Planning for retirement upon conversion

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It's vital to think about retirement upon conversion to career status, whether you are 25 or 55 years old. There isn't a lot to plan for when it comes to making contributions toward the Federal Employees Retirement System (FERS) or Social Security, as those will be automatic and there's no option to decline or waive coverage. So that leaves the Thrift Savings Plan (TSP), where employees get to make decisions that will affect their retirement. FERS was designed to have both a defined benefit plan (the FERS basic benefit) and a defined contribution plan that utilizes the TSP. The defined contribution plan provides flexibility to decide how to invest the employee's and employer's contributions to account for individual risk tolerance, and for different needs in retirement.

Deciding how much to save for retirement is a balancing game. On one side, you weigh how much money you'll need in retirement to be comfortable versus how much money you need now to maintain or build the life you want. Although each person should carefully weigh his or her priorities when deciding how much to save for retirement, I've never heard anyone complain that they have too much money in retirement. I certainly think it's safer to overdo your saving than to underdo it and regret not being able to retire when your body is telling you that it's time to hang up the satchel.

Since Oct. 1, 2020, new participants to the TSP were automatically enrolled with a 5 percent contribution. The previous default contribution was 3 percent. This was a positive change, as it helps new employees maximize the matching contributions from the Postal Service on Day One. As a FERS employee, the Postal Service will automatically contribute 1 percent. The first 3 percent of pay that you contribute will be matched dollar for dollar; the next 2 percent will be matched at 50 cents on the dollar. Contributions above 5 percent of your pay will not be matched. If you stop making regular employee contributions, your matching contributions will also stop. So an employee who contributes 5 percent of their pay will have a total of 10 percent contributed to the TSP (5 percent of employee contributions, plus 5 percent employer contributions).

Given how employees double their money by contributing 5 percent, it concerns me when I see my fellow brothers and sisters decide to cancel or reduce their TSP contributions to less than 5 percent. I hope those who are contributing less than 5 percent continuously consider whether their circumstances have changed such that they can increase their contributions back up to 5 percent. A Table Two Step A full-time regular who elects to make no contributions to their TSP would miss out on more than $2,000 per year in matching contributions from the Postal Service. This lost opportunity continues to increase as the employee moves up the pay scale.

At the end of 2020, more than 14,000 city letter carriers were eligible to but did not make any contributions to their TSP. These carriers who chose to make zero contributions will not receive any matching contributions, and effectively make less money than they are entitled to. Let's take the example earlier, where a full-time regular at Table Two Step A receives an employer match of approximately $2,000 per year contributing at least 5 percent and apply it to these 14,000 carriers who are not making contributions. Collectively, these carriers are leaving a staggering $28 million per year on the table.

Besides instantly doubling your money by maximizing the employer contribution, time and compounding interest can pay huge dividends. Einstein spoke of the power of compounding interest when he stated, "Compound interest is the eighth wonder of the world. He who understands it, earns it…he who doesn't… pays it." We can see some results of compounding interest and time by looking at a list of TSP millionaires. As of June 2021, the TSP had 98,879 millionaires. These are federal employees who have typically spent three decades contributing. Of course there are federal employees who make more money than city letter carriers, but federal employment is not how one would expect to become a millionaire. These federal employees have spent decades contributing and letting compound interest make their money grow.

Letter carriers should check their TSP contribution amount through LiteBlue and consider maximizing their employer contributions if they aren't already. Don't leave money on the table. To learn about the different fund options, look up a fund's past performance or manage your allocations, head over to tsp.gov.