

A Great Date to Retire

Every year, thousands of federal employees consider whether and when to retire. If you don't know the rules, you could select the wrong date and cost yourself hundreds or even thousands of dollars. Here's what you need to know to pick the best date for you, based on your own preferences and objectives. This paper uses CY 2006 but can be adjusted for any other year.

Options

The best dates to retire are at the end of the month, the end of a leave period or the end of the year. But the best date varies from employee to employee; for some, it might even be during the first few months of the year. Here are the important rules:

1. Choose a retirement date at the end of a month.

Voluntary retirement benefits commence the first day of the month following your retirement. Suppose John chooses Aug. 12 as his retirement date and Joan chooses Aug. 31. Regardless of which retirement system they are under (CSRS or FERS), both will receive their first monthly retirement benefit payment for the month of September on Oct. 1. Joan would get her salary through her date of retirement, while John's salary would stop at the close of business Aug. 12. He would receive no retirement compensation until his September benefit payment arrived.

Why does this matter? If John's salary were \$65,000 per year, he would forfeit \$3,250 in salary by leaving 13 days before the end of the month.

2. Retire at the end of a leave period to earn another leave accrual.

Title 5 of the U.S. Code says: "An employee is entitled to annual leave with pay which accrues one day for each full biweekly pay period for employees with 15 or more years of service." Unused annual leave hours are reimbursed in a lump sum payment upon separation from federal service.

CSRS (and CSRS Offset) employees can retire on the first, second or third day of the month and be entitled to benefits beginning the day after they leave. FERS does not have this grace period. So, for example, a CSRS employee could retire on Friday, Sept. 1, 2006, and accumulate the last leave accrual for leave period 17 and still be entitled to a retirement benefit for the month of September. If the employee retired on Thursday, Aug. 31, he or she would not accrue leave for period 17 (unless they work an alternative schedule and complete 80 hours of work by Thursday afternoon).

Here are some good dates in 2006 for both CSRS and FERS employees that would allow retirement to occur at the end of a month as well as the end of a leave period:

- March 31 (leave period 6 ends April 1)
- April 30 (leave period 8 ends April 29)
- Sept. 30 (leave period 19 ends Sept. 30)
- Oct. 31 (leave period 21 ends Oct. 28)

Here are some good dates for CSRS employees that would allow retirement within the three-day grace period and also at the end of a leave period:

- Feb. 3 (leave period 2 ends Feb. 4)
- March 3 (leave period 4 ends March 4)
- Sept. 2 (leave period 17 ends Sept. 3)

For the purposes of calculating lump sum payments for leave, one eight-hour accrual of leave is computed as eight times an employee's hourly pay rate. So, for an employee making \$65,000 per year (\$31.14 / hour), eight hours of leave is worth \$249.

3. Retire at the end of the year to get the maximum lump sum leave payment.

FERS employees should consider retiring on Dec. 31, 2006. CSRS employees can take advantage of the 3-day grace period by retiring on Wednesday, Jan. 3, 2007.

Most federal employees are limited to carrying over 240 hours of annual leave each year. In addition to the carryover leave, employees with more than 15 years of service accumulate an additional 208 hours of annual leave each year. Employees must use this accumulated leave each year to avoid losing it to the carryover limit--except in the year they are planning to retire.

For example, suppose Helen carried over 240 hours of leave from 2005 and plans to save up her leave accruals in 2006 since she is planning to retire this year. By the end of December (leave period 25), she will have 440 hours (240 hours from 2005 and 200 additional hours accumulated in 2006) of unused annual leave. Helen would receive payment for 440 hours of leave in a lump sum payment following her retirement on Dec. 31.

The lump sum increases relative to the pay raise GS employees receive at the start of the new leave year. This is because the law requires that employees' lump-sum payments equal the pay he or she would have received had they remained employed until the expiration of the period covered by the annual leave.

So, if Helen makes \$65,000, and if a 3.5 percent general pay increase is granted on Jan. 7, 2007, here is how her lump sum annual leave payment would be computed: Her 2006 pay rate (\$65,000) would apply to the first 40 hours of leave (covering Jan. 1 - 5) and the remaining 400 hours would receive the 2007 rate (\$67,275). The gross amount of the payment would equal approximately \$14,139, and the boost in salary would increase her annual leave payment by \$435.

Expect the lump sum annual leave payment within 30 to 45 days of retirement. So even if you retire on Dec. 31, the payment will be taxable the following year.

4. A springtime retirement can provide some tax breaks.

If getting a lump sum annual leave payment is not that big of an issue for you, you may wish to consider retiring earlier in the year to take advantage of some tax breaks.

First, beginning this year, there are no percentage limits to your TSP contributions. This means that you could elect to contribute your entire salary to the TSP -- tax-deferred -- until you reach the IRS elective deferral limit (\$15,000 for 2006). In addition, if you are turning 50 this year or are already there, you can contribute an additional \$5,000 in catch-

up TSP contributions (also tax deferred). FERS employees also will be entitled to the usual agency automatic and matching contributions during this time. This results in a reduction of taxable income of \$25,000 for 2006. What a great time to cash in those savings bonds!

If you signed up for a flexible spending account for 2006, you must incur expenses prior to your retirement to be able to use this year's health care allotment. For health care FSAs, the amount allotted for the year is available for reimbursement on Jan. 1 of the plan year. Dependent care FSA reimbursement is limited to the amount in the account at the time the claim is made.

Employees usually have 14 and a half months to use the money allotted in their FSA accounts. So any funds in an account established for 2005 are available until March 15, 2006, and 2006 account funds are available from Jan. 1, 2006, through March 15, 2007. The annual limit for health care FSAs was \$4,000 in 2005 and is \$5,000 in 2006. If you need some expensive medical care, this could result in lowering your 2006 taxable income by up to the FSA limits. But you must take advantage of this before your retirement date.

If you have reached your full Social Security eligibility age (from 65 to 67, depending on your year of birth), you may begin receiving Social Security benefits even if you continue working. If you are under your full Social Security age but at least age 62, an earnings limit applies. Those eligible for Social Security benefits can begin receiving them on Jan. 1 of the year of their retirement rather than waiting until after they retire. If your earned income for the year will not exceed the limit, you may be eligible for benefits before you actually retire. Retirement annuity income does not count as earned income.