

Budgeting for retirement



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When preparing for retirement, an important step is to understand your budget. Everyone's retirement is unique, but we can learn a thing or two from reviewing our current budget as active employees.

There are two main components of a budget: money coming in and money going out. For letter carriers with a single stream of income, figuring out income is pretty straightforward. Some may need to grab pay stubs from other jobs, or IRS form W-2, Wage and Tax Statement from the latest year.

From there, we can start to chip away and see how the money is spent. Make a list of your bills and expenses, and their amounts (use averages when applicable). This should include mandatory items like mortgage or rent, utilities, groceries, clothes and transportation costs, as well as any and all discretionary expenses like streaming or subscription services, entertainment and hobbies. Grouping expenses into mandatory and discretionary can help one realize what can be trimmed out if the budget gets too tight.

Some other expenses right on your pay stub would be health insurance, life insurance, Federal Insurance Contributions Act (FICA) payroll taxes, state and federal taxes, Thrift Savings Plan (TSP) contributions and union dues.

However, budgeting for retirement is trickier because we typically expect our spending to change, and it isn't always easy to predict. With that being said, it's a good idea to start with your expenses pre-retirement and modify each expense when there is sufficient information to do so.

Employees enrolled in the Postal Service Health Benefits (PSHB) Program and those who stay enrolled into retirement will continue to pay the same total premiums. Active employees and retirees alike contribute 28 percent of the premium. So, unless you're changing plans during Open Season or from a qualifying life event (retirement is not a qualifying life event), you can expect to pay the same.

When looking at expenses on your paycheck, be sure to convert to a monthly or yearly amount. This can be done by multiplying by 26 (to make it an annual amount) and dividing by 12 (to make it a monthly amount).

FICA tax is deducted from each paycheck. This tax includes 6.2 percent for Social Security and 1.45 percent for

Medicare. Civil Service Retirement System employees do not contribute to Social Security, so they aren't subject to the 6.2 percent deduction. Another pay stub deduction is the TSP. Hopefully, everyone is contributing at least 5 percent of their base pay. Retirees won't need (and are unable) to continue contributions to their TSP. Because retirees won't be making FICA tax or TSP payments, Federal Employee Retirement System employees will be saving a total of 12.65 percent when retiring.

Union dues decrease significantly for retirees. National dues are only \$7 per year, with some states and branches charging an additional amount. This means that retirees will be saving, on average, about \$50 per month, depending on their specific dues.

You should try to determine how your spending will change after retiring. Will you spend more money on dining out and entertainment now that you have more free time? Or will you save money by cooking at home more often? Will you spend less on transportation now that you don't have to commute every day? If you have a mortgage, when will it be paid off? Have you accounted for home maintenance or rent increases? Regardless, it's wise to have a buffer planned so that you have flexibility when unanticipated costs arrive (and they will).

The next step is to get your annuity estimate and understand all your retirement benefits. What is your annuity estimate? Will you be receiving the annuity supplement, and if so, for how long? What is your Social Security estimate and when would you start drawing benefits? How much is in your TSP and how do you plan to use it? Putting all these together should give you some options and see how it compares to your current budget.

Once you've drafted your budget, you should track and review it for a few months. This will give you a chance to add items you didn't consider or simply update the numbers to better reflect your spending. Were you able to stick to your budget, and if not, why? Many people don't realize how small but frequent expenses, such as a morning coffee and muffin, can add up.

Hopefully your retirement income is larger than your budget, or you might need to reconsider your plans. You don't want to get off on the wrong foot and spend more than you bring in. Leave some room in your budget but also in your lifestyle and choices to remain flexible. Be prepared to adapt if needed. This could mean either tightening the belt or loosening it to maximize your retirement. Be mindful that money is important, but so is time. Balancing your time versus money can be a tricky feat.