COMMON RETIREMENT QUESTIONS

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Are You Ready For Retirement?

I sat down with Michael and Glenn at Livingston Federal and asked them the questions that our members are asking about preparing for retirement. As investment executives who specialize in helping federal employees make the transition from work to retirement, Michael and Glenn are well prepared to help us get the answers you're looking for. Livingston Federal has been a long-time supporter of the FAAMA and frequently provides educational

seminars for our employees and members across the country. They are also one of the providers of Retirement Seminars to the entire FAA. If you are interested in learning more about working with Livingston Federal, contact your local HR department to schedule a seminar at your facility, or for personal assistance, visit their website www.LivingstonFederal.com or call them at (800) 752-8992.

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INTRODUCTION

Livingston Federal Employee Retirement Planning is a privately-owned, experienced company who specifically addresses and serves the financial and retirement planning needs of federal employees across the country. Livingston works directly with federal employees by helping to explain, analyze and coordinate their specific benefits to develop and maintain an individual retirement plan. In addition, they partner with government agencies and human resource departments to deliver complimentary, on-site educational retirement and financial planning seminars covering benefits and all aspects of the various federal retirement systems, including both FERS and CSRS.

Each of the Livingston Federal advisors is a Chartered Federal Employee Benefits Consultant (ChFEBC)*, a prestigious designation earned and maintained by every Livingston advisor. This enables you, or any federal employee, to enjoy the confidence and security that can come from working with an educated financial consultant with a more thorough and current understanding of your specific government benefits. You will quickly find that their advisors are responsive, easy to work with and provide outstanding, personalized service.

In today's uncertain economy and volatile markets, the retirement dream can seem elusive. Many Americans are worried about whether they can afford to retire and how to ensure that their savings last as long as needed.

Many retirees and pre-retirees have the added challenge of dealing with complex and ever-changing retirement benefits and need help understanding their options. You may be worried about whether you can afford to retire, you may feel ambivalent about leaving colleagues and or your profession, and you may even wonder about what you will do when you are no longer working.

The combination of complex emotions and financial worries can make it easy to put off retirement strategizing. However, we believe that the most prudent course is to start thinking now about your retirement needs so that you can develop an educated opinion about your retirement options and make adjustments where necessary.

1. WHEN CAN I AFFORD TO RETIRE?

Retiring With Debt?

Statistics from the Employee Benefit Retirement Institute (EBRI) show that Americans in or nearing retirement are carrying high levels of debt.

If you have significant levels of mortgage, student loan, or credit card debt, your retirement expenses may go up considerably. An investment executive can help you develop debt reduction strategies while living a comfortable lifestyle.

Dave Chappius: So, one of the questions we get all the time from our members is "When Can I Afford to Retire". We asked Michael and Glenn how they respond when they get this question.

Michael Livingston: If you're worried about being able to retire, you're not alone. Millions of people worry about whether or not their retirement savings will be enough to keep them comfortable. In fact, many Americans fear running out of money more than they fear death.[1]

The decision to retire is a very personal one that depends on a number of important factors like your age, financial circumstances, health, and family situation. We find that all too often people are fixated on retiring as soon as they are eligible rather than considering their lifestyle. It's important to understand when you may be eligible to collect a retirement benefit from your pension. However, it is equally important to picture your retirement and be certain you maintain that lifestyle. No one wants to work 30 plus years just to make ends meet in retirement.

Livingston advisors work with you to determine where you are today and where you are headed relative to your retirement plans. We will look at various ages to retire and its impact on pension, social security, investments, debt, and cash flow. Our clients are provided with additional information about retirement. See, everyone is on a path to retirement, and when it is time to finally retire every person will have "financial circumstances" that are specific to them. The question is really "will I be able to live the lifestyle I desire when that time comes?" That is why getting started early is so important. Putting off planning is still making a choice…only the choice that person made is to leave their retirement to hope and chance.

Dave Chappius: In order to know what I need to be able to afford my ideal retirement, I would think one of the primary questions to ask would be "what does your dream retirement look like?" I have to think that varies from person to person and is as individual as the strategies necessary to execute an effective retirement strategy.

Glenn Livingston: Take a moment to think about what retirement looks like for you. Does it mean spending more time with loved ones or enjoying other passions? Are you interested in pursuing a hobby? Do you want to travel or work part time? If you are married, don't forget about your spouse's idea of retirement. You need to make sure both of you are on the same page. You may want to downsize your home and move elsewhere; meanwhile, your spouse has no intentions of leaving the grandbabies. Your spouse may want to finally be able travel and see the world, but you don't like flying.

People often ask us "do I have enough?" which is a very stressful question. One person defined having enough money. They said, "enough money means that work is optional, and leisure and recreational activities are affordable." I think that sums it up very well. Everyone's retirement dream is different and part of retirement strategizing is thinking about what you want to do with the rest of your life. Today's retirees can expect to live long, active lives, making retirement more like the dawn of a new chapter of life rather than a sunset. Increasing numbers of active Americans are redefining retirement for themselves in new and interesting ways. Once you have a good picture of retirement, Livingston advisors will help you attach dollars to those dreams, and then work with you to develop a specific retirement plan to help achieve those dreams.

2. HOW SHOULD I LOOK AT MY TSP?

Dave Chappius: Being able to identify your specific thoughts on how you see your retirement playing out is important, equally important is the ability to access all of your options. That being said, how should members look at their TSP when planning for retirement?

Glenn Livingston: Your federal retirement is made up of your federal pension, Social Security (for FERS), and TSP. In an ideal world many financial advisors would like your guaranteed income sources such as your government pension and social security to pay your standard bills in life. (ie. local living expenses). Of course we don't live in an ideal world, but we still consider your TSP and other investments as the supplement to your retirement lifestyle that allows you to live your dreams. If you like to travel a lot, regularly eat at fine restaurants, own a big boat, collect cars, or whatever other luxury items you may want to enjoy will obviously require more money in your TSP and investments to supplement this lifestyle; rather than the retiree who enjoys staying local and spending time with family while working part time.

You do not have a lot of input on the amount of pension and social security you will receive other than working a few extra years. However, you determine how much money you will have in your TSP. This is the one aspect of your retirement portfolio that you have the most influence over, actually all of the influence. Unfortunately, this is one aspect of retirement federal employees' neglect the most. Many do not invest with a purpose or end in mind at a young age, and consequently their TSP is funded haphazardly, and when they are five to ten years from retirement they will check in and see where things stand. Time is one of the most important components of compound interest. Other key factors are consistent contributions and rate of return. Whether you are 1 year from retirement or 25 years Livingston advisors will work with you to see that you are properly invested in your TSP, according to your goals and risk tolerance.

Dave Chappius: Glenn, that's great. When you consider TSP along with retirement planning how would you respond to someone that wants to use their TSP to pay off a mortgage or other large debt?

Glenn Livingston: We get this question regularly at seminars. Most people want to be debt free when they retire and for example…that last $80,000 they owe on their house, which is costing them $1500 a month in retirement is really bothersome. So naturally when they see $500,000 in their TSP they want to pay off their debt, which is a noble cause. There is one significant problem in withdrawing sizeable lump sums from your traditional TSP/IRAs. The funds in these accounts are pre-tax and consequently every dollar withdrawn is taxed as ordinary income…not capital gains. Think of your traditional TSP/IRA as deferred compensation. You deferred a percentage of your salary to use at a future date in retirement.

So in order to receive $80,000 after ordinary income taxes are withheld, you would have needed to withdraw $133,000 (assuming 40% income taxes for federal and state) which negates any benefit of paying off your house early. Before you think that you do not pay 40% in income taxes, remember that you will have to add $133,000 to your adjusted gross income that year.

Dave Chappius: Timing is always of the essence, what do you recommend members do when they are about ten years out from retirement to maximize their TSP benefit? Is there something specific to consider when looking at the allocation?

Glenn Livingston: I would say making sure you have the proper allocation is the top priority followed by maximizing your contribution. Assume you have $500,000 in your TSP with ten years left of work. For example, if you grow your TSP 3% annually versus 8% annually, in 10 years (not considering contributions) you will have $672,000 versus $1,080,000 respectively, which is more than a $400,000 difference. Ten years of maximum contributions of $23,000 per year (assuming catch up) is only an additional $230,000. This proves our point previously that time invested in the market is such an important factor along with

allocation. If you combine the $23,000 annual contribution and 8% annual compounded growth the net result is $1,410,000.

3. HOW DOES MY GOVERNMENT SPONSORED HEALTHCARE BENEFITS WORK WITH MEDICARE? DO I NEED BOTH?

Dave Chappius: Another area of great concern for our members is healthcare. While they have continuing healthcare benefits, will they still require a supplemental program like Medicare?

Michael Livingston: Your health benefits are worth their weight in gold. Very few people retire with full health benefits for the rest of their lives with their employer picking up over 70% of the cost. Before we discuss how your health benefits work with Medicare, I need to mention a couple key points. 1) For you to carry federal health insurance into retirement, you must have been in the federal health benefit system for the 5 consecutive years prior to retirement. A family plan counts as being in the federal health benefit system. 2) For you to pass on your health benefits to your survivors after you pass away, a survivor benefit must be chosen.

If you retire prior to age 65 and meet the requirements listed, your health benefits will work just like they do prior to retirement. At age 65 in retirement Medicare becomes your primary insurance and your health benefits become your secondary insurance. You must sign up for Medicare part A, which is hospitalization to avoid penalties. Medicare part A is free. You may sign up for Medicare parts B and D, co-pays and prescriptions. There are monthly costs associated with these parts of Medicare, but in most cases the costs are worth it. However, you should speak with a Medicare expert. The reason why the cost may be worth it is your monthly health care expenses should be nearly set. Medicare is a fairly course net with significant expenses passing on to the patient. By combining your health benefits with Medicare parts A, B, and D, you should have little to no expenses out of pocket because your health plan may pick up 100% of the costs. Again, please talk to Medicare experts as well as plan providers to determine what is best for you and your family.

4. SHOULD I CONSIDER A BUY-OUT OR EARLY RETIREMENT PACKAGE?

Dave Chappius: Our members frequently hear that they have the option to receive an early retirement package or a buy-out. What does that really mean to the member and is it a good idea?

Michael Livingston: An increasing number of agencies are offering early retirement packages to employees. Typically, they will give you a lump-sum distribution to encourage you to retire. The decision about whether to keep working or accept a buy-out is complex, and it's important to consider all of your options and run the numbers before making a decision. Some factors to consider are the following:

- ☐ How will early retirement affect your pension benefits and other retirement income?

  Recently the buyout offer has been for $25,000, which is about $17,000 after taxes. Make sure you know how much in monthly income you will be giving up by accepting the offer versus staying until your intended retirement date.

- ☐ How will accepting the buyout affect your FERS Supplement and will there be penalties.

  If the buyout offer is prior to your full eligibility for retirement, consider its full impact. Early voluntary retirement for CSRS and FERS employees are 2% and 5% permanent reductions. For FERS employees

retiring prior to full eligibility usually means forfeiting your FERS Supplement. Please read the fine print on these offers.

- ☐ Do you love what you do?

  Are you ready for retirement? Have you thought what retirement means to you and your spouse? Retiring is a huge step in life and should be done so with a lot of consideration.

There are many factors that go into the decision about accepting an early retirement package. It's a good idea to talk to a Livingston advisor who can go over your options in detail and help you understand the benefits and drawbacks of each choice.

5. HOW CAN WE GET LIVINGSTON FEDERAL INVOLVED AT OUR FACILITY AND OR OUR CHAPTER MEETINGS?

Dave Chappius: Livingston Federal has been a long time partner with FAAMA and with their 15 advisors across the country they are able to schedule time to come to your facility, participate in chapter meetings, conduct webinars etcetera. Glenn, if our members want to have you provide education what is the process to set up a free seminar?

Glenn Livingston:

Every year Livingston provides more than a hundred retirement seminars at FAA facilities around the country including Headquarters, Region Offices, Centers and TRACONs. Our seminars are purely educational and are approved by FAA benefits. Additionally, we also provide smaller lunch and learn briefings or we can speak at chapter meetings. All Livingston advisors are certified in federal benefits and can provide the education you need to make informed decisions concerning your retirement.

We would like to get involved with FAAMA chapters and members on a more personal level. Receiving information and learning more about your retirement benefits is important, but very few people can take that information and create a robust 30 year retirement plan. Livingston advisors go beyond the information and will meet with you one on one and help you develop a personal retirement plan that incorporates all aspects of your federal retirement as well as personal investments and insurances. We will sift through all of the numbers and options with you to help you make the best choice. Many of the decisions you make concerning your retirement benefits are irreversible. You need to know the long term ramifications of those decisions beyond the immediate cost. Our experience in federal retirement benefits and as financial advisors positions us to help you understand the long term impact of your decisions.

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5. HOW CAN MEMBERS REACH LIVINGSTON FEDERAL, DIRECTLY?

Dave Chappius: In addition to the HR offices, is there a way our members can reach out to Livingston Federal individually?

Michael Livingston: Absolutely, our website is a great resource and tool. Members can go to www.LivingstonFederal.com. Our resource link provides a variety of presentations and can answer a lot of frequently asked questions. We have 15 advisors across the country, all of whom are excited to be working with FAA members. Additionally, we can be reached at 800-752-8992 or info@livingstonfederal.com.

Michael and Glenn Livingston and their 15 advisors across the U.S. are committed to the successful retirement of our members. We have worked with Livingston Federal for a number of years and have seen first-hand

the integrity and responsiveness their organization provides. On the Livingston Federal website [www.LivingstonFederal.com] there are a lot of free resources for you as you start down the path of planning for your retirement. You can meet the Livingston Federal team at our annual FAAMA conference.
