What every letter carrier needs to know to plan for

RETIREMENT

Most workers spend their entire career preparing to stop working. A comfortable and leisurely retirement is their goal. But that comes with anxiety about whether they will have enough resources and where the funds will come from.

A survey of both active and retired workers released last July by the American Savings Education Council (ASEC) found that many U.S. workers are confused about the realities of retirement. More than half of American workers reported they lack confidence in their ability to retire when they want to and sustain a comfortable life. Workers aged 45 to 54 feel the least prepared to retire. Only 39 percent of respondents of any age said they have a plan in place to retire when they want to.

"This survey suggests that a key source of this rampant uncertainty is a poor understanding of what retirement actually looks like—when it will start, how much retirees need, and where that money comes from," the ASEC said.

Fortunately, letter carriers have many resources for understanding how to plan and how to put their plans into action. To assist them, this article will walk through ways letter carriers should be preparing at any stage of their career.

Let's begin at the beginning with city carrier assistants (CCAs).

City carrier assistants

CCAs are not eligible to participate in the Federal Employees Retirement System (FERS) until they convert to career status. However, NALC offers CCAs an opportunity to begin saving for retirement prior to being converted to career. The CCA Retirement Savings Plan is offered only to NALC members by the U.S. Letter Carriers Mutual Benefit Association (MBA).

The NALC CCA Retirement Savings Plan is a retirement income plan designed to supplement CCAs' pensions by having them make small payments to the plan early on so that they can receive a lifetime of monthly payments after they retire.

CCAs choose the amount they want to contribute, which can be as little as $15 per pay period (the minimum amount allowed), and how they want to contribute. MBA can deduct payments automatically from postal paychecks, it can bill CCAs monthly or annually, or CCAs can make a lump-sum deposit at any time.

The savings plan earns competitive interest rates. CCAs also can choose whether to invest their money in a Roth individual retirement account (IRA) or in a traditional IRA. With Roth IRAs, they pay the taxes on the funds before investing and any interest earned can be withdrawn in retirement, tax free. With a traditional IRA, the investments are taken out pre-tax, but any interest is taxed when withdrawn in retirement. (Always check that the Internal Revenue Service rules are met.)

"The power of early savings can be phenomenal," NALC Director of Retired Members Dan Toth said, recalling that early in his career he had money taken from his paychecks to purchase savings bonds. "It can be relatively painless, and over the course of a career, it can really add up."

CCAs who participate in the plan may transfer their traditional IRA

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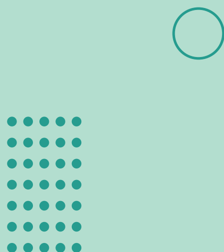

funds to the Thrift Savings Plan (TSP) once they become career letter carriers. NALC and MBA have agreed to waive the normal surrender charges for taking money out of an investment before its maturity.

For CCAs interested in the savings plan, visit nalc.org/mba.

Newly converted CCAs or newly hired part-time flexibles

Once CCAs are converted to career status or when someone is hired directly as a PTF career employee, they will be automatically enrolled in the FERS.

FERS has three components:

- FERS Basic Benefit
- Social Security
- Thrift Savings Plan (TSP)

The FERS Basic Benefit is a defined-benefit pension plan, meaning that the Postal Service and participating letter carriers each contribute a certain amount each pay period (the USPS contributes 13.2 percent of basic pay and the carriers contribute 4.4 percent from their paychecks), and upon retirement the carriers receive a guaranteed benefit amount each month based on their end-of-career salary and years of service. (See page 26 for benefit level.)

Social Security is our nation's social insurance program that also pays fixed monthly benefits based on your earnings histories (including non-postal employment covered by Social Security). It provides a basic social safety net for America's elderly, minor orphans and disabled workers. The benefits are funded by matching Federal Insurance Contribution Act (FICA) taxes by the Postal Service and FERS employees—6.2 percent of pay each pay period.

The TSP is different. Letter carriers have complete control over how much they contribute and the funds in which that money is invested. The decisions they make over time will directly affect the future value of their TSP accounts.

The Postal Service automatically contributes 1 percent of carriers' base pay to TSP accounts, and will match carriers' contributions up to 5 percent of base pay. Even if carriers contribute nothing, they still will receive the 1 percent.

While participation in the TSP is voluntary, when CCAs are converted to career status, they are automatically enrolled in the TSP with 5 percent of their base pay deducted from their paychecks matched by USPS and deposited in their TSP accounts (see more on the Thrift Savings Plan below).

Toth has one simple piece of advice for new career carriers, whether they're converted CCAs or newly hired PTFs: "Maximize your TSP contributions. There are carriers who, early in their careers, maximized their TSP contributions and invested aggressively, and who have impressive TSP balances of multiple hundreds of thousands of dollars. Whatever you can afford to do, do it."

To increase, decrease or cancel TSP contributions, letter carriers can log onto liteblue.usps.gov with their employee ID and password. To change allocations to TSP investments, carriers can log onto tsp.gov once they receive a TSP account number and password.

Also, CCAs who participated in the NALC CCA Retirement Savings Plan

CSRS or FERS

can transfer their savings to the Thrift Savings Plan once they become career letter carriers. NALC and MBA have agreed to waive the surrender charge in this instance.

Active carriers

There are two retirement plans for city letter carriers. FERS, the most common for active carriers, was created by Congress in 1986 and became effective on Jan. 1, 1987 (and retroactive for most carriers hired since 1984). Prior to that, letter carriers were covered by the Civil Service Retirement System (CSRS). There are fewer than 1,300 active city letter carriers in the CSRS, and that number is declining quickly. But it's important to note which system a carrier is in when figuring out retirement preparations.

For most people, when it comes to retirement, there are two important questions: "When can I retire? And how much will I receive?"

As to when a carrier can retire, the answer is determined by the carrier's age and years of creditable service. An employee must satisfy one of three age and service combinations:

CSRS

Age	Service
55	30 years
60	20 years
62	5 years

FERS

Age	Service
Minimum Retirement Age (MRA)—see below	30 years
60	20 years
62	5 years
MRA (with reduced benefits)	10 years

The minimum retirement age for FERS is determined as follows:

If you were born	Your MRA is
Before 1948	55 years
In 1948	55 years, 2 months
In 1949	55 years, 4 months
In 1950	55 years, 6 months
In 1951	55 years, 8 months
In 1952	55 years, 10 months
In 1953 to 1964	56 years
In 1965	56 years, 2 months
In 1966	56 years, 4 months
In 1967	56 years, 6 months
In 1968	56 years, 8 months
In 1969	56 years, 10 months
In 1970 and after	57 years

Of course, creditable service doesn't include just postal employment. For purposes of eligibility, a carrier may be able to add years of military and non-career federal service. Other factors, such as leave without pay (LWOP), also can affect creditable service.

As to how much a retiree will receive, the answer is determined by the carrier's years of service and the high-3 average of their annual salary.

As mentioned above, carriers also may be able to add years of military and, in some cases, non-career federal service, as well as unused sick leave, to determine how much they will receive as a retiree. Again, factors such as LWOP can affect creditable service. This creditable service is calculated in years and months (with any days that don't add up to a full month dropped). Part-time service may result in proration.

A carrier's high-3 average is determined by taking the three highest consecutive years of basic pay added together and divided by three. Basic pay does not include overtime. It can be found on PS Form 50.

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The general formula is as follows:

CSRS

1.5%	x	first 5 years
+ 1.75%	x	second 5 years
+ 2%	x	service over 10 years*

*the maximum is 80 percent, which can be exceeded with sick leave credit

FERS

1%*	x	years

*or 1.1 percent if age 62 or older with 20 or more years

For FERS carriers who retire before age 62 and have 30 years of service at MRA, or 20 years of service at age 60, there is a special annuity supplement that is intended to substitute for Social Security until the carrier reaches 62. Conversely, there are reductions if a FERS carrier retires on an MRA + 10 retirement, or if the carrier opts for a survivor annuity or an insurable interest annuity.

For FERS carriers, the planning doesn't stop there. While CSRS employees do not receive Social Security as part of their postal annuity, FERS employees do. You can create an online account at ssa.gov to receive personalized estimates of future benefits based on your real earnings, to see your latest statement and to review your earnings history.

In addition, contributions to the Thrift Savings Plan can make a tremendous difference in the amount of money carriers will have when they retire.

Thrift Savings Plan

The Thrift Savings Plan is the defined contribution portion of FERS. The TSP provides professionally managed, low-cost investment options; tax advantages for today and in retirement; and some matching contributions from the Postal Service.

USPS automatically deducts 5 percent of pay from any career carrier hired (as of October 2020) and deposits it in the FERS employee's TSP account, regardless of whether the employee makes any contribution. The Postal Service then provides either a full or partial match for employee contributions up to 5 percent of pay.

All FERS employees receive an automatic 1 percent contribution from USPS. Contributions are matched dollar-for-dollar for the next 3 percent of pay, and 50 cents on the dollar for the following 2 percent of pay. "That means USPS will give carriers as much as 5 percent more than their basic pay if they're willing to save the same amount," Toth said.

Toth's advice for letter carriers who have been career carriers for several years and still have years to go before retirement is the same as for those who have just been converted: "Continue maximizing your TSP contributions. For carriers who invest in the traditional TSP, putting money into TSP lowers your taxable income. This means the actual reduction in take-home pay will be significantly less than the amount contributed. For example, if you put $100 in, it may lower your taxes enough that it costs you only $75 out of pocket because you've sheltered it from federal and state taxes."

The plan offers several funds in which to invest. Five are individual funds (one dealing with government bonds and the other four tracking specific market indices), while the others are "Lifecycle Funds" designed

Should I keep my savings in the TSP after I retire?

You've reached the retirement "promised land" and now you're getting a lot of advice, solicited or otherwise, about what to do with your Thrift Savings Plan account. Most people plan to spend their savings over many years, perhaps decades. You will remain an investor long after you retire—and how you invest your TSP savings still matters. The first question you will face is: Should I take my money out of the TSP and invest it elsewhere?

Perhaps you have seen an advertisement urging you to roll over your TSP funds into a high-rated investment fund with a strong reputation. Perhaps your brother-in-law is an investment wizard who says he can provide superior returns and more-attractive investment options. Maybe you want more flexibility on the way you withdraw and manage your TSP funds. It's a big decision.

The most important thing to remember is to take your time and do your due diligence. When you retire, you don't have to roll over your TSP funds into another kind of retirement account (an IRA, a former or a new employer's 401(k) plan, etc.), much less a taxable investment account. In fact, depending on your circumstances, the best option might be to keep your funds in the TSP. Here's why:

First, even once you stop contributing to your TSP accounts, the earnings on your investments will accrue tax-free until they are withdrawn (unless you have Roth TSP investments).

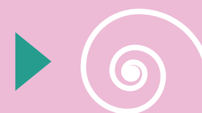
Second, virtually no other investment option can match the low cost of investing with the TSP, which currently charges an average total expense ratio of .0558 percent on invested assets. That's 56 cents for each $1,000 invested.

Third, even if you can find a tax-preferred investment fund with investment managers who can consistently out-perform the markets over time—which is rare indeed—your actual results will depend on the fees you are charged by such managers. Fees of 1 or 2 percent are not uncommon. Over 35 years, a 1 percent charge on investments would reduce the value of your assets by as much as 25 percent. That's the power of compound interest.

Can that new hot fund or your brother-in-law really beat the overall market by 25 percent over time?

In the past, for some annuitants, the decision to move their funds out of the TSP was less about better investment options and more about greater flexibility in how they could withdraw their funds. Fortunately, by the time you read this article, the TSP will have implemented expanded options providing additional flexibility. The new options include: the ability to make more than one partial withdrawal after retirement, more options for in-service withdrawals, the right to decide whether the withdrawal comes from your traditional or Roth balance (or a mix of both), the right to stop and start installment payments at any time, and more online tools to facilitate your changes.

If you do decide to move your funds out of the TSP, be careful. Know the tax implications of any change before you do anything. Make sure the funds are safe and run by reputable investment managers. And fully understand: Once you take your money out of the TSP, you can't return to the TSP later if the alternative doesn't pan out. PR



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to professionally change the allocation mix of investments among the individual funds during various stages of the carrier's federal service.

G Fund: Government Securities fund. This is the safest fund and is made up of government securities not available to the general public and backed by the full faith and credit of the U.S. government.

F Fund: Fixed Income Index fund. It tracks the Barclays Capital Aggregate Bond Index.

C Fund: Common Stock Index fund. It replicates the total return version of the Standard & Poor's 500 index.

S Fund: Small Capitalization Stock Index fund. It tracks the Dow Jones U.S. Completion Total Stock Market index.

I Fund: International Stock Index fund. It replicates the net version of the MSCI EAFE index.

Lifecycle Funds: Lifecycle Funds automatically reallocate assets from more risky stock funds (the C, I and S Funds) into less risky income funds (the F and G Funds) as a carrier approaches retirement age, as an employee might lack the time, interest and/or expertise to determine suitable investments at various life stages. They are:

L2070: Retirement date of 2068 or later

L2065: Retirement date between 2063 and 2067

L2060: Retirement date between 2058 and 2062

L2055: Retirement date between 2053 and 2057

L2050: Retirement date between 2048 and 2052

L2045: Retirement date between 2043 and 2047

L2040: Retirement date between 2038 and 2042

L2035: Retirement date between 2033 and 2037

L2030: Retirement date between 2028 and 2032

L2025: Retirement date between 2025 and 2027

L Income: Already withdrawing or plan to do so in the near future

Employees may choose from any or all of the individual or Lifecycle funds in which to invest and may change their allocation for future pay periods at any time. If no selection is made, the default is 100 percent allocation into

the age-appropriate Lifecycle Fund.

Employees also may choose whether contributions are "pre-tax" (any income invested in the TSP is deducted from carriers' taxable income) or "post-tax" (meaning carriers don't pay any taxes when they withdraw the money in retirement).

While there is an annual limit of $23,500 in contributions for 2025, participants aged 50 or older, under FERS and CSRS, also may make "catch-up" contributions, up to an additional $7,500. The catch-up contribution amounts change year to year and must be elected each year.

CSRS employees do not get matching funds, but can invest in the TSP.

The most important question for every carrier is, "Am I saving enough?" Consider what you will need to live on for the rest of your life. Then calculate what your annuity will be, what your Social Security benefit will be and make sure you're investing enough in the TSP to cover the remainder.

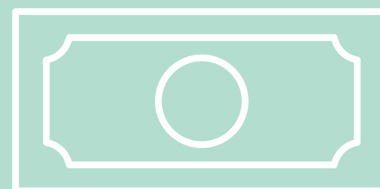
Planning to retire

As you get closer to retirement age, there are several things to consider. "Think about your Federal Employees' Group Life Insurance life insurance and Postal Service Health Benefits health insurance," Toth said. "Generally, you have to be in those plans continuously for the five years immediately prior to retirement to be eligible to continue them in retirement."

He also recommends that any carriers who are eligible to make deposit for military or civilian federal creditable service make the arrangements if it makes sense for them. "The rules can be complex, but generally, people want to know what it is going to cost and what it is going to get them," he said. "For example, if it costs $2,000, but the annual increase in pension is $750, most carriers would consider that a good deal, because the $750 will be paid every year for life and will be increased by cost-of-living adjustments."

The Postal Service is required to help letter carriers plan for their retirement. This comes in a couple of forms. Carriers can request an individualized annuity estimate based on a projected retirement date; receive individual pre-retirement counseling by phone (during work time); and upon applying for retirement, receive a packet of information (usually called the "blue book") of forms and guidance.

This material and assistance can be obtained by contacting USPS Human Resources Shared Services at 877-477-3273, Option 5 (carriers should have their employee ID and PIN), or by going online to eRetire at LiteBlue.



Additionally, NALC can provide answers to many questions. The Retirement Department has lots of informative material at nalc.org. The Retirement Department also can be reached by calling 800-424-5186 (toll free) Monday, Wednesday or Thursday, 10 a.m. to noon and 2 p.m. to 4 p.m. (Eastern time), or by calling the NALC Headquarters switchboard at 202-393-4695 Monday through Friday, 9 a.m. to 4:30 p.m. (Eastern time).

"The answer to the question, 'When should I start preparing to retire?' is right now," NALC President Brian L. Renfroe said. "Every letter carrier, from a newly hired CCA to the most-experienced veteran, should take a moment to make sure they have considered the options. This is the rest of your life, and you owe it to yourself and your family to make sure you've made the right decisions." PR