

The Top Five Items to Consider in the Federal Employee Retirement System

Fully understanding the Federal Employees Retirement System (FERS), applicable to almost all federal employees who were hired on or after January 1st, 1984, can be complex. In this article, NovaPoint breaks down the top five topics that are the most important to understand and evaluate as you prepare for your federal retirement.

1. The three components of FERS – Your total FERS payments will come from three distinct payment streams – the FERS basic pension, your distributions from the Thrift Savings Plan (TSP), and Social Security. While most working Americans also have Social Security payments to consider in retirement, it's important to focus on understanding how your pension is calculated and the overreliance in FERS on your personal investments in the TSP.

Pension Calculation – First, your eligibility is based on age, years of creditable service, and a minimum retirement age (MRA), which is typically age 56-57 depending on birth year. For those with prior military service, you can buy back military service time to increase years of creditable service.

If you retire at age 62 or later, with 20 years or more of creditable service, your annual gross pension is calculated as 1.1% (multiplier) x Average-High 36 Month-Annual Salary x Years of Creditable Service. This applies to non-special provision employees who are eligible to immediately receive their pension upon retirement from government service. The salary calculation is based on your base salary and does not consider overtime, bonuses, or other allowances.

For those that don't meet the latter eligibility criteria, but are still eligible for a FERS pension, the formula is similar but with a 1.0% multiplier. For example, someone who has separated from federal service with 15 years of service would use the 1.0% multiplier and would have to wait to claim their pension until age 62 to receive a non-reduced pension. There is an option to receive your pension at your MRA with at least 10 years of service, but your pension is permanently reduced.

Unused sick leave can also be used to increase creditable service time, which ultimately adds to your overall basic pension calculation. Sick leave does not expire while in service and many years

of saved sick leave can make a difference in your final pension calculation.

The TSP – Unlike the former Civil Service Retirement System (CSRS), FERS offers a lower basic pension and relies on employee personal investments in the TSP as the majority of their total FERS payment structure. The TSP functions essentially like a 401(k) plan but for the federal government and is the nation's largest retirement plan with over 7 million participants and approximately \$845 billion in assets under management. It's critical to ensure you are contributing as much as your salary and budget allow, to include receiving the full 5% government matching contribution.

Government Matching Contribution – The government automatically contributes 1% of the employee's salary, whether the employee contributes to the TSP or not. If the employee does contribute, the government will match the first 3% at 100% (in addition to the automatic 1%) and then will match at 50% on the next 2% of the employee's contribution. For example, if you do not contribute you will receive a contribution of 1% of your salary, if you contribute 3% you will receive 4% of matching, if you contribute 4% you will receive 4.5% of matching, and if you contribute 5% you will receive the maximum 5% matching contribution. You should always contribute a minimum of 5% of your salary to receive the maximum matching contribution as this is factored in your overall FERS benefits.

Investment Options – You can contribute to the Traditional TSP (pre-tax contributions that are tax deferred until withdrawn) and/or the Roth TSP (after-tax contributions for tax-free withdrawal). Total contributions across both accounts are limited to \$24,500 in 2026. There are five individual investment funds: G- government securities, F- fixed income index, C- large-cap index, S- small-cap index, and I- international index. There are also currently 10 lifecycle funds, recently offered in five-year increments, that continue to be created and retired as employees continue to enter and retire from the workforce. One of the lifecycle funds, the L-Income Fund, is intended for retirees who are already withdrawing their funds.

The Top Five Items to Consider in the Federal Employee Retirement System

2. Importance of optimizing TSP contributions – As mentioned earlier, the TSP could and optimally should be your largest payment stream from FERS and deserves its own discussion. Critical pre-retirement decisions include traditional versus Roth contributions for tax diversification and investment allocation among available funds. Critical decisions as you are near retirement include whether to keep your funds in the TSP or rollover to an IRA once retired or separated from service, and withdrawal strategies at retirement such as a lump sum, installment, or annuity payments. It's important to remember that if you do rollover your TSP to an IRA and have left government service you cannot reverse this decision and return to the TSP. Also, like traditional IRA's and 401(k)'s, the traditional TSP is subject to required minimum distributions (RMDs) which begin at age 73 if born between 1951 and 1959, or age 75 if born in 1960 or later.

Common mistakes can be the over-reliance on the G fund due to perceived safety while missing out on higher potential returns multiplied over many years, poor coordination between TSP withdrawals and Social Security payments, and not considering Roth conversion opportunities post-retirement.

Keeping all your TSP funds in the TSP post-retirement is ideal for retirees who value simplicity, low oversight, have modest balances, limited tax exposure, and expect consistent tax brackets in retirement. A TSP and IRA strategy, post-retirement, is ideal for retirees who accumulate higher balances, expect uneven income or high RMD exposure, need customized withdrawal sequencing, and have more complex estate or charitable objectives. This strategy provides more precise tax management and enhanced beneficiary control but does require disciplined execution and higher financial planning complexity.

3. Health, Life, and Long-Term Care Insurance Benefits.

Federal Employee Health Benefits (FEHB) – In order to continue FEHB into retirement, the nation's largest employer-funded group health insurance, with government premium contributions still in place, you must be enrolled in FEHB for at least five consecutive years before retirement. Depending on the plan, the government pays up to 75% of premiums which is a major advantage in rising health care costs, especially for aging retirees.

FEHB integrates well with Medicare and often there is no need for Medicare Advantage plans. It's important to remember that if a retiree dies, FEHB coverage will only continue to surviving spouses and dependents under age 26 if at least one of the survivors is receiving federal retirement annuity survivor benefits related to the deceased.

Federal Employees' Group Life Insurance (FEGLI) – The Office of Personnel Management (OPM) administers FEGLI and sets the premiums with a contract with the Metropolitan Life Insurance Company (MetLife) who provides the insurance coverage.

FEGLI is comprised of basic term life insurance coverage and three additional options, all with no cash value. Employees who retire with eligibility for an immediate annuity and have been insured for at least five years before retirement, are able to continue their basic life insurance into retirement. There are options to maintain or reduce coverage, with a 75% reduction offered at no cost, 50% reduction and no reduction options have premiums higher than when employed but still significantly lower than comparable plans outside of the government. For optional plans, Option A automatically begins to reduce by 2% per month, at no cost, once the retiree reaches age 65 until it is reduced to a \$2,500 benefit. For Options B and C, the employee can decide whether they want the benefit to decrease at 2% per month until fully reduced, at no cost, once they reach age 65, or maintain their full coverage into retirement but with a required premium to pay.

Federal Group Long-Term Insurance Program (FLTCIP) – New applications for coverage were suspended December 19th, 2022, to allow OPM and the insurance carrier, John Hancock Life & Health Insurance Company, to reassess benefits offered at sustainable premium rates. Currently, this has been extended to December 19th, 2026, for new applications or existing enrollees who want to increase their coverage. However, policies previously issued are still in force and if applications commence again, most employees who are eligible for FEHB can apply for FLTCIP, you do not necessarily have to be enrolled in FEHB but must be eligible. Retirees who already received annuities previously did not have to be eligible nor enrolled in FEHB. While there are further details, it's important to pay attention to any new updates once FLTCIP opens again as previous

The Top Five Items to Consider in the Federal Employee Retirement System

provisions may change.

4. Survivor Benefit Elections – Employees can elect to have survivor benefits for their FERS pension annuity at a cost. The survivor beneficiary must be financially dependent on the employee, to include both current and former spouses, fiancée, domestic partner, or a relative closer than a first cousin. There are two survivor annuity options, the first with a 25% pension benefit at a 5% cost, and the second with a 50% pension benefit at a 10% cost. The cost is calculated as the percentage cost multiplied by the original annuity and then this cost is reduced from the original annuity. So, while the retiree is still alive and receiving their annuity, their annuity is permanently reduced by this cost but with the benefit of knowing their survivor will receive some portion of their annuity after their death. This is an elective option, not automatic, and must be decided when the retiree starts their annuity. As discussed earlier, survivor benefit elections also play an important part in the ability for survivors to have FEHB coverage after the retiree's death. Lastly, there are also provisions for survivor annuity benefits if an employee should die while still working as a federal employee. There are differences in survivor benefits if the deceased employee had less than 10 years or 10 years or more of creditable service.

5. FERS application timeline – An important factor in planning for retirement is the application timeline for the basic pension, as it can be a multi-month-long process that can affect when a retiree starts to receive their pension which needs to be properly planned for in your overall retirement plan. Your retirement date, the day you separate from service, does not correlate with when you receive your first pension payment so having ample savings or other income streams identified is important to plan for this transition. The application timeline can take three to five months, but it could be longer if there are errors to correct, so it is important to review your own documentation with what OPM states before your retirement package is finalized. The general application timeline is detailed below:

- After your retirement date, your government agency prepares the retirement package, to include payroll processing, and this can take 30-45 days.

- Next, OPM takes 10-15 days to complete the intake process, basically entering your profile and information in the OPM system. This step can also include interim pension payments, which can be lower than what your finalized pension will be.
- Following OPM intake, OPM then processes your retirement package and reviews and calculates the FERS pension. This process can take 25-90 days. At the conclusion of this step, your retirement is finalized and the first pension payment is deposited.

Lastly, there are special provisions for law enforcement, firefighters, air traffic controllers, customs border protection officers, nuclear materials couriers, and members of Congress and their aides that provide some differences in minimum retirement age and their annuity factor for the basic pension calculation. There is also a FERS disability annuity available that is coordinated with Social Security Disability benefits. It is advisable to consult a financial adviser, ideally someone familiar with FERS, as there are numerous other details that may be unique to your federal service and financial situation.

At NovaPoint, our investment, wealth management, and tax experts can help advise you on your optimal federal retirement plan. If you want a trusted fiduciary partner to help plan your federal retirement, along with meeting your other future financial goals, [contact us here](#).

Written by Meghan Hoover, Federal Retirement ConsultantSM, Investment Associate, Financial Planning Team

NovaPoint – Financial Planning and Wealth Management

The NovaPoint Team



Joseph Sroka, CFA, CMT / Chief Investment Officer / jsroka@novapointgroup.com

Joe has over 20 years of experience in the investment management industry. Prior to founding NovaPoint, he was a portfolio manager at Spectrum Advisory Services and GMT Capital in Atlanta, and Epoch Investment Partners in New York. He has also worked as an equity research analyst at Merrill Lynch and ABN Amro. Before beginning his investment career, Joe was an Infantry officer in the U.S. Army. Joe holds a BS from the U.S. Military Academy at West Point and an MBA from the University of Chicago. He is both a Chartered Financial Analyst (CFA) and a Chartered Market Technician (CMT).



Alan J. Conner / President and Chief Compliance Officer / aconner@novapointgroup.com

Alan has over 20 years of experience in the investment management industry. Prior to founding NovaPoint, he was a fixed income manager at both Spectrum Advisory Services and a private family office. Alan was also with the Bank Group division of Countrywide Capital Markets where he developed balance sheet strategies for depository institutions. He holds a BS in Banking and an MBA in Finance from Nova Southeastern University. Alan is an endurance athlete and three-time IRONMAN finisher.



Frederick Wright, CFA / Managing Director & Portfolio Manager / fwright@novapointgroup.com

Frederick has over 30 years of experience in the investment management industry. Prior to joining NovaPoint, Frederick was a Partner and Investment Advisor at Brightworth where he advised high net worth investors. Frederick began his investment career in 1991 at Balentine & Co where he rose to Partner. He also co-founded and served as Chief Investment Officer at Wright Investment Management and at Smith & Howard Wealth Management. Prior to beginning his investment career, Frederick served as an Engineer officer in the U.S. Army. He holds a BS from the U.S. Military Academy at West Point and an MBA from Emory University. Frederick is a Chartered Financial Analyst (CFA).



Larry Dixon, EA / Tax Managing Partner / ldixon@novapointgroup.com

Larry leads NovaPoint's accounting, tax and outsourced CFO business. He built his previous company, Atlas Solutions, as a solo entrepreneur before merging into NovaPoint CFO. Larry began his career as a Field Artillery officer in the United States Army. Larry earned his Bachelor of Science degree from the U.S. Military Academy at West Point, where he was a four-year letterman on the football team. Larry is a certified Enrolled Agent, recognized by the U.S. Department of the Treasury to represent taxpayers before the Internal Revenue Service.



Meghan Hoover, FRCSM / Investment Associate / mhoover@novapointgroup.com

Meghan is an Investment Associate focusing on financial planning. Prior to joining NovaPoint, Meghan spent 18 years in government service as an Operations Officer in military intelligence. She holds two Bachelor of Science degrees from the University of Maryland and a Master of Science from the Joint Military Intelligence College. Meghan is a Federal Retirement ConsultantSM professional, has additional education specializing in financial planning, successfully passed the Certified Financial Planner® (CFP®) board exam, and is a member of the Financial Planning Association.

NovaPoint Capital LLC (referred to herein as "NovaPoint" or "the Company") is registered with the SEC as an investment adviser, but registration does not imply any certain level of skill or training. The information contained in this document has not been filed with, reviewed by or approved by any regulatory or self-regulatory authority.

Not an offer of advisory services or securities: This document is limited to the dissemination of general information about the services provided by the Company and is provided for informational purposes only. This document is intended for residents of the United States only and the information contained herein does not constitute and should not be construed as an offering of advisory services or an offer to sell or solicitation to buy any securities or other financial instruments in any jurisdiction in which such offer or solicitation, purchase or sale would be unlawful under the securities, or other applicable laws of such jurisdiction. Nothing contained in this document constitutes tax, legal or investment advice. Responses to any inquiry which may involve the rendering of personalized investment advice for compensation or effecting or attempting to effect transactions in securities will not be made absent compliance with state broker-dealer, investment adviser, broker-dealer agent or investment adviser representative registration requirements, or applicable exemptions or exclusions from such requirements.

Investment risk: The Company makes no representation, and it should not be assumed, that past investment performance is any indication of future results. Moreover, wherever there is the potential for profit there also is the possibility of loss. Certain of the Company's strategies may involve investments that are illiquid, are subject to a substantial risk of loss and are not suitable for certain investors.

Limitation of liability: While the Company uses reasonable efforts to include accurate and up-to-date information in this document, errors or omissions sometimes occur. The Company makes no warranties or representations as to the accuracy of this document. Opinions expressed herein are subject to change without notice. Under no circumstances shall the Company or any party involved in creating, producing, or delivering this document be liable for any direct, incidental, consequential, indirect, or punitive damages that result from the use of the information contained in this document, even if the Company's authorized representative has been advised of the possibility of such damages. Applicable law may not allow the limitation or exclusion of liability or incidental or consequential damages, so the above limitation or exclusion may not apply to you.

Trademarks and copyrights: All trademarks, service marks, trade names, logos, and icons are proprietary to the Company. Nothing contained in this document should be construed as granting, by implication, estoppel, or otherwise, any license or right to use any trademark displayed in this document without the prior written permission of the Company or such third party that may own the trademarks displayed in this document. Your use of the trademarks displayed in this document, or any other content in this document, except as provided herein, is strictly prohibited.