

# Retirement Planning: Setting a Date

By Tammy Flanagan *National Institute of Transition Planning*

Remember this old adage? "Give a man a fish and he'll eat for a day, but teach a man to fish and he'll eat for a lifetime."

I am going to try that out on the topic of picking the best retirement date. I'll give you the rules and show you how to apply them to your situation. It's actually very simple. The hard part is knowing if you can afford to retire -- and even more important, what you're going to do to fill up the extra 40 to 50 hours you'll have every week.

Ready? Let's go.

The following chart shows the date your Civil Service Retirement System or Federal Employees Retirement System benefit will start if you are leaving under optional, immediate retirement. "Optional" means you're eligible to retire when you leave federal service and "immediate" means your retirement will begin the month after you go. Consult with your agency's retirement benefits specialist if you are retiring under discontinued service, disability, postponed or deferred retirement, since the annuity beginning date is determined differently for these types of retirement.

Date You Leave	Date Retirement Will Start
1st, 2nd or 3rd day of any month	<b>CSRS:</b> Following day <b>FERS:</b> First day of the following month
4th through the last day of the month	<b>CSRS and FERS:</b> First day of the following month

Suppose Anne decided to retire today, June 19, 2009. That would mean:

- She will become an annuitant (retiree) on July 1.
- Her last paycheck will be paid through close of business June 19.
- Her first retirement check (under either CSRS or FERS) will be paid for the month of July. The July payment will be dated Aug. 1.
- She will receive no compensation for June 20-30. If her salary is \$55,000 per year, she earns a little more than \$200 a day. If she retires today, she would not receive the nearly \$1,500 she would have earned if she had waited until June 30 to retire. If she had waited, then she would have gotten her salary for entire month of June and a full retirement payment for July.

### **For CSRS Employees Only**

If you're under CSRS, you should always consider leaving on one of the first three days of the month. For example, July 3, 2009, is a great date to retire. Here's why:

- It's a Friday, meaning the July 1, 2 and 3 will be paid as salary for most employees, since retirement is effective as of the close of business on the day you enter on your retirement application.
- If you choose to retire on one of the first three days of the month, your first retirement check will be pro-rated. Using the July 3, 2009, date, your first retirement check will be for 27/30 of the July payment. If your retirement is \$3,000 per month, then each day is worth \$100.
- July 3 also is the end of a two-week pay period. As long as you complete 80 hours of work for those two weeks, you will accrue annual leave for the pay period. This is true even if you don't make your retirement effective on Saturday. The unused hours of annual leave become cash in your pocket.
- As a final bonus, it's a holiday. You don't have to come to work on your last day, but you still will be paid.

### **Spring, Summer and Fall**

Many federal employees choose to retire at the end of the year. But there are valid reasons to consider leaving earlier:

- Your high-three average salary, which is the basis for the CSRS and FERS basic benefit computation, will profit from a few months at the current year's pay rate.
- Having some earned income in your year of retirement will allow full Individual Retirement Account eligibility for both you and your spouse.
- You can contribute more to your Thrift Savings Plan account. It's possible that someone who retires at the end of June could have contributed the maximum amount to his or her TSP account for 2009 -- \$16,500, plus an additional \$5,500 in catch-up contributions for those 50 or older. This extra tax deferral of final salary into the TSP might put you in a lower tax bracket. (If you've been buying savings bonds during your career or making other taxable investments, this might be a good time to begin cashing them in.)
- You could gain a tax advantage from waiting until the fall. New retirees usually are placed in an interim status while the Office of Personnel Management finalizes their claims. During this time, only a partial retirement payment is made. A retroactive payment to provide full retirement benefits might not be paid until the following year. This could shift some taxable income to 2010.
- If you are covered under FERS or CSRS Offset and are earning a high salary in your last year of employment, you might have maxed out on Social Security tax. (In 2009, the maximum taxable wage subject to 6.2 percent Social Security withholding is \$106,800). If a lump-sum annual leave payment or income from a second career received in 2009 pushes you over the maximum taxable limit, it won't be subject to Social Security tax.

### **End of the Year**

One big reason many employees retire at the end of the year is they can save up annual leave hours beyond the normal use-or-lose limits. For example, if Paul carries 240 hours of annual leave (the limit for most federal employees) from 2008 into 2009 and then decides to retire at the end of 2009 (Thursday, Dec. 31, if he is under FERS or Friday, Jan. 1, 2010, if he is under CSRS), he could save up 25 or 26 accruals of annual leave (200 to 208 hours if he is in the eight-hour category) by not using any annual leave during 2009. This will be added to the 240 that he carried over from 2008, making him eligible for a lump-sum payment for 440 to 448 hours of unused leave. Here's a column I wrote about this: [Taking Your Lumps](#) (Jan. 19, 2007).

If you're considering departing in the final days of a year, remember one thing: receiving a big lump-sum payout the following year for unused annual leave along with 12 months of retirement income could push you into a higher tax bracket in your first year of retirement. This is especially true for those who are retiring on a Friday and starting a new nonfederal career on a Monday, adding additional earned income to retirement benefits.

Of course, the impact of a change in tax brackets can be slight. And if your income is high enough that the alternative minimum tax applies to you without consideration of the lump-sum leave payout, then getting all the money in one year actually could be a good thing. Also, the accumulated leave and the final salary will qualify you to contribute to an IRA.

These are circumstances you should consider as you contemplate the best date to call it a career. Now it's your turn: Get out the calendar, and go to work.

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*For more retirement planning help, tune in to "For Your Benefit," presented by the National Institute of Transition Planning Inc. live on Monday mornings at 10 a.m. ET on [federalnewsradio.com](http://federalnewsradio.com) or on WFED AM 1500 in the Washington metro area.*