

# 5 Keys to Retirement Planning



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## A Comprehensive Guide to Federal Retirement Planning

Congratulations! You've taken the first step to start federal retirement planning by requesting this guide. Make this year count by focusing on **preparing yourself** in the five key areas of federal retirement planning:

1. Income Planning
2. Investing
3. Taxes
4. Estate & Legacy Planning
5. Healthcare

These are the building blocks of any solid retirement plan, and this guide will detail each one. Whether this is the year when you retire or not, it's the year to create a truly comprehensive retirement plan that addresses each of these areas.

"The best time to plant a tree was 20 years ago.  
The second best time is now."

- Chinese Proverb

# Income Planning

## Understand Your Benefits

### Maximizing Your Federal Retirement Income

Retirement income can come from a few places, and most retirees can rely on Social Security. Claiming your maximum benefit is an important part of creating a retirement income strategy. As a Federal employee, you have unique benefits that must be considered when planning.

#### **Federal Employees Retirement System (FERS):**

The three components of FERS are the Basic Benefit, Social Security, and Thrift Savings Plan (TSP)<sup>1</sup>. The Basic Benefit is a pension based on your years of service and “high-3” average salary. Social Security provides a foundation of retirement income. The Thrift Savings Plan (TSP) is a retirement savings plan similar to a 401(k).

#### **Civil Service Retirement System (CSRS):**

For those under CSRS, this is a defined benefit retirement system. The annuity is determined by length of service, age at retirement, and “high-3” average salary<sup>2</sup>.

## Social Security Strategies

### Social Security: A Key Piece of Your Retirement Puzzle

The Social Security trust fund is now expected to be depleted by 2034<sup>3</sup>, according to a recent report from the Social Security and Medicare trustees. Once the Social Security trust fund runs out, payroll taxes will be able to cover about 78% of promised benefits. While these facts might seem to pose an existential threat to the program, that is not quite the case. It’s very unlikely that Washington will ever scrap Social Security entirely, but lawmakers could reduce benefits and/or increase taxes in the future. We can speculate, but your more immediate concern should be creating a strategy to maximize your benefit.



# 3 Things to Know About Claiming Social Security

1

The earliest you can claim Social Security benefits is age 62. However, claiming benefits before your full retirement age will result in a permanently smaller benefit. If you wait to claim past your full retirement age, your benefit will increase by 8% per year you defer until age 70 for beneficiaries born in 1943 or after<sup>4</sup>. Also, if you start Social Security with the month you reach full retirement age, there is **no limit** on how much you can earn and still receive your full benefits. Consider what age you will claim benefits and know your full retirement age<sup>5</sup>.

2

Earning income while receiving a Social Security benefit may reduce your benefit. **Social Security beneficiaries under their full retirement age who earn more than a projected \$23,400 in 2025 will have \$1 withheld for every \$2 they earn above this limit.** In the year you reach full retirement age, we deduct \$1 in benefits for every \$3 you earn above a different limit. **In 2025, this limit on your earnings is \$62,160<sup>5</sup>.** Earnings are defined as the wages you make from your job, including any bonuses, commissions, and vacation pay, or your net earnings if you're self-employed.

3

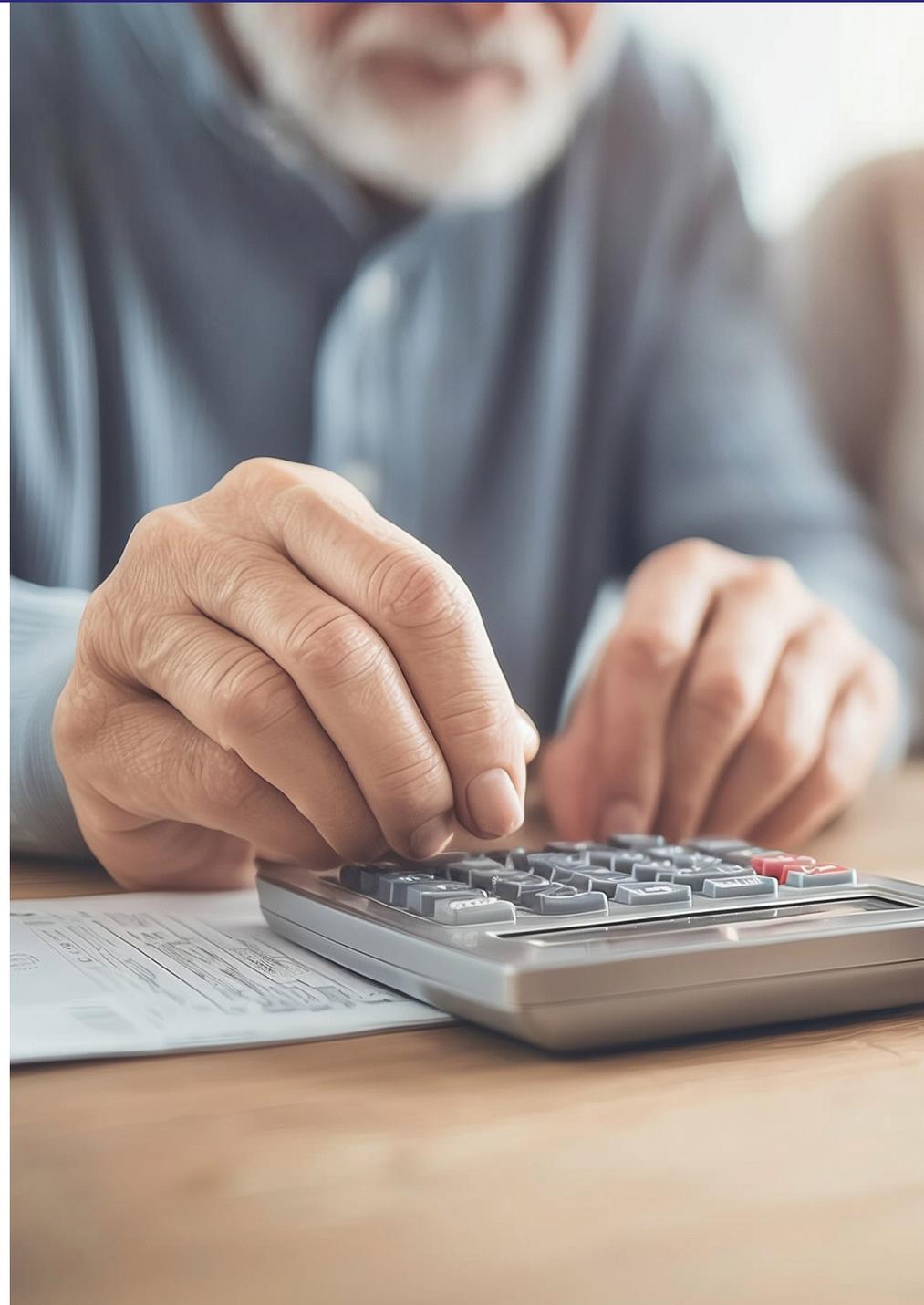
If you have reached your full retirement age and have been married for at least one year, you can claim a Social Security spousal benefit worth up to 50% of your spouse's benefit. You will receive less than 50% of your spouse's benefit if you claim spousal benefits before your full retirement age, but you will not receive more than 50% by waiting past your full retirement age to claim<sup>6</sup>. Also, spousal exceptions exist such as parent of spouse's child or those previously entitled to certain benefits. **Divorced spouses must be married for at least 10 years** to claim spousal benefits. Eligibility criteria vary for divorced and widowed spouses, with spousal benefits typically ranging from 32.5% to 50% of your spouse's full Social Security benefit amount, depending on your age when claiming.

# Where Will the Rest of Your Retirement Income Come From?

- ★ Personal Savings
- ★ Social Security
- ★ 401(k)/403(b)
- ★ Company Pensions
- ★ Annuities
- ★ IRA/Roth

Retirement income traditionally relied on three key elements: personal savings, a company pension, and Social Security benefits. These components provided retirees with a stable financial foundation, ensuring they could maintain their lifestyle after leaving the workforce. However, as company pensions have become less common, retirees today must rely more heavily on their own savings to cover expenses. This shift has made it more challenging to create a predictable and sufficient income stream throughout retirement.

If you are concerned about making your savings last, exploring additional sources of reliable retirement income may be beneficial. One option to consider is an annuity, which can provide guaranteed payments for a set period or even for life. Annuities can help bridge the gap left by the decline of pensions, offering financial security and peace of mind. By supplementing your Social Security benefits with an annuity, you can create a more stable and predictable income plan for retirement.



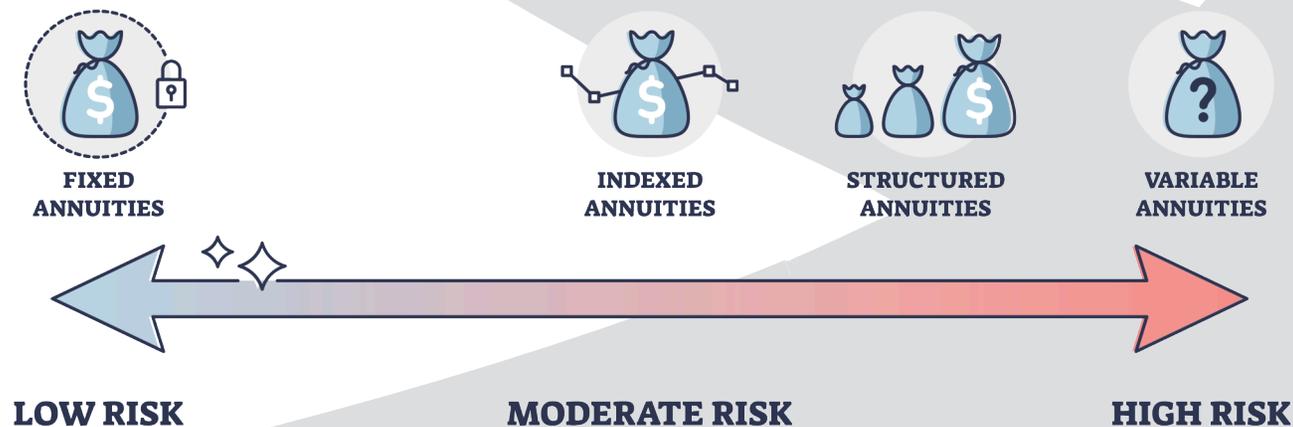
# Annuities

An annuity is an insurance-based financial product that an individual pays a lump sum into in exchange for a stream of payments over a period of time. It is the opposite of life insurance – it potentially helps protect against outliving your money by offering a steady income stream either for a defined period or for life. It can also help protect against market risk while offering a rate of return. There are different types of annuities and ways to customize them to your individual needs. After a year of record market ups and downs and near-zero interest rates, you may consider an annuity when planning for retirement.

There are several types of annuities, and they can pay out differently depending on their terms. There are fixed annuities that pay out the same rate regardless of market ups and downs, indexed annuities that pay out an amount based on an external index, and variable annuities that pay based on investment performance<sup>8</sup>.

There are also guaranteed lifetime annuities that provide payments for life and period-certain annuities that can distribute funds for a predetermined amount of time. Annuities can pay a remainder to a surviving spouse in the event of the original owner's death. Annuity riders can provide more flexibility and customization. For example, a cost of living rider can help hedge against inflation by raising the monthly income by a particular percentage every year.

Annuities have pros and cons to each, and the right kind of annuity depends on the individual's situation. If you do choose to include an annuity in your retirement income plan, we can help you choose from the many options available.



# What's Your Investment Plan?

No one can predict the market, and you may not want to risk potentially losing what you've saved just before you retire. Your risk tolerance may have decreased as you've gotten closer to retirement or have retired, and your investment plan should take this into account. Those aren't easy decisions, especially when you consider market volatility, increasing average lifespans, and low interest rates.

Here are three things to put on your investment plan to-do list:

- 1. Assess your investment strategy**
- 2. Assess your risk tolerance**
- 3. Create a retirement investment plan based on your retirement goals and risk tolerance**



*My Investment  
Plan for Retirement*

# Investment Plan

The effects of a market correction around the time of your retirement could be detrimental. So what can you do to help protect yourself from market volatility?

- One solution is having a source of ***guaranteed income*** that can cover basic, fixed expenses.
- It's also important to decide how much ***investment risk*** to take in retirement and manage investment risk by reviewing investment choices.
- Insurance can help you manage risk by reducing your exposure to certain events, like unexpected out-of-pocket healthcare expenses.
- Diversify – there are so many investment options out there!<sup>9</sup>



## Tax Minimization

Taxes can be one of the most significant financial burdens in retirement, potentially eroding your hard-earned savings more than expected. From retirement account withdrawals and real estate taxes to Social Security and investment gains, the tax implications can add up quickly. Without a well-thought-out, long-term tax strategy, you may unknowingly forfeit a considerable portion of your wealth. Are you prepared for the years ahead, or are you only focusing on short-term tax savings?

With rising government expenditures, there is always the possibility of increased tax rates in the future. While your current tax burden may seem manageable, relying on today's lower rates could be a risky assumption. Planning ahead is essential to safeguard your retirement income from unexpected tax hikes.

For detailed information on retirement plans and their tax implications, you can refer to the IRS's official guidelines<sup>10</sup>.

## Tax Strategy

So, what can you do today to help minimize your taxes tomorrow? Rather than tax planning just on a yearly basis, create a long-term tax minimization plan. It could include:

- A Roth IRA conversion
- Real estate investment
- Strategic asset allocation
- An annuity
- Using a life insurance policy
- Charitable giving
- Using a Health Savings Account (HSA)



# Preparing For This Tax Season

Here are some deductions you may be able to take advantage of:

- Qualified medical and dental treatments, potentially deductible if they add **up to 7.5% of 2025 adjusted gross income.**
- Investment losses of up to \$3,000.
- Qualified mortgage interest paid on the first \$1 million of mortgage debt for homes bought before December 16th, 2017.
- Charitable contributions to qualified charities
- Qualified education expenses of up to \$4,000 for single filers with income of up to \$80,000, or \$160,000 for married couples filing jointly.
- Half of the 15.3% payroll tax imposed on the self-employed.
- Health insurance for the self-employed.
- A certain portion of long-term care insurance premiums.
- Home office deduction.
- Early withdrawal penalties from a CD.
- Up to \$10,000 in state and local property taxes<sup>11</sup>.

The right strategy to minimize taxes really depends on your goals and unique financial situation. A tax minimization strategy should work in concert with your overall retirement plan, including your estate and investment plan.

# Estate Planning

An estimated \$68 trillion will pass from Baby Boomers to their beneficiaries over the next 30 years in the biggest wealth transfer in history. Regardless of how much money you plan to pass down to your loved ones, you may need an estate plan. This should include talking to loved ones about money, creating the necessary estate planning documents, and working to minimize taxes.

## Important Estate Planning Documents:

- A will
- A trust, either revocable or irrevocable
- An advanced Medical Directive
- Financial Power of Attorney

What documents you need will depend on your unique financial situation, legacy goals, and family situation. The most important thing is not to put off creating or updating your estate plan and the documents you need. To learn about programs and organizations that give free legal advice and may help you find a free or low-cost attorney, visit <https://www.usa.gov/legal-aid><sup>12</sup>.

# Estate Planning Hurdle: The SECURE Act

The SECURE Act eliminated the 'stretch IRA,' an estate planning strategy that allowed heirs to stretch out distributions over their lifetime. Now, most non-spouse beneficiaries must empty inherited accounts within ten years of the original owner's death. This means less time for funds to grow tax-free and a potentially larger tax burden for beneficiaries. Keep in mind that the new rule doesn't apply to retirement accounts inherited before 2020. And there are some exceptions where heirs don't have to drain the account in ten years:

- Surviving spouses: Treat IRA as own or "stretch" rules
- Minor children: Exempt from the 10-year rule
- Disabled: Special life expectancy rules
- Chronically ill: Exempt from the 10-year rule
- Beneficiaries less than 10 years younger than the deceased: Siblings or friends close

There are some tax-efficient strategies retirees may be able to use when creating an estate plan, such as:

- A step-up in basis, where tax is based on the value of the asset at the time of inheritance and not when it was originally purchased. Assets can receive a step-up in basis so that beneficiaries pay less in capital gains tax.
- A partial or full Roth conversion, which will help minimize taxes on inherited retirement accounts.
- Using proceeds from life insurance, which can be received income tax-free if policies are structured correctly.

# Healthcare & Long Term Care

## Medicare Advantage General Enrollment Period

Are you a Medicare beneficiary? Medicare Advantage Open Enrollment Period and Medicare General Enrollment Period start Jan. 1 and run until Mar. 31. During this time, you can:

- **Sign up for Medicare Parts A and B**  
<https://www.ssa.gov/medicare/sign-up> (Part B coverage will begin on July 1)
- Change from one Medicare Advantage Plan to another
- Change from Medicare Advantage to Original Medicare<sup>13</sup>



## The Basics of Medicare

- **Part A** helps cover hospital stays, home health care, skilled nursing, and hospice.
- **Part B** helps cover doctor's visits, outpatient procedures, and some preventative care.
- **Part C** is supplemental insurance and can put a limit on your out-of-pocket costs and cover costs Parts A and B don't, such as dental and vision.
- **Part D** helps cover prescription drug costs<sup>14</sup>.

## **NOT** Covered By Medicare A & B

It's important to know what Medicare parts A and B **don't** cover:

- Prescription drugs
- Deductibles and copays
- Most dental care
- Routine vision care
- Hearing aids
- Medical care outside of the U.S.
- Long-term care costs<sup>15</sup>

# What's Your Long-term Care Plan?

Long-term care services have been shifting from hospitals and nursing homes to individuals' homes instead. This was happening before the pandemic, but the trend has accelerated even more. Even though you're a long time away from needing long-term care, now is the time to plan. An estimated **70% of Americans** currently age 65 will need long-term care at some point and costs can be staggering<sup>16</sup>. A private room in a skilled nursing facility could be over \$100,000 per year on average<sup>17</sup>.

Medicare will only cover long-term care for a limited period, and paying out-of-pocket can be quite expensive. There are several other options for covering costs, including long-term care insurance, qualifying for Medicaid, an annuity with a long-term care waiver, and a hybrid policy. The right strategy depends on your individual situation, and you can explore your options with our team.

## Federal Employee Specific Considerations

### Unique Benefits for Federal Retirees

- **FEHB** (Federal Employees Health Benefits) in Retirement: Explain how FEHB works in retirement and the eligibility requirements<sup>18</sup>.
- **FEGLI** (Federal Employees' Group Life Insurance): Discuss options for continuing FEGLI in retirement<sup>19</sup>.
- Military service credit: Explain how military service can impact federal retirement benefits.



# Take Control of Your Financial Future This Year!

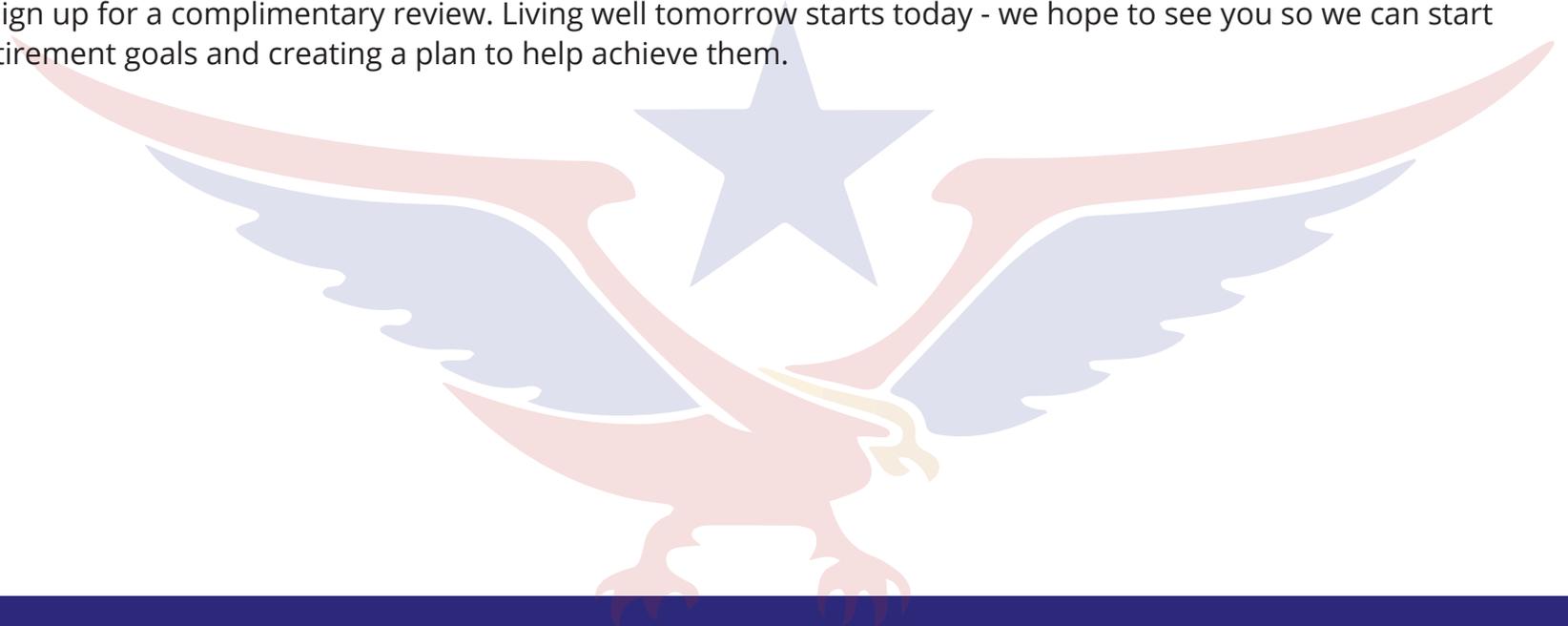
Whether you have a plan for some or none of the five key areas of retirement planning, Federal Retirement Experts can help you create a cohesive strategy that works to address all of your concerns.

If your financial situation changed this year or in recent years, or if you're rethinking your retirement strategy, reach out to us.

We hope you see us as someone who:

- Cares about, asks about, and understands your concerns and will take the time to address them.
- Is willing to spend the time to educate you on all of your investment options and how they work.
- Clearly explains how they are compensated.
- You trust with your financial well-being and will be there for your family when needed.

If you have more questions about any of the key areas of retirement planning, read our content that looks at these topics in greater depth, or sign up for a complimentary review. Living well tomorrow starts today - we hope to see you so we can start discussing your retirement goals and creating a plan to help achieve them.



# Free Resources at Your Fingertips

Take control of your financial future with expert advice from Federal Retirement Experts. Get personalized advice from a retirement coach. As part of your coaching, you'll receive a **FREE comprehensive retirement report** that includes.

- TSP Review
- Personalized Estimates
- Annual Income Forecasting
- Expense Considerations
- Thrift Savings Plan (TSP) Insights
- Social Security Integration
- Survivor Benefits Information
- Health Benefits Projections
- Cost Analysis for FEGLI Options

Invest in your future today. Schedule a free consultation with Federal Retirement Experts and make the most of your TSP benefits. Your retired self will thank you!

## FEDERAL RETIREMENT EXPERTS

Disclaimer: This guide is for informational purposes only and does not constitute financial or legal advice. Consult with a qualified professional for personalized advice.



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## RETIREMENT EXPERTS

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