Government Executive

By Tammy Flanagan January 16th, 2025

How to prepare for an unexpected retirement

Some readers with fears about the future of their jobs under the next administration reached out for advice.

Federal employees who are planning for retirement have a multitude of questions that need to be addressed so that they can prepare for a smooth transition and a financially secure life after retirement.

Today, I am going to share a question-and-answer session I recently had with an employee who is worried about her future employment due to the preparations being made to restructure the federal workforce under the new administration. She is worried, as are many others, about the resurgence of Schedule F potentially causing many federal jobs, and the employees who occupy those jobs, to be at risk.

The incoming administration has shown the desire to mandate significant reductions to the civilian federal workforce through layoffs, agency eliminations and office relocations. Adding to this, it seems that voluntary departures are being encouraged by legislation introduced in Congress requiring federal workers to return to the office and reduce teleworking. On Jan. 8, Rep. Dan Newhouse, R-Wash., introduced The Federal Employee Return to Work Act to crack down on what he calls "wasteful government spending" and to encourage federal employees to return to in-person work.

Based on recent emails that I've received; many federal employees are sharing similar concerns outlined by the employee in this article. Many have expressed fear about the ability to retire voluntarily and are preparing for the potential of massive government downsizing. Whether this happens, is yet to be seen, but I am always encouraged when employees plan for the "what-if" situations that can happen during a federal career.

Background: Things are getting crazy at my agency. I turn 62 on Sunday, so I'm just really starting to think about retirement. I'll always do something, just not sure what, so I have a lot to think about. I was hoping to find answers to some questions I have that will help me plan.

Question #1: What is the absolute best day to retire? Dec. 31 or Jan. 31 or any year? Or are neither of these good?

Answer: I have written many times about choosing the "best" retirement date. Before setting your date, be sure to do financial planning and tax planning to be sure that you can afford to retire. Consider the amount of retirement income that you will have net of taxes and any withholdings (such as taxes and insurance premiums) and reductions (such as survivor benefit elections, former spouse apportionments, part-time work schedule pro-ration, etc.). It is also important to begin to visualize your life after retirement. Once you are mentally and financially ready, then consider retiring at the end of a month so that you are paid your salary for the full month of your retirement and so that your first retirement benefit is for the entire amount of the first month following your retirement. Consider retirement at the end of the year, or specifically, the end of the "leave" year if you are attempting to maximize the lump sum annual leave payout. You can read the most recent articles on this subject:

- Best Dates to Retire in 2025
- Four Rules for Picking a Retirement Date
- When to Leave to Maximize Your Lump Sum Annual Leave Payment
- Retirement decisions that can't be reversed

Question #2: If you participate in the Flexible Spending Account (FSA) program and retire after January 1 or any given year, will your FSA continue? I know when I left a private sector job years ago, although I was gone, I received the full amount of my FSA, even after my payroll stopped. I'm not sure how the Federal government works.

Answer: The following can be found at www.fsafeds.gov and provides a clear answer to your question:

The balances in your Health Care FSA, Limited Expense Health Care FSA and Dependent Care FSA are treated differently if you separate or retire before the end of the calendar year.

*Your HCFSA or LEX HCFSA **will terminate** as of the date of your separation or retirement. There are no extensions. Any eligible health care expenses incurred prior to the date of separation will still be reimbursed but those incurred after the separation date are not reimbursable, even if you accelerated your allotments. **If you used your entire elected amount before FSAFEDS has deducted it from your pay, you will not be responsible for the remaining allotments.***

Your DCFSA remaining balance can continue to be used to pay for eligible dependent care expenses until your account balance is depleted or the end of the calendar year, whichever comes first.

***Please note**: In order to take advantage of the grace period for your DCFSA, you must be actively employed and making allotments through Dec. 31 of the benefit period (plan year).*

***Example:** A participant is enrolled in both a HCFSA and DCFSA for the benefit period but retires midway during the benefit year on July 1. The participant may only submit claims for health care expenses which are incurred prior to their July 1 separation date, but can continue to incur dependent care expenses through Dec. 31 of that benefit year or until their balance is depleted. The participant would not be eligible for the grace period under their DCFSA.*

Question #3: I am due for my final step increase in June. Will that be calculated into my high three if I decide to leave on 12/31/25 or 1/31/25?

Answer: Each pay rate in effect during the high-three period (generally the last three years of your career), are pro-rated based on how many days it is in effect during the three-year period. For example, if you receive your step increase on June 15, 2025, and then retire on Dec. 31, 2025. That salary rate would be in effect for six months and 15 days of the three-year rating period or .541667 of a year out of 3.00 years It is three years, not three pay rates.

Question #4: There is an opening for a lower-grade federal job just a couple of miles from our house and I have seriously considered taking a part-time job there. Would it be possible or smart to do something like that? I have over 20 years of service and may consider reemployment after I retire or transfer if I apply and am subsequently hired.

Answer: If you were to transfer to this position from your current agency, your length of service would increase and retirement benefits would continue to accrue, however, remember that your lump sum annual leave payout and the value of your life insurance that you will continue into retirement is based on your salary rate on the date of retirement. It is likely that your high-three average salary would be "frozen" at the time of transfer because you are in a higher pay rate in your current position. If you retire and then get rehired into federal employment, you would be considered a reemployed annuitant subject to an offset to your new salary by the amount of your retirement. Here are more details about becoming a reemployed annuitant:

- Facts about insurance coverage for reemployed annuitants
- Chapter 100, Reemployed Annuitants, CSRS and FERS Handbook, beginning on page 38: As a general rule, hen an annuitant is reemployed, the annuity continues, and the amount of annuity that applies to the period of reemployment is offset from the reemployed annuitant's salary.

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Question #5: For my TSP, I have just over $500k and I'm continuing to add the max to it. My financial adviser wants me to transfer it to him and let him manage it, but I'm terrified to do that. I don't know or understand the annuity stuff very well and feel stupid asking those questions as something I feel like I'm supposed to know.

Answer: Give yourself some grace. You have never retired before, let alone made decisions regarding taking distributions of your retirement savings. This is new territory and there are individuals out there who may profit from your retirement. Before making any decision regarding your retirement savings, it is important to educate yourself regarding the options you have, including transferring your balance to an IRA and hiring a financial professional to help manage your investment. It is important to know the difference between a financial advisor with a fiduciary responsibility to look out for your best interest versus a salesman interested in selling you a high-commission product (i.e. annuity). To learn more about distribution options and important tax information about TSP distributions, start with the following resources:

- TSP Online Learning: Distributions
- TSP Withdrawals in Retirement
- TSP Booklet 25, Distributions
- TSP Booklet 26, Tax Information About TSP Payments

To learn more about working with a financial professional, here is an abundance of important and user-friendly information for investors. This information is provided by FINRA, a self-regulatory organization for member broker-dealers that is responsible under federal law for supervising their member firms. FINRA has been around since the 1930s, under the oversight of the Securities and Exchange Commission.

Closing message: I'm doing my best to hang in there as long as I can, but again, just trying to understand what the absolute best thing for me is to do, whenever I do it, so if you wouldn't mind helping me understand, I'd be so very grateful. I'm sure there are things I haven't thought of, but this is a start.

Final response: Continue to ask questions and seek accurate answers and information to help you feel confident about your retirement plans. Please don't retire out of fear of what "might" happen. It is more important to have a plan to be prepared to retire financially secure from federal service unless you are planning to transition to other work in the private sector or to other state or local government work.