# READY FOR RETIREMENT?

Photo by Keo

## MEMBERS PREPARE FOR CHANGING RETIREMENT LANDSCAPE

**Have you saved enough to retire?** If you're still working, it's a question you probably have pondered, especially if you're close to your last punch-out. But how do you know how much savings is enough, or whether you're on track to get there?

To find out about letter carriers' retirement plan, *The Postal Record* asked the members following us on Facebook. The responses paint a portrait of worry, from the financial strains that limited their ability to save to figuring out how much savings is enough, especially with the looming threats of inflation or new taxes that might erode their savings.

"It's not if I saved enough but can I afford it if prices go up," wrote one carrier. "I don't want to be like some I see who plan right and retire, only to find they can't afford things because prices keep rising."

"I wish I'd paid more attention to return rates early in my career," wrote another.

One woman humorously explained her plan: "Need to find a rich man."

A new poll reveals that these carriers are like many workers nearing retirement who are worried about whether they have enough socked away. Forty-four percent of the "baby boom" generation—Americans born between 1946 and 1965—aren't sure that they'll have enough money saved to live comfortably in retirement, according to the Associated Press-LifeGoesStrong.com poll. One in four said they expected never to retire, and the same amount said they have nothing saved.

Financial planners usually recommend that retirees save enough to spend 70 to 85 percent of their working income in their retirement years. But a combination of forces is making more older workers worry about retirement, and some believe the solution is to work longer.

Fortunately, most letter carriers have it better than the average American worker when it comes to retirement savings—but they still need to make the right choices to assure a comfortable, secure retirement.

### RETIREMENT AIN'T WHAT IT USED TO BE

Several factors have converged to make saving enough for retirement more difficult.

The last three decades haven't been good for the American worker. Finding, and keeping, a job is harder. On the job, wages for most haven't risen faster than inflation since the late 1970s, leaving little room for saving. *(See "The Lost Decade" in the April 2011* Postal Record.*)* Many workers plowed much of their savings into owning a home, only to see home values drop like a rock. And low interest rates and a rickety stock market have stagnated the growth of savings.

In 1978—the same year that wages stopped growing for all but the super-rich—Congress introduced the defined-contribution savings plan, or 401(k). These accounts were aimed at high-salary management-level employees, but employers eagerly switched from traditional pensions to 401(k)s for all their employees because they shifted the savings burden to workers. Employers could choose to contribute only by matching an employee's donation—or not at all. Additionally, workers only receive what the investments earned (or lost), whereas with a pension, the employer guaranteed a certain return, even if the stock market went down.

A decline in union representation during the same period left pensions vulnerable, since fewer workers could negotiate to keep them through collective bargaining.

The result was a striking shift from pensions to 401(k)s—and a drop in savings. In 1983, 62 percent of the workers with retirement plans had pensions only. By 2007, two-thirds had only 401(k)s. And because workers must opt in to contribute to a 401(k) and manage their accounts' investments, many failed to do so and overall savings quickly began declining.

Today, a lot of workers with little money to spare for savings have no 401(k) or pension at all, while many with only 401(k)s have less than a pension might have yielded. A recent analysis by the *Wall Street Journal* showed that the typical household with a worker near retirement and a 401(k) account, but no pension, has about half the savings needed to retire comfortably. Households with a traditional pension to rely on also are short, but only by a few thousand dollars on average.

The Center for Retirement Research at Boston College calculates that the total "retirement income deficit"—the gap between the amount Americans have saved and how much they will need—is $6.6 trillion. RetirementUSA, a group working to improve the nation's retirement system, estimates that the average American's retirement savings amounts to a paltry 10 percent of their income.

## POVERTY INSURANCE

Then there's Social Security. A good retirement planner will tell you that Social Security is an insurance program meant to keep retirees out of poverty, not a pension, so you shouldn't rely on it as your only source of retirement income. One rule of thumb is that Social Security will provide no more than 40 percent of income needed in retirement.

And as the baby boomers retire, they are putting greater demands on Social Security. The gloom-and-doom talk about Social Security "going bankrupt" is overblown, but changes will be necessary to keep benefits flowing. Congress has several options, including benefit cuts, expanding the income subject to Social Security taxes, or extending the retirement age. Once the Social Security Trust Fund is exhausted sometime in the 2030s, Social Security will continue to pay out, but would cover only about 75 percent of promised benefits, unless Congress takes action to improve the fund's financial standing.

Based on these predictions and their low savings, some would-be retirees already are making the choice to work longer, out of necessity. The *Wall Street Journal* report found that 40 percent of workers near retirement age have looked at their investment portfolios after the 2009 stock market crash and decided they need to delay their retirement or take part-time jobs to make up for losses.

## A BETTER OUTLOOK FOR LETTER CARRIERS

With a traditional pension to rely on, many letter carriers are better off than the typical American worker when it comes to retirement. The Federal Employee Retirement System (FERS), the pension plan that covers all federal employees hired after 1987, now covers about 80 percent of letter carriers. The rest fall under FERS' predecessor, the Civil Service Retirement System (CSRS). Employees covered by CSRS don't participate in Social Security.

While letter carriers are among the minority of American workers who still enjoy the security of a pension plan, in most areas of the country, their pensions probably won't be enough to cover that 70 to 85 percent of an employee's salary financial advisors recommend people plan for. Fortunately, federal workers have another option for filling the gap—they have access to the Thrift Savings Plan (TSP). Because the TSP works like a 401(k)—the Postal Service matches contributions by the employee that are conveniently deducted from a paycheck, and the employee chooses the investments—it's a great way to help assure that you can retire without worry.

Federal employees covered by FERS are automatically enrolled in the TSP, with the USPS contributing an amount equal to 1 percent of their salary. But you can choose to contribute part of your paycheck, with USPS matching that amount up to 5 percent. After age

# OPM PENSION PROBLEMS PERSIST

Whether you're planning on retiring soon or you're helping other members plan for their retirement, be aware that one of the biggest drains on retirement cash can happen right away—waiting months for the Office of Personnel Management to process a pension. As reported by *The Postal Record* in December, because of problems with inadequate staffing OPM can take six to 12 months to process pensions for new retirees, leaving some with interim payments that don't even equal half of what they're owed.

"We have heard from retirees who are having an awful time of it," NALC Director of Retired Members Ernie Kirkland said, "dealing with short-changed pensions for six to seven months."

Many newly retired carriers are dipping into their savings or withdrawing funds from retirement accounts to make ends meet while waiting for OPM to fix the problems. Kirkland advises those thinking of retiring soon to have cash reserves of at least five months of their anticipated retirement earnings.

The problems stem from a failed attempt by OPM to switch its pension work to an online process—it downsized its workforce before realizing the process wouldn't work. So 130 people are doing the work formerly done by 178 full-time specialists, causing massive backlogs. The result has been delays for 38,000 federal retirees, 2,600 of them NALC members. As OPM processes the pensions, it sends out interim annuities that are about 60 percent of the proper amount, but sometimes are far less.

Once a retiree's actual annuity payment finally is calculated, he or she gets a check to cover the missing amount. The agency is hamstrung by law from overpaying an annuity, even if it later recollects the overpayment, meaning that it must err on the side of underpayments.

"We are aware of this problem, we've been in contact with OPM and other parties, and we've provided OPM's director with some suggestions on how to resolve this matter," NALC President Fredric Rolando said.

OPM is attempting to ease the drastically reduced interim payments as well as fix the overall problem. As *Federal Times* reported in April, OPM's associate director of retirement services, Bill Zielinski, announced that the agency will increase interim pensions for new retirees by using the initial pension estimates set by the employing agencies. OPM also said that it is in the process of training 40 new hires and hopes to have them working unsupervised by July, which should speed up the process considerably.

Even if these solutions work, one major problem for NALC retirees to consider is that OPM is not addressing the lack of a supplemental annuity for retirees under the Federal Employees Retirement System (FERS) in the interim payments. Some FERS retirees are entitled to receive supplemental monthly payments of several hundred dollars before they become eligible for Social Security benefits, but the OPM interim payments do not cover these payments. The retiree will not receive the annuity supplement until OPM finishes calculating the final pension.

"OPM's plan to increase interim annuities will benefit CSRS retirees, but FERS retirees will still suffer a shortfall because they have to wait months for their supplemental annuity," Kirkland said.

Zielinski also said that OPM plans to provide online accounts to retirees with pending claims, not just to those with finalized claims, starting this summer. Retirees will be able to check their status and print out verification letters that can be used as proof to creditors that they eventually will receive their full pension.

"It's good to see improvements being made," Rolando said, "but we need to make new retirees and members just getting ready to retire aware of the problems, and make sure they're prepared for the smaller interim payments." ✉

50, the limit on tax-deferred contributions to the TSP grows so you can make "catch-up contributions" to boost your retirement savings faster.

"Rolling over" works with the TSP like a private 401(k)—you can roll money from a 401(k), 403(b) or IRA into your TSP account without a tax penalty. You also can borrow from your TSP balance in an emergency, like you can with a 401(k). On the other hand, investments work the same as a 401(k) too—which means they aren't necessarily guaranteed.

You have several funds you can choose to invest in, from the low-risk G Fund, which invests in government securities, to the higher-risk I Fund, which invests in international stocks from 21 developed countries. There's also the L Fund, which is indexed to your age, so that the risk of your investments goes down over the course of your lifetime as you prepare to retire.

As with a 401(k), most financial experts would recommend taking more risks with your TSP investments if you are young and have time to realize the gains, but to choose more conservative, less volatile investments if you are closer to retirement. They also recommend looking at all the financial factors involved in retiring.

## FOR CARRIERS, BY CARRIERS

One other investment option is through the NALC Mutual Benefit Association. Primarily known as the union's life insurance company, the MBA also offers a product called Maturity Income for investment that offers market-beating rates and is customizable for members' needs.

The MBA's Maturity Income can be set up as a traditional IRA, a Roth IRA or a non-qualified deferred annuity policy. An IRA is a retirement savings plan that the federal government has given tax advantages to encourage people to save for their retirements. There are limits to the amount people can put into their IRAs, and penalties if the money is withdrawn before they reaches 59 and a half, but it's a great way to save more than you might with a normal bank account.

Because the MBA is run by and for city letter carriers, and is a not-for-profit organization with no agents working on commission, no profits are skimmed off the top, unlike accounts with private companies. It invests only in safe and conservative investments, meaning that members' money is well protected, and Maturity Income is guaranteed to return rates of at least 3.5 percent, though it is currently earning 5 percent.

"The MBA is offering some of the best percentage rates you can find, especially in this economic market," MBA Director Myra Warren said. "I encourage carriers to start planning now for what they'll need 10, 20 or 30 years from now. MBA can help put together a plan that is perfect for them."

MBA employees also can help future and current retirees with the best way to withdraw their money, whether in a lump sum, in the form of a monthly annuity payment, an annuity with a survivor option, and more. "We'll work with you to help you decide what's the best option for you," Warren said. "The options are almost completely customizable."

She also encourages carriers to think about what their survivors might need, and plan for life insurance options, too.

## STILL MORE TO PLAN FOR

All of the planning can seem overwhelming, Director of Retired Members Ernest Kirkland said. "There are plenty of things to think about besides adding up all your savings and seeing how much you've got," he said.

"If you served in the military, are you buying back your time to credit your military retirement benefits toward your Postal Service FERS benefits?" he asked. "Will you have the medical coverage you need in retirement? Will your spouse retire at the same time, and what will those benefits amount to? Will your children be supporting themselves yet? How will your tax situation change?"

Any carrier who wants advice is welcome to call the union's Retirement Department at 800-424-5186 on Monday, Wednesday and Thursday from 10 a.m.-noon and 2-4 p.m. (Eastern time).

## THREE FRESH HORSES

One carrier who responded to *The Postal Record's* questions on Facebook offered some words of encouragement for other members. With his job wearing down his body and soured on management, Madison, WI Branch 507 letter carrier Pete Formiller retired early in 2009, 17 months before reaching 30 years.

Retiring early is a double-whammy because income stops while lifetime retirement needs continue to grow. Formiller's strategy for dealing with the challenge included relying on his wife's income, selling his car, moving closer to downtown Madison to take advantage of public transportation and other services, taking care of his 10-year-old daughter after school instead of paying for childcare, and wise planning.

"People often describe the options [FERS, Social Security and TSP] as a three-legged stool," Formiller said. "I see it more like three fresh horses." Since each has different benefits available at different ages, differences in cost-of-living adjustments (COLA), differences in the ability of a retiree to calculate the benefit available from each and other factors, Formiller plans to carefully draw from each at different times in his retirement to maximize the amount available.

"I'd have had my 30 years next month and my check would have been bigger if I'd have waited," Formiller said, "but when I think of everything I've done in the past two-and-a-half years, especially all the precious time I've spent with my kid, I know I did the right thing." ✉