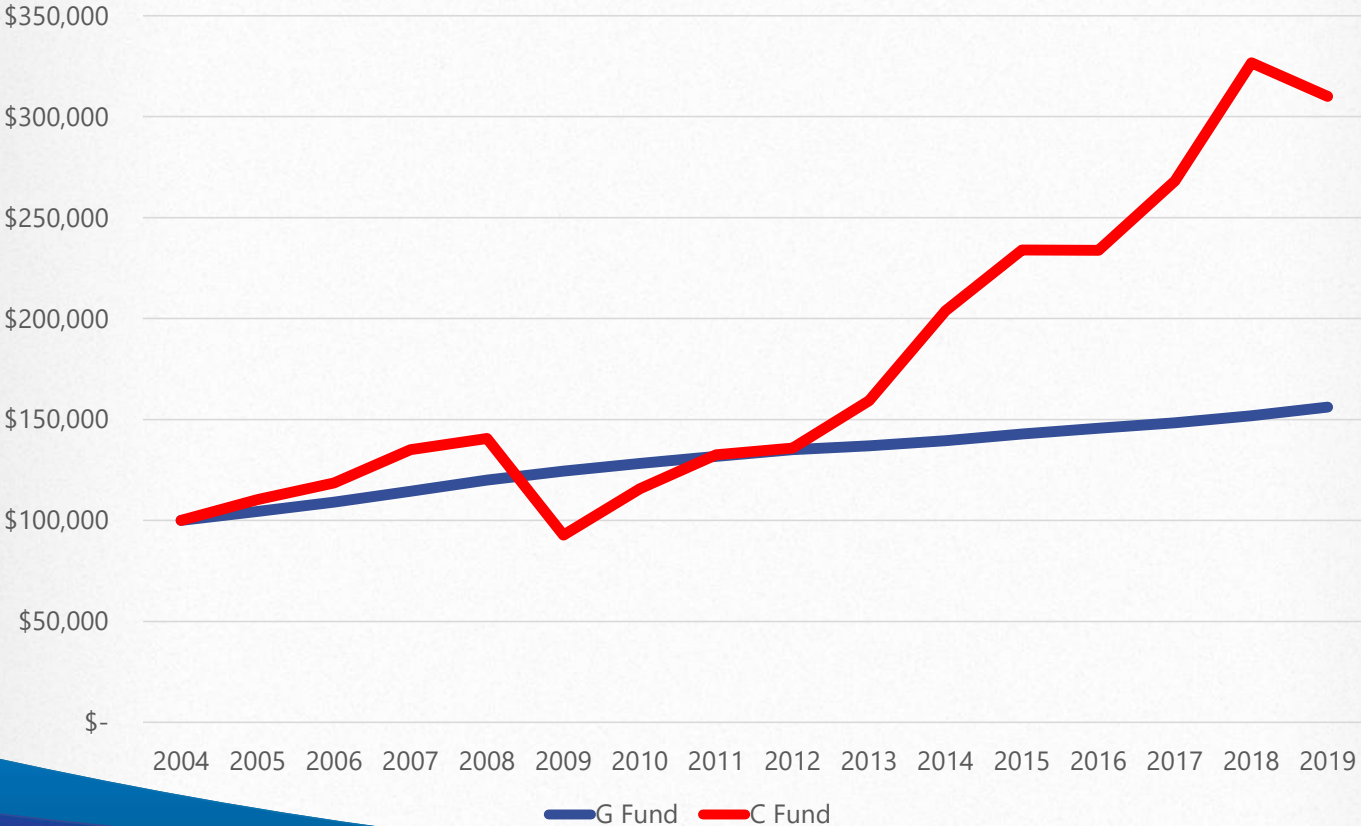


- **G fund is not keeping up with inflation**
- **The government continues to borrow from the G fund to avoid the debt ceiling**

OPPORTUNITY COST OF LOWER RISK

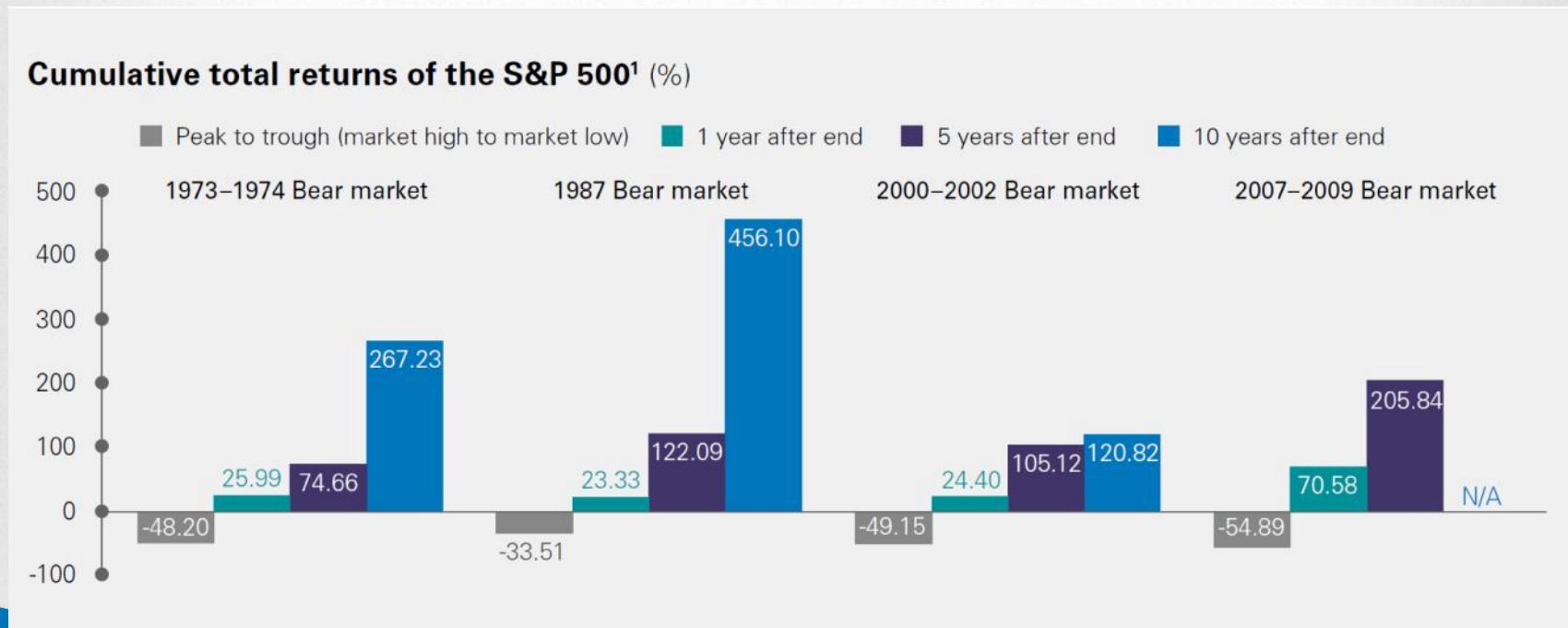


G Fund vs. C Fund



BEAR & BULL MARKET

The chart below shows how dramatically the SP500 recovered from its lowest point after the past four bear markets.



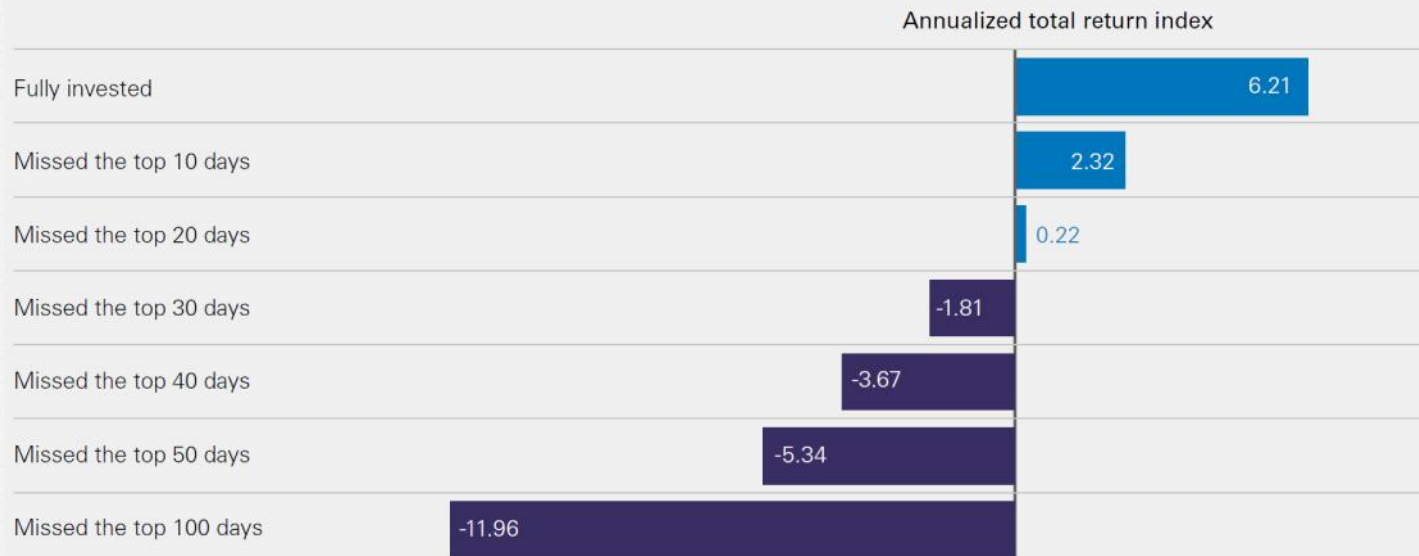


TIMING THE MARKET

The chart below shows how \$10,000 invested in the S&P 500 index, for the 20-year period of 1999 through 2018, would have performed under various scenarios.

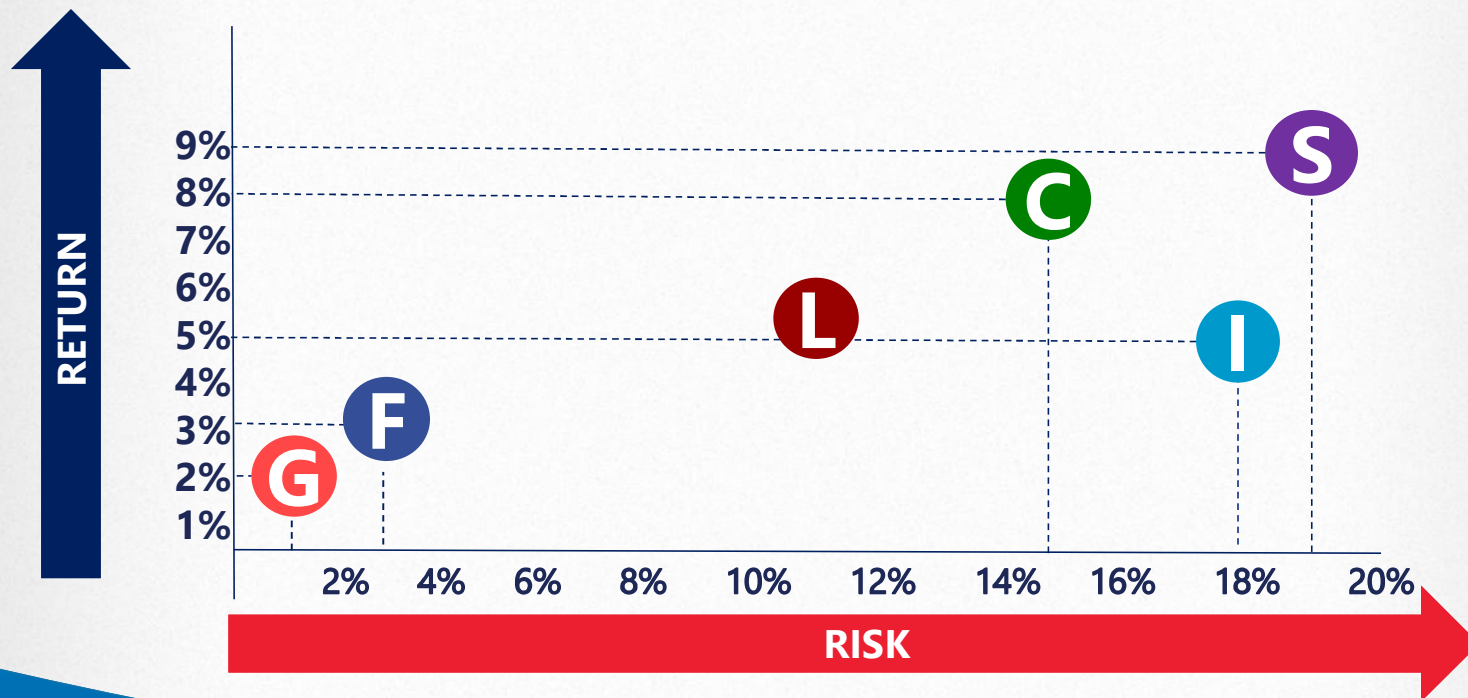
Market returns (%)

S&P 500 Index from December 1, 1999 – November 29, 2019⁴



TSP RISK VS RETURN MATRIX

15 Year Average Return Vs. Standard Deviation



Performance data quoted is from Morningstar as of 12/31/2019 and calculated using geometric average annual return as well as average standard deviation for the trailing 15 year period. The above information represents past performance, and past performance does not guarantee future results.

MARKET RISK: TSP FUND RETURNS



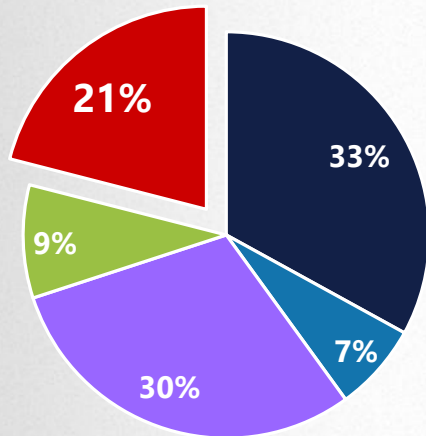
TSP Fund	2018	2020
G Fund	2.9%	0.4%
F Fund	.15%	3.1%
C Fund	-4.41%	-19.65%
S Fund	-10.06%	-28.14%
I Fund	-13.43%	-22.7%
L Income	.71%	-4.56%
L 2020	-.36%	-5.23%
L 2030	-3.58%	-13.35%
L 2040	-5.61%	-15.92%
L 2050	-6.02%	-18.13%

PLEASE NOTE: 2020
RETURNS ARE YEAR-TO-
DATE ENDING
03/31/2020

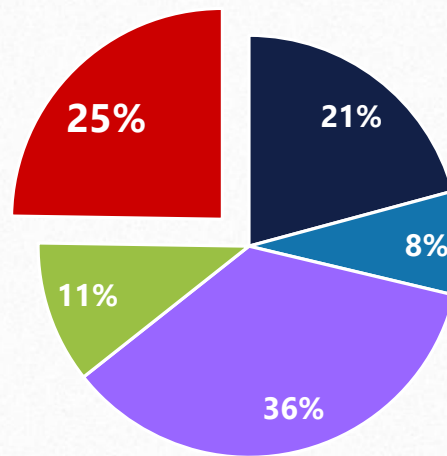
EXAMINING THE L FUNDS



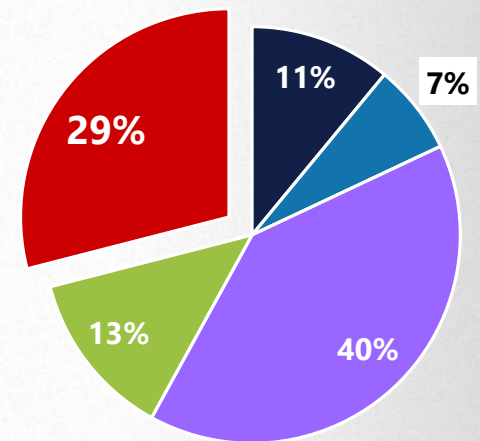
L2030



L2040



L2050



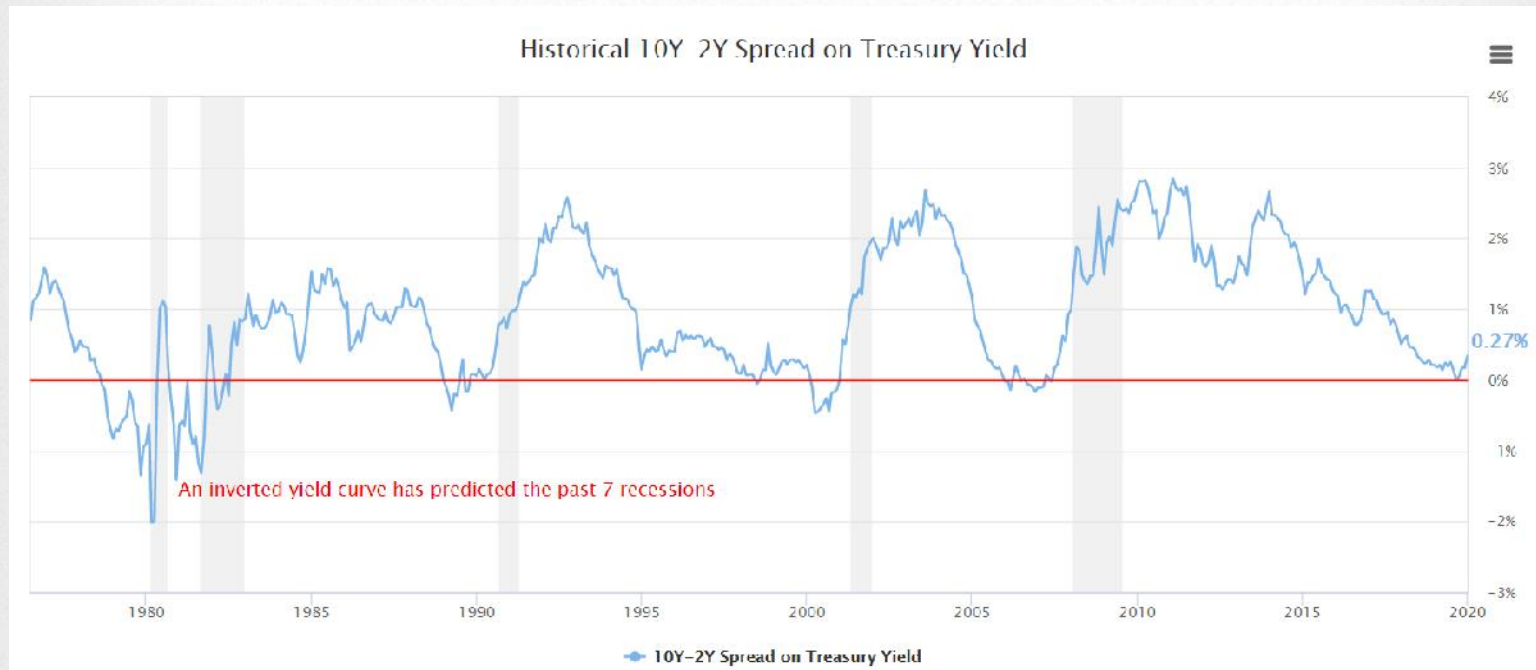
■ G ■ F ■ C ■ S ■ I

ALTERNATIVES THAT HELP REDUCE PORTFOLIO VOLATILITY

- Dividend Stocks
- Low Volatility Stock Indexes
- Preferred Stocks
- Real Estate
- Gold



YIELD CURVE ANALYSIS



Source: Gurufocus.com 1/6/2020



ROTH ACCOUNTS



ROTH TSP

- Combines all the benefits of the TSP retirement savings with the after tax benefits of a Roth savings plan
- If employee contributes to both the TSP Roth and Traditional TSP, their combined contributions cannot exceed the IRS elective deferral limit (\$19,500 in 2020 or \$25,500 if over 50 years of age)
- **Matching** from the TSP Roth occurs in the **Traditional TSP account only.**

TAX TREATMENT ON RETIREMENT ACCOUNTS



The Roth offers tax deferral on any earnings in the account. Withdrawals from the account may be tax free, as long as they are considered qualified. Limitations and restrictions may apply. Withdrawals prior to age 59 or prior to the account being opened for 5 years, whichever is later, may result in a 10% IRS penalty tax. Future tax laws can change at any time and may impact the benefits of Roth IRAs. Their tax treatment may change

ROTH CONVERSIONS VS. ROTH CONTRIBUTIONS



ROTH CONTRIBUTION



Checking Account
(After Tax Dollars)

\$6K + \$1K Catch-Up



ROTH CONVERSION



IRA/401K
(Pre-Tax Dollars)

**Unlimited Amount /
Taxed as Ordinary Income**



ROTH IRA'S AS EDUCATION SAVINGS VEHICLES



- Roth IRA's have a special provisions whereby if the account holder maintains a Roth account for 5 years, he/she can withdraw the contributions (amount invested) tax free and without penalty prior to age 59 1/2.
- The advantages of using a Roth for education savings purposes are:
 - If a child does not attend college or is granted a scholarship, then money can remain in the Roth for retirement
 - FAFSA **does not require** applicants to disclose their guardian's retirement accounts as funding sources for potential college expenses.
 - Whereas 529 Plans, UGMA/UTMA's, etc. all go towards the formula for determining the students need for aid.



TAX PLANNING

TAX RATES ARE SET TO RISE IN THE FUTURE



2019 - 2025		
Individual	Joint	Tax Rate
\$0 - \$9K	\$0 - \$19K	10%
\$9 - 38.7K	\$19 - \$77K	12%
\$38.7 - 82.5K	\$77 - \$165K	22%
\$82.5 - \$157.5K	\$165 - \$315K	24%
\$157.5 - \$200K	\$315 - \$400K	32%

2026		
Individual	Joint	Tax Rate
\$0 - \$9K	\$0 - \$19K	10%
\$9 - 38.7K	\$19 - \$77K	15%
\$38.7 - 92K	\$77 - \$165K	25%
\$92 - \$191K	\$165 - \$233K	28% +AMT
\$157.5 - \$416K	\$233 - \$417K	33%

2020 SECURE ACT



- Increased the Requirement Minimum Distribution “**RMD**” to **age 72**
- Requires beneficiaries withdraw all assets of an inherited account within **10 years**.
 - There are no required minimum distributions within those 10 years, but the entire balance must be distributed after the 10th year.

REQUIRED MINIMUM DISTRIBUTIONS (RMD)



- Required annually beginning at age 72 from Traditional TSP, IRA's, SEP's, 401K's
 - First distribution is not due until April 1 of the following year the participant turns 72, however the second will be due by December 31 of that same year
 - Taxable as ordinary income in the year distributed
 - **RMD's are not required by ROTH accounts**
- 50% Penalty for failure to complete your required minimum distribution
- Calculated by using the IRS divisor table

WHAT TO LOOK FOR WHEN SELECTING A FINANCIAL ADVISOR



- Start with a background check at www.brokercheck.finra.org
 - Look to see if they are regulated by FINRA, and if they are a Registered Investment Advisor
- Check for Certifications
 - Although many professionals may call themselves “financial planners,” **CFP®** or **CERTIFIED FINANCIAL PLANNER™** professionals have completed extensive training and experience requirements and are held to rigorous ethical standards and ongoing continuing education.
 - CFP® professionals can be found on www.cfp.net
- Do they have a background in Federal Government Employees?
 - **ChFEBCSM** or **Chartered Federal Employee Benefits Consultant** professionals are required to stay up-to-date on the ever-changing Federal Government Benefits Programs.
 - These professional can be found on www.chfebc.com



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company please visit our website or email us at
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