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1. Introduction: A survey administered to 200 of your colleagues at the start of a recent FSI Retirement Planning Seminar and Job Search Program highlighted both strengths and weaknesses in their retirement planning. Strengths included the fact that most of the respondents already had at least a basic understanding of ten key retirement planning topics. But the survey also identified some shortfalls in pre-retirement preparations and knowledge. This message lists those shortfalls accompanied by information from the Office of Retirement (HR/RET) to help you bridge any similar gaps in your own retirement planning.

2. Five Gaps in Pre-Retirement Actions

-- Not Contributing Enough to TSP: 10 percent of those eligible said that they were not contributing enough to their Thrift Savings Plan account to obtain the full government match. In addition, 39 percent of the survey respondents said that they were not contributing the maximum amount. The TSP is one of three pillars -- along with Social Security and a federal annuity -- of the retirement financial security of employees hired after 1983. Thus, FERS and FSPS employees who are not contributing significant amounts to TSP are not building up that crucial nest egg. They are also missing out on an upfront tax deduction resulting from the fact that TSP contributions are excluded from taxation when they are made and are only taxed upon withdrawal years later (this is not true of the Roth TSP option). In addition, FERS and FSPS employees who are not contributing at least five percent of their salary to TSP are not receiving the maximum agency matching contributions that could significantly boost their financial security in retirement. CSRS and FSRDS employees may also make pre-tax contributions to TSP, but do not receive matching government contributions. Employees may sign up for TSP or change their current contribution level at <http://www.EmployeeExpress.gov>. For more information, see the TSP website at <http://www.tsp.gov>.

-- Have Not Updated Beneficiary Designations: 10 percent of respondents said that they knew that their beneficiary designations were not current for life insurance, lump sum salary payment, and/or TSP savings. Another 17 percent of respondents said that they were unsure if their beneficiary designations were up-to-date. Every year, there are cases of death benefits not being paid to the immediate next-of-kin because the employee or annuitant had not updated their beneficiary designations after marriage, divorce, or other relationship changes. So, please check your online eOPF to make sure that your beneficiary forms reflect your current wishes. The forms are: retirement benefits designation (SF-3102 for FERS, SF-2808 for CSRS, or DS-5002 for FSPS and FSRDS), Federal Employees Government Life Insurance (SF-2823), and unpaid compensation (SF-1152). Check the beneficiary listed on your annual TSP account statement to make sure that your TSP designation (TSP-3) reflects your current wishes. If any forms need updating, submit new designation forms to the HR Service Center at HRSC@state.gov. New TSP-3 forms should be sent directly to TSP as explained on the form.

-- Have Not Obtained Prior Service Credit: 27 percent of respondents who had federal civilian or military service prior to joining the State Department said that they had not taken action to increase their Foreign Service or Civil Service retirement annuity by obtaining credit for that service. In most cases, doing so requires making a deposit to cover the employee retirement contributions (plus interest) that were not made originally. Employees should resolve their prior service issues long before they retire. Delaying increases the interest charges that the employee must pay. Also, applications for prior service credit made shortly before retirement can delay processing and thus delay payment of the first annuity check. To apply, go to the Employee Benefits Information System (EBIS) on HR Online and use the "HR Link" module. For more information, consult the "Information" tab in EBIS or access "Comprehensive Retirement Information" on the HR/RET's internet site The Retirement Network (RNet) at <http://www.RNet.state.gov>.

-- Do Not Have Estate Planning Documents: 39 percent of respondents said that they did not have an up-to-date will and/or trust and other estate planning documents such as a Power of Attorney. While all states and the District of Columbia have laws directing the division of assets of people who die without wills, those laws can vary widely. Unless you know the default inheritance laws of your state of residence and they match the division of assets you would want, it is a good idea to obtain a will and/or trust and other estate planning documents. An overview of estate planning is provided by an estate attorney in the one-day Financial Management and Estate Planning Workshop (RV103) offered by the Career Transition Center at FSI. It is offered six times per year as the third day of the four-day Retirement Planning Workshop (RV101). A course description, course materials, and links to registration are on the OpenNet at <http://fsi.m.state.sbu/sites/TC/CTC/default.aspx>. In addition, an e-Seminar that discusses estate planning is available on EBIS on HR Online.

-- Not Doing Pre-Retirement Homework: While 100 percent of respondents had taken the initiative to attend FSI to learn about retirement issues and 71 percent had used the EBIS calculator to estimate their retirement benefits, less than half had consulted online retirement planning information. For example, the HR Portal on the Department's intranet features a retirement section that provides detailed retirement planning information, including copies

of HR/RET-issued ALDACs/Department Notices. Elsewhere, HR/RET's internet site The Retirement Network (RNet) at <http://www.RNet.state.gov> offers a wealth of information, including a searchable database of Frequently Asked Questions on Foreign Service retirement issues. The Office of Personnel Management (OPM) administers Civil Service retirement systems, so Civil Service employees may consult the OPM website <http://www.opm.gov> for retirement information.

3. Eight Gaps in Pre-Retirement Knowledge

-- Unclear about Impact of Divorce on Retirement Benefits: 47 percent of married respondents said they had little or no understanding of how their pension and other benefits could be impacted by divorce, either before or after retirement. For Foreign Service (but not Civil Service) retirees, federal law has provisions governing the division of retirement annuities between former spouses. For all retirees, divorce decrees and property settlement agreements can impact the division of retirement benefits. Employees who want an analysis of their specific situation may send a copy of any divorce decrees and property settlement to HR/RET. Either scan and e-mail the documents to HRSC@state.gov or e-mail that address asking for mailing instructions. HR/RET will provide Foreign Service employees with a divorce determination letter. HR/RET will forward documentation provided by Civil Service employees to OPM for its review and response as long as the current mailing addresses for both the former spouse and employee are also included. Waiting until retirement can delay processing and thus delay payment of the first annuity check. General questions and answers about the impact of divorce on Foreign Service retirement benefits can be found in the frequently asked question section of HR/RET's internet site The Retirement Network (RNet) at <http://www.RNet.state.gov>. For Civil Service employees, OPM has published a "Handbook for Attorneys on Court-Ordered Retirement, Health Benefits, and Life Insurance" which explains the requirements that must be satisfied for OPM to honor a court order. It is available at <http://www.opm.gov> by searching "Handbook for Attorneys".

-- Unclear about How Retirement Benefits are Taxed: 46 percent of survey respondents said they had little or no understanding of how retirement benefits are taxed and what strategies could reduce or defer those tax consequences. The federal government taxes retirement income from pensions (excluding a portion representing your contributions), Social Security (if the recipient's income from other sources exceeds a base amount), and TSP withdrawals (excluding from Roth TSP accounts). The only way to reduce the tax bite on pension and Social Security income is to reduce income from other sources in order to drop to a lower tax bracket. Taxes on TSP withdrawals depend on the amount and timing of withdrawals and can be reduced or entirely deferred until age 70 1/2 by limiting or delaying withdrawals. Roth TSP withdrawals are not subject to taxation as long as vesting requirements are met. State and local taxation of retirement benefits varies with some jurisdictions excluding them from taxation. See your taxing authority's website for details. An overview of the taxation of retirement benefits is provided by a tax expert and C.P.A. in the Retirement Planning Workshop (RV101) offered by FSI's Career Transition Center. A course description, course materials, and links to registration are on the OpenNet at <http://fsi.m.state.sbu/sites/TC/CTC/default.aspx>.

-- Unclear about Pros and Cons of Roth TSP: 37 percent of respondents said they had little or no understanding of the

advantages and disadvantages of contributing to a Roth TSP versus the regular TSP. The Roth TSP combines many of the benefits of TSP retirement savings with the after-tax benefits of a Roth savings plan. The difference between the Roth TSP and traditional TSP is in its tax treatment. You will not get the benefits of tax-deferred savings (an upfront tax deduction) on Roth contributions as you do with your traditional TSP contributions, however your Roth savings will grow tax-free. Later, when you withdraw your Roth contributions and associated earnings in retirement, you will pay no income taxes on them, as long as five years have passed since you made your first Roth TSP contribution and you are age 59 1/2 or older, permanently disabled, or deceased. The Roth TSP may be most beneficial to persons facing higher tax rates in retirement, persons wary of future tax rates who wish to protect their investment, and younger enrollees who wish to earn the maximum amount on their compounded contributions tax-free. For more information, see the TSP website at <http://www.tsp.gov>. TSP is discussed in the one-day Annuities, Benefits and Social Security Workshop (RV104) offered by FSI's Career Transition Center. It is offered six times a year as the second day of the Retirement Planning Workshop (RV101). A course description, course materials, and links to registration are on the OpenNet at <http://fsi.m.state.sbu/sites/TC/CTC/default.aspx>.

-- Unclear about Options for Survivor Benefits: 32 percent of respondents said they had little or no understanding of the options and associated costs for electing survivor benefits for their spouse or other relative or close acquaintance. At retirement, an employee under FSPS or FERS may make their spouse eligible to receive a survivor annuity equal to 50 percent, 25 percent, or zero percent of the employee's unreduced base annuity. Selecting one of the latter two options may be done only with the spouse's notarized consent. The retiree's annuity is reduced by 10 percent if the 50 percent survivor annuity is elected and is reduced by 5 percent if the 25 percent survivor annuity is elected. The percentages for FSRDS and CSRS participants are slightly different. Survivor annuities may also be elected for other relatives, close acquaintances, or former spouses. A key consideration is that a survivor's health insurance under Federal Employees Health Benefits program will terminate upon the annuitant's death if no survivor annuity was elected. For more information, see "Survivor Benefits" under Ask RNet on HR/RET's internet site The Retirement Network (RNet) at <http://www.RNet.state.gov>.

-- Unclear about TSP Withdrawal Options: 31 percent of respondents said they had little or no understanding of the various TSP withdrawal options at retirement. When you are ready to withdraw your TSP account after retirement, you can choose: a) a single payment; b) a series of monthly payments that are either a specific dollar amount or based on your life expectancy; c) a life annuity; d) transfer to an IRA; e) a one-time partial withdrawal; or f) a combination of the other options. For details on withdrawal options and their tax consequences, see the booklet "Withdrawing Your TSP Account after Leaving Federal Service" available in the Forms and Publications section at <http://www.tsp.gov>. An overview of TSP is provided by a TSP Board representative in the one-day Annuities, Benefits and Social Security Workshop (RV104) offered by FSI's Career Transition Center. It is offered six times a year as the second day of the Retirement Planning Workshop (RV101). A course description, course materials, and links to registration are on the OpenNet at <http://fsi.m.state.sbu/sites/TC/CTC/default.aspx>. In addition, an e-Seminar that discusses TSP is available on EBIS on HR Online.

-- Unclear about Long Term Care Options and their Usefulness: 30 percent of respondents said they had little or no understanding of long term care insurance options and costs and how they would cover the costs of long term care absent such insurance. Long term care insurance pays for long term care services at home, in a nursing home, or at another long term care facility. According to the Department of Health and Human Services, at least 70 percent of people over age 65 will require some long term care services at some point -- expenses that most health insurance (including the Federal Employees Health Benefits Program) does not cover. Thus, employees who are concerned about their long-term finances should weigh the costs and benefits of long term care insurance. For information on the Federal Long Term Care Insurance Program (FLTCP), go to <http://www.ltcfed.com>. Several private insurance companies offer their own policies. The FLTCP is discussed by a representative of Long Term Care Partners, LLC in the Retirement Planning Workshop (RV101) offered by FSI's Career Transition Center. In addition, the relationship of FEHB to Medicare and Social Security is discussed by a representative of the American Foreign Service Protective Association in RV101 and in the Annuities, Benefits and Social Security Workshop (RV104). Course descriptions, course materials, and links to registration are on the OpenNet at <http://fsi.m.state.sbu/sites/TC/CTC/default.aspx>. In addition, an e-Seminar that discusses long term care is available on EBIS on HR Online.

-- Unclear about TSP risk versus reward: 29 percent of respondents said they had little or no understanding of the fact that TSP bond funds that offer the safety of capital preservation may not generate long-term gains that out-pace inflation. Over short periods of time, stock funds can dramatically under-perform bond funds. For example, in 2008 the TSP's C fund fell 36.99 percent while TSP's G fund grew 3.75 percent. However, over long periods of time, stock funds out-perform bond funds. For example, between 2003 and 2012, the G fund had an average annual return of 3.61 percent while the C fund had an average annual return of 7.12 percent. Thus, in selecting a TSP portfolio, employees must decide how much risk they are willing to take. A key consideration is your time horizon. If you will not start withdrawing from your TSP account for many years and/or you expect to remain invested in the TSP for several decades while retired, then you may want to take more risk in your TSP account to increase your likelihood of generating gains over a period of decades that out-pace inflation. For more information, see "Investment Strategy" under Planning & Tools on the TSP website at <http://www.tsp.gov> or consult a private investment advisor. Also on the TSP website, you can make inter-fund transfers to redistribute your past contributions among the various TSP investment funds and change the allocation of your future bi-weekly contributions.

-- Unclear about Post-Retirement Life Insurance Needs: 21 percent of respondents said they had little or no understanding of how much life insurance they would need after retirement. Life insurance needs during and after employment depend on how much money you wish to leave for your survivors (for example, to pay off a mortgage or pay for children's education). Basic coverage under the Federal Employees Group Life Insurance (FEGLI) is automatic for all employees unless you decline it or elect additional optional coverage with higher premiums. To carry any level of FEGLI insurance into retirement you must have had that same or higher coverage during your last five years while employed. Most employees carry basic FEGLI coverage (which pays approximately one year's base salary) into retirement. That coverage is automatically reduced

after age 65 (unless you pay a higher premium to avoid that) until it reaches 25 or 50 percent of its starting level (depending on the option you pay for). Many private insurance companies offer their own plans. An e-Seminar presenting an overview of FEGLI is available on EBIS on HR Online.

4. Minimize considered.

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