Ep #3: Other Income

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With Your Hosts

Micah Shilanski and Tammy Flanagan

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You can spend. You can save. What is the right thing to do? Federal benefits, thrifts, savings plans, too. You can save your own way, with help from Micah and Tammy. You can save your own way, save your own way…

Micah Shilanski: Welcome back to the Plan Your Federal Retirement Podcast. I am your cohost Micah Shilanski, and with me is the amazing Tammy Flanagan. Tammy, how are you doing, ma'am?

Tammy Flanagan: I'm great, Micah. It seems like it's just yesterday we were talking, but now, today we've got our third part in this podcast. So I'm really excited to talk about what else there is to retire with, what other income we're going to have in retirement. So it's great to be here.

Micah Shilanski: It is. It's always a lot of fun to do these with you. One of the things that I'm always amazed, so kind of a behind the scenes, look, if you will, for our listeners, we do a little pre-gaming outline, what should we talk about? And what should we cover? These types of things. When we first start off, it's like, 'Man, how are we going to fill 30 minutes?" And then we spend two minutes talking and coming up with ideas. Like, "How do we limit this to 30 minutes? Right?"

Tammy Flanagan: That's right. I think we came up with about three hours worth of content. So let's see if we can distill that to some really useful points for our listeners and help them plan their retirement. I think we can get it down to that.

Micah Shilanski: Perfect. Well, let's start taking a look at it. So this is the number third episode that we're going through and we're starting off with this five part series that's here, really focused on keys that we need to be focused on. If you, as a federal employee should be focused on in planning your retirement. One of the things we really need to cover is other income because when you retire, not only is it about doing the things you want to do, but it's about having enough money to do the things that you want to do.

So in the past episodes, we talked about your pension. We went through the agency estimate, what are some things that you need to watch out for on that? Just to make sure what your net pension is going to be. But the other piece of this pie is knowing what your total, what I call your fixed income is. So as we get into retirement, kind of those two sources of income, I call it fixed and variable. Our fixed income is income that's defined for us by a third party. So like your pension, right? We can control it a little bit, but we really can't. It's defined social security, military pensions, VA benefits. Any of those types of things are defined by third parties. So we're going to call that all fixed income.

Now, the other monies that we have, or like our TSP or IRAs or 401Ks. Those other monies, we get to choose how much to take out. So right now we want to focus a little bit more on those, not so much your pension, but what are some other incomes that are there, not what are the incomes that are going to be there, what decisions do you need to make about these, and what are some misconceptions that a lot of people have about these other incomes that can get you in trouble when planning your retirement??

Tammy Flanagan: Yeah, that's right. Micah, we've got a lot of control that we didn't have in past generations. One of the things we talked about before we started today was the fact that in my dad's generation, it was pretty much pension and social security. Or in the last generation of federal employees who were all under the single benefit civil service system, it was a matter of planning for retirement 30 days before you walked out the door to make sure that you were old enough and had enough service to collect that single benefit, civil service retirement, that was really in and of itself.

That's it. You had that one check every month that replaced your salary. We didn't have TSP back then. Federal employees were exempt from social security. So there really wasn't a lot of planning involved. But like you said, today, we're living longer, so sometimes we work after we retire, we have social security under the first system and we have retirement savings that are critical to being able to afford a comfortable retirement.

Micah Shilanski: Yeah. I mean, it's so nice that it's so much more flexible, right? We have such a more variety in where income comes from, where we get to take that from. But just as you said, that flexibility adds to complexity as well. So let's kind of dive into this. There's kind of several different types of other income that you can have. Let's talk about the first one Tammy, about part time work.

This one is a little bit of a misconception, I think, that's out there, and Tammy, I'd love to hear your experience, but working with clients a lot of times, they'll think, "Well, you know what, maybe I'll go get a job or maybe I'll do something, or I'll bring in some extra income." But often the time after you get that little bit of taste of retirement, that tastes of freedom, kind of that doesn't really happen wanting to go back to work. What do you think?

Tammy Flanagan: Yeah, I think that can be true for someone who's kind of giving it a little consideration as they plan their retirement. But on the other hand, you'll find folks who will retire on Friday, already have that second career lined up for Monday. Oftentimes, it's at the same desk doing the same work that they had been doing on Friday as a federal employee. So these are the people that come back as contractors are working for a government contractor. So that's fairly prevalent. We see a lot of that in the intelligence community and the defense agencies. So that is more common where somebody will have a planned second career that's really set up before they walk out the door.

But like you said, someone who's going to retire and think, "Well, I'll just get a job down at the golf course or at Publix or whatever." They end up golfing yes, and grocery shopping. But getting that job is something that they realize they may not even need. Perhaps they don't want to have that schedule to their life anymore. So I think it falls into those two categories.

Micah Shilanski: I really think you brought up a great there. It was a planned second career and this is our distinction we want to make, right? So if this is the case that Friday you're retiring Monday, you already have your job lined up, then great. Let's make sure we're including that income in your retirement plan because it's a planned second career. I think that makes a ton of sense. But if this is a, "Yeah, I might get a job. I might go to work here. I might want to be a park ranger. I might want to do this," and nothing disparaging about those jobs. They're all great. But I don't want to count on that income. You may or may not run or receive in retirement. This is a mistake that sometimes I think people make, is they think that they can just pick up kind of any part time job and they'll get an extra 500, extra thousand, extra $2,000 a month. When in reality, if you haven't set that up in advance, that kind of doesn't happen.

Tammy Flanagan: Yeah, that's true. Then going back to the people who have the planned second career, don't get used to both sets of income. So in other words, don't get used to your retirement check. Plus the second career, I usually tell my clients that if you are going to do that, bank one of those checks. Get used to living on your retirement income, put that second career income in the bank, invest it, something safe, but you'll have then your cash reserves in retirement or the money to pay off your car loan or whatever it is that you need that chunk of change for, to make your future full retirement more comfortable

Micah Shilanski: Great. I think that's wonderful advice. We see the catch of this happening a lot with our military retirees, right? They put in a full career in the military, then they transition into federal service so now they're going to get two pensions. Now they're getting their military pension plus a paycheck. They're spending, if not a hundred percent, 110% of their total income, right? This is like, "Well, now I have all this extra money," and you think about it. You're like, "There's no way this can happen." I like to pick on my retired colonels because it happens hands down to them. It really transitions where they're spending that greater income. So it's a very big trap that people fall into. So I'm so glad you brought that up, Tammy.

Tammy Flanagan: You can avoid that if you make a plan, right? Just like with anything else we have to think ahead of time so that we don't get into that trap of living beyond our means.

Micah Shilanski: So let's talk about a next type of income that's going to be there, right? Oh, one thing on part time income, I'm so sorry. Keep in mind taxes. We talked about this last time. You're going to see this as a common theme when we talk about every income stream you're going to get, income is taxable. Again, if you're getting a pension check over here from some agency or the federal government, and then you go to paycheck over here from some other place, they're not talking to each other, they're not withholding the same taxes that are there, that could create a little bit of a tax issue. So just make sure you're thinking about that with every source of income you have coming in

Tammy Flanagan: And take advantage of any employer savings plans they might offer you. So if there's a 401K and you can shelter some income from taxes, by all means, take advantage of that.

Micah Shilanski: Let's talk a little bit about one that that is somewhat straightforward, but a little complex at the same time. Let's talk about social security, Tammy, because with social security, we have a range of options that we can choose, right? We could turn it on early, which would be 62, or you could wait and you could defer social security past, what's called your FRA, your full retirement age all the way to 70. So you've got that eight year window that you get to choose when you want to turn social security on or not. Tammy, what are some things we should be thinking about when trying to make a decision when we should turn social security on or delay it?

Tammy Flanagan: That's a great question, Micah, because that's probably one of the big key decisions that people aren't quite sure and you have different opinions. You'll have people who say, "Get it while the getting's good." Then you'll have the other camp who says, "I'm going to wait because I'm going to live a long time. So I'm going to put it off till 70." So one of the things I help clients work through this dilemma or decision about is by asking some questions like, "First of all, am I still working?" Because up until that full retirement age, there's an earnings test. So no sense claiming it and then have to give it back.

So if I'm not working, then the second question is, "Do I need the money?" Some people don't have the luxury to delay social security because that makes up 40% of their retirement income. So if you need to take it to afford to retire, and that's how you've planned your retirement, is on having social security as the foundation, then you may have to take it. There's nothing wrong with taking it early, that's not a bad decision necessarily, if that's part of your plan.

But let's say that you're not working. You don't need the money because you have other sources of income, then it might boil down to a couple of things such as how long might you live? What's your family history? How's your health? Possibly also, is there anyone else, depending on you for income? Are you married? Do you have young children still? So those can play into when you're going to claim social security, whether you do it right away, whether you delay it till you're a little bit older.

Micah Shilanski: Yeah. You brought up a really good point in there, right? When we turn social security on, it has effect on our survivor benefits that are there. So if we turn social security on early, that affects our survivor benefits, God forbid, if we pass away, how much our spouse would receive. So again, and team, I like what you said, there's almost, except for turning it on, if you turn social security on while you're still working and I have to give the money back to the government, that was a bad decision, right? Besides that, you have a lot of room where it's not really a bad decision. The question is what is the best decision that you need to make.

One of the things that I talk with clients about, and there's the emotional side, as you said, right? I need to get while the getting's good. I'm going to turn it on. Cause the government's never going to take it away from me if I have that income coming on. Now, for those of us that think that stop right there. Would the government ever take something away that they've already given us? Yes. Right? That potentially could happen. Are they going to? I don't think so. This is just my opinion. I don't think they're going to take your social security away, but that's not a reason that I try to make decisions with my clients about, should we turn it on not?

I really want to pivot it to a financial decision because I find it's a little easier to make. What's the math. Where do you make more money? Do you make more money turning it on now? Or do we make more money delaying social security where are you going to have more cash flow? And that's the way I try to help clients evaluate this, is on the financial side, right? Where do they have the current cashflow they need today to make sure they're taken care of. So maybe if we delay social security, maybe that means I'm taking more money from TSP for the first couple of years. So I can let my social security continue to grow. Maybe that's a good strategy. It's definitely something you should think about before just turning it on.

Tammy Flanagan: Yeah, that's true Micah, and two points I wanted to make on social security as well. One is this one because I hear this a lot saying, "Well, I'm going to take it early because I might die by 70 and I'll never get anything." Well, the way I look at that is if I die early, I don't need the money anymore anyway, so who cares. On the other hand, I'm more concerned about what if I live a long time. So I don't want to run out of money when I'm 75 or 85 years old because if I'm still living and still trying to live independently, especially, I need to have money to do that. I need to be able to pay my living expenses and still have some quality of life. So I think that's key.

Then the other thing, a different point I wanted to make was that I hear a lot of concern today about how the COVID-19 crisis is going to impact social security because granted, we have historically high unemployment rates. So people aren't paying into social security, which is certainly going to have an impact on the system's ability to pay out benefits. So I can see where that concern is coming from. But on the same hand, I think that concern is unfounded as far as someone who wants to retire and claim benefits today, the system will still pay your benefit out whether you claim it at 62, or at 67, or 70. But I do think this is going to speed up Congress's need to make some changes for the longterm, make some changes for the new generation that's going to have social security as part of their retirement.

Micah Shilanski: This is a thing too, and we could do a whole couple hours just on social security, right? But when you read that the social security trust fund is going to expire, going to be exhausted that's there, it's a little bit of a misnomer because there's no special accounts sitting there with the social security money in there. It's just a line item on a ledger that says, "Hey, this is how much money should be in this account," but it is not really there. So Tammy I'm in agreeance with you, and again, this is just our opinions, right? Who knows what Congress is actually going to do. But I think social security will be there for the retirees. I think for the new generation, they're going to do some type of shift, some type of change, whether it's how much they pay and how much they take out, some different change that's going to need to take place.

Tammy Flanagan: Then I guess the last thing that we should mention to our listeners is that I hear a lot of people who think that social security benefits, when you do receive them, they're tax free. Is that true?

Micah Shilanski: No, it is not, right? The government giveth, the government taketh away. Social security benefits are still going to be taxable for federal employees more than likely. Now there's a little bit of a test. If your income is below a certain threshold, social security benefits are federally tax-free. If they're between another threshold, only 50% of your benefits are subject to income taxes and the next threshold, that 85% of your benefits are subject to taxation.

Now, if you think, well, there's no way I make more than the top threshold. You might want to rethink that, right? It changes a little bit every year, but basically if your income is over the mid 40, $40,000 a year for married filing joint, 85% of your social security is subject to taxes. So when I'm doing my planning, that means with my clients, most of my clients want more than $4,000 a month in income.

That means their social security is going to be subject to taxes, so we're already accounting for that in our planning.

Tammy Flanagan: On the state level, it's a pretty tax friendly benefit because even States who tax retirement income, oftentimes don't tax social security income, but there are 13 States that do. So if you're in one of those 13 States, then you got to be careful. But the majority don't.

Micah Shilanski: Yep. That's the really important thing to look for on all of these that are going to be there, again, is your net benefit, right? It's not about what your gross social security benefit is. So if you're looking at your social security statement, you open it up, or on page two, if you're looking at it online at the top, it kind of gives those breakdowns that says when I'm 70, how much am I going to get, at my FRA full retirement age, 65 to 67, depending on when you were born, how much am I going to get? And at 62, how much are you going to get? It gives those breakdowns that are there, which is really nice, but keep in mind, Tammy, that is the gross benefit, right? So you have taxes that need to be withheld for that.

This is something that catches federal employees off guard because when you file for social security online, they've made it super easy to do in my opinion, it only takes a few minutes online. You file for social security. It doesn't prompt you to withhold federal income taxes. So what happens is you start getting this benefit and then all of a sudden next year you go to file taxes an the IRS is like, "Oh, look at the social security. You owe a bunch of taxes on it." So you got to make sure you're withholding taxes from your social security.

If you're over 65 and on Medicare, then your Medicare Part B premium is going to come out of your social security benefit as well. So that means you have to be looking at your net benefit. It's not that 2000 a month you're going to be getting for your gross benefit, after taxes, after Medicare deductions, et cetera. What's that net amount getting deposited in your bank account? Really important to look at that.

Tammy Flanagan: Right.

Micah Shilanski: All right. By the way, when we wrap this podcast up, we are going to give you a little bit of tools or ideas on how to put these things together, right? So here's some good ideas to think about. Then hopefully we remember, we're going to wrap it up with some action items for you on how to put things together a little bit. But Tammy, let's go on to the next one. Let's talk a little bit about military pensions because there is a lot of federal employees that had a military career and have a pension. So how is that going to work?

Tammy Flanagan: Yeah, that's something that I think federal employees often and should think about prior to retirement because you have a different situation when it's someone who's retired from military service where they're already receiving that retired pay along with their federal salary and will continue to get that even after they retire. You'll also have the option for some federal employees who might benefit from actually combining their military career with their civilian career and get one first retirement, which could be higher than keeping those two benefits separate. That's rare, but I've seen that happen where somebody comes into federal service, and raises to a higher level of rank, they raised two GS-15 or

SES where that might make sense to combine those two careers.

Then the last situation is someone who's a reservist who was under titled 10. So they're going to collect their reserve, retired pay when they're 60, which is probably about the same time they're retiring from their civilian career. So they can count on that second source of income from their military pension in addition to their civilian federal retirement, that kind of makes it a lot easier and a lot more comfortable to retire with that set source of income.

I guess I forgot one other situation is where somebody might have been injured in the military or they contracted an illness so they're getting VA benefits, which are not military retired pay. Those are disability benefits that they'll receive from the VA, even if they pay their military deposit, even if they decide to combine those two careers. So there's a lot of little factors that someone who's spent their career, both military and civilian federal service, really need to be aware of and understand how that all kind of fits together as part of the piece of their retirement puzzle.

Micah Shilanski: You bet. And talking about the reservists, right? This could be a little bit of an income trap that could potentially be there. Let's say you were planning on retiring at 62 from the feds and at 60, you're going to have your reserve pension come in. Well, all of a sudden you start having this money hits your bank account, of course, right? What are we talking about? I'm going to keep hitting this nail on the head. Taxes. That's right. We got to make sure we remember taxes, which are going to come out.

But then again, what we see kind of with the part time work, we're now spending more money. I get this extra thousand, 1500, 2000 a month coming in from my reserve pension. Now you start spending more money and now you get off track for retirement because instead of spending whatever you were normally spending and planning on retirement, now you have this extra income, now you're spending more, does that really help you on their retirement path? So again, something to consider, make sure you're thinking about your net benefit with this.

So TRICARE, right? There's TRICARE cost. How is that going to coordinate with FEHB? They actually play pretty nice. You have some interesting benefits between two of them, but understand how that works, understand survivor benefits, what options should you choose? There is a lot of people that are fans of this strategy called pension maximization, which I'm not a huge fan of. It says don't leave any survivor benefit and go buy life insurance. That's talked about a lot with military pensions.

There's a great article. It's the three reasons why not to do pension max. Now I say it's a great article because I wrote it. But you should explore these things and understand how they're going to work. Because again, not only does that affect you because it affects your net retirement check today, but it also affects your survivor, God forbid, but when you pass away, what position is your spouse going to be on? What income do they need coming in as well?

Tammy Flanagan: Yeah, that's a very much overlooked topic that a lot of employees undervalue and underestimate. So glad you brought that up.

Micah Shilanski: Yeah. All right. Well, let's transition a little bit from the military pension kind of thing, just to other pension incomes, right? Because maybe you had a second career somewhere else that offered a pension income. Maybe it's from a state retirement. I know up in Alaska, we have a lot of dual, they'll do a state career than a fed career, or fed career than a state career, right? So now we're coordinating two different set of government benefits. So same things as a little bit before that apply, right Tammy? We got to be thinking about taxes. What other considerations should we be thinking about if someone's getting two sets of income, two sets of pensions that are coming in?

Tammy Flanagan: Yeah. Sometimes you got to think about things, especially when you brought up the state pension. I'm not sure about Alaska, but I think they're one of the States that are exempt from social security taxes when they worked for the state government. So if you're getting a state pension from one of the states where you didn't pay social security taxes on your income, you're going to be affected by something called the windfall elimination provision where the government pension offset kind of the same provisions that affected our old civil service system that was also exempt from social security taxes. So be aware that you might be getting less than you had counted on from social security if that's the case. If you've had 20 years in the feds and then 20 years in the state government, that could really be the perfect storm for really taking the full brunt of some of those provisions under social security. So that would be something to consider.

Micah Shilanski: Now, Tammy, when they're looking at their social security statement, I mean, it's going to highlight right there on them that they're subject to the windfall elimination provision, right?

Tammy Flanagan: It's going to hit. There's a little paragraph in there that says, it's very confusing because I can always remember it says, "If you receive a pension from work not covered by social security." Well, what does that mean? Is that FERS? Is that my state pension? So you have to know what they're talking about. So if you go to ssa.gov, there's a link on the retirement planning section of that site that says, "If you're receiving a government pension click here," and read that and try to understand what that says or follow, I think you've done some webinars on the government pension offset and windfall provision, or somewhere in that we've incorporated that. So it's something that does need to be addressed.

Micah Shilanski: Yeah. I was just teasing Tammy with that, right? Because the social security statement does not indicate, for everyone it has that provision in there that says, "If you're receiving this," and this is the really big importance that I'm not ragging on social security at all because they don't understand why you didn't pay into social security for 20 years, they just know you didn't pay in, up until you retire. So many of these things are discovered after retirement time.

This is not when you want to discover thiS. You don't want to discover that you thought you were going to get $2,000 a month from social security, but it's really 1600 because of the windfall elimination provision. You need to figure this out well in advance. So these are just, again, little things to think about, and if it pertains to you, be, "all right, I need to go look into this," right? "What does this mean to me? How does this work?" Really important?

Tammy Flanagan: That's right.

Micah Shilanski: So we've gone through, we talked about kind of those other pensions. We talked about military, we've talked about social security, we talked about part time work, but one of the biggest things that's out there that we haven't talked about yet is your Thrift Savings Plan, your TSP, which is such an important tool in planning your retirement because now we're going to transition, and from the top of the hour, when we started talking about this, we were really talking about fixed income, right? Income. We're getting from a third party source that's defined, that's going to come in. The military, the social security, your first pension, all of that is a fixed dollar amount.

But now we're going to transition, and start talking a little bit about what I call variable retirement income because you get to choose how to take money out. You get to choose how much you can take out. Now, downside to this, you could choose too much, and this could be a problem for you in the future, but it offers a lot of flexibility. Tammy, I think we're on the same page, I think the TSP is a phenomenal savings tool for federal employees to help gear them and get ready for retirement?

Tammy Flanagan: Yeah. I remember, I'm dating myself for sure, but back in 1987, when the TSP was first introduced and that was part of, of course the FERS retirement program and everyone in the government back then was under civil service, so it was only the new hires who were brought in under FERS. We just couldn't believe, like the hype was that if you were under the first system, it was going to be just as good as a retirement of a retirement as the CSRS system, the only difference was it was going to be made up of three different parts: The social security piece, the smaller government pension, and then this really foreign to us, back then, retirement savings plan called the Thrift Savings Plan. There were estimates back then of people potentially having a million dollars in their TSP account by the time they would retire.

And nobody believed that we're like, "Who could it save a million dollars as a federal employee?" But yet by the end of last year, more than 50,000 TSP participants did reach the goal and surpass the goal of having saved a million dollars or more their federal career. Now that doesn't mean everybody has that much or needs to have that much today in order to retire, but it just goes to show you that over a 30 or 35 year career, how the FERS system does create enough retirement income, if you plan ahead because with the TSP, you have to intentionally save and intentionally manage that savings between the five different investment choices that we have. So there is more planning involved, but like you said, Micah, it's a wonderful, flexible part of our retirement that allows federal employees to go in and out of federal service without fear of losing their retirement security.

Micah Shilanski: Now, when we say TSP, we're also using that a little bit of as a general term right now. So yes, the Thrift Savings Plan directly is the benefit you get as a federal employee, but also we could somewhat lump into that, IRAs, outside 401Ks, spouses, pension SEPs, 403Bs, any of those types of things, those retirement savings, really kind of helps fit into this bucket, right?

Tammy Flanagan: That's right. Yeah, so when somebody says TSP and then they say, "Well, I'm diversified because I also have an IRA and a 401K." Well it's like, that's not what we mean by diversification, but those are all considered retirement savings plans. A retirement savings plan is often, not always. An employer sponsored plan like a 401K or the TSP, but it can also be just a tax advantage plan that allows people to set aside money on a pretax basis or a tax deferred basis for their retirement years. So this is really, again, something that's part of this new generation of retirees because the whole idea of an IRA or a 401K plan didn't even come about until the 1970s.

Micah Shilanski: So really this is such an amazing time, not only because it's really, as you said, the 1970s. So really we're seeing this generation now harness the benefits of saving this money that's going to be there, but really the generation of retirees we have coming through could potentially not only live as long in retirement as they worked, but longer, potentially, in retirement than they worked. This is really the power of this TSP, IRA outside savings. This needs to be the bucket that you have to fill that gap between how much money do you want to spend every single month, and then how much is really coming in from your fixed income.

Most of the time, there's a little bit of a gap there and that's why we've got to have a distribution plan. How are you going to use your TSP, your IRA, your 401K, et cetera, any of those retirement savings to fill that gap? Number one, you always got to be thinking about aunt IRS, right? She's our favorite aunt. Well, she thinks we're her favorite anyways, right? The IRS is always going to be a part of your retirement plan. So how are taxes going to fit into this? How do you take a distribution out of your investments that you're not going to outlive?

This is not a bank account. It's not just whenever I want to spend money reaching the TSP and start yanking money out. The TSP Modernization Act has been wonderful, it's really freed up a lot of distribution rules in a very good ways, but that still doesn't mean we should just reach into the TSB haphazardly and be spending money in retirement. We need a plan. You need a system for how are you going to take money out that still allows money to grow. But also when the market is down, what's your plan, right? We've seen this, we can go through multiple times throughout history when the market falls, 20, 30, 40%, what are you going to do in retirement when that happens?

Tammy Flanagan: Yeah, and Congress kind of created some parameters around when we can use this money because if we're under 59 and a half, we have to be careful because we might get hit with a tax penalty. Now it's up to 72. But if we're over 72, we've got to make sure we're using the money in some way, at least taking it out of that tax preferred account and paying some tax on it before we put it into another savings account. So we've got to not only be accustomed or aware of the taxes that we owe on the withdrawals, but any tax penalties we're trying to avoid by taking the right amount out at the right age and also not taking it out too early.

The other thing, like I hear people say, is that there's rules of thumb. Like for instance, one rule of thumb I hear often is that, "I can withdraw 4% from my retirement savings every year and never run out of money," but they never say what that rule of thumb is based on. Like, does that mean I can have everything in the G Fund and withdraw 4% a year for all eternity?

Micah Shilanski: Yeah. I was just about to bring up the G Fund when you said that, that was perfect. Let's just walk through that math and I don't want to get too much in math on the podcast here, but think about it, right? If I'm taking a 4% distribution out, but my G Fund is giving me ... Let's be generous and say, it's giving you 2%. Well, clearly you're going to run out of money eventually, right? Because you're taking out more than what's growing in your account. This really comes to that concept of being a longterm investor. Even though you're retired, that doesn't mean you're not a longterm investor. So you got to have some money which is protected. Maybe it's in cash, maybe it's in bonds, of money that you need to pull out of the market.

So, Tammy, one of the things that I like to do is look at the next five years, how much money are you planning on pulling out of your investments in the next five years, any money that we need to spend in the next five years doesn't belong to be invested in the stock market, right? A good reason. It's 2008, nine, 10, 11, 12, 13, right? I mean, look at that period in time when the market fell, it took a long time for it to come back up and you never want to sell in a down market.

So a lot of those 4% rules, those 5% rules that are there are based on you keeping the vast majority of your money invested in the stock market, like 70%. They're saying, "Well, you're going to leave ..." Again, I'm talking in generalities, I'm not recommending, or Tammy is definitely not recommending anyone to go out and do this. This is just a conversation. So all those appropriate legal disclosures here for the podcast, right? So what those rules are generally saying is 70% of your money. So let's say you had $500,000 of investments. That means

$350,000 are going to be sitting in the CS&I Fund, they're going to be long-term investments.

The balance, 30% or 150,000 in our example, is going to be in something more conservative, cash and bonds. So it's really important if you take one of those rule of thumbs, 4%, 5% distributions, those are banking that the stock market is going to go up over time and you're going to stay invested. What happens is people say, "Well, I can take 4% out. I can take 5% out." Then the market falls and they move everything into the G Fund. Well, now you can't take that money out because it's never going to recover, it's never going to grow back. So what's your plan? What's your distribution plan for taking money out when the market's up? What's your plan when the market goes down? It's not an if, it's when it goes down, what are you going to do?

Tammy Flanagan: Yeah. I think education conquers fear in this case because I really think there's a lot of misunderstanding about the stock market, about investing in the CS&I Fund, about risk and volatility. So I think we really need to educate ourselves to understand that risk and volatility is normal in investing for longterm horizons in stock market investing and retirement planning. And like you had mentioned before, the fact that we're living longer, in many cases, there's a pretty good percentage that if you're part of a married couple, at least a 50% chance that one of you is going to make it till 85. And once you get to 85, there's a pretty good chance that one of you is going to make it till 95 or even a hundred. So you really do have to plan on what if I live that long, I don't want to run out of money before that time comes.

So this is where I think we have to be educated or work with someone who has taken the time to be educated. So I'll give you a little plug Micah for the financial planning industry because just like anything else, whether it's, I don't like to paint or I'm not good at painting, I hire someone to help me. So if you're not interested in learning more about financial planning, if you're not good at it because you make emotional decisions rather than financially astute decisions, then it doesn't matter, hire someone to help you. I think that's always a good part of your plan.

Micah Shilanski: Well, I'm biased, but I think coaches make a lot of sense right there. They really help us work through some of these things. So Tammy, we want this podcast to be all about action items for our listeners. So let's make a little transition and talk about things that you guys, our listeners, need to do now in order to help. One of the things that I would say, I'll kick this off, is create what we call a retirement income timeline. Now, if you want an example of kind of what that looks like, you can go to our website planyourfederalretirement.com/three because this is our third episode. We're going to have some more information on there.

But this is something, Tammy, you and I have taught about, we've done webinars about et cetera, but basically do a timeline of how much money do you want to spend every year, and where's that going to come from? When does your pension start and stop? When does social security start? When does your spouse's social security start? How do VA benefits? What do you need to take out from your TSP? But start getting a visual for what retirement life is going to look like. This is so powerful in the planning process.

Tammy Flanagan: Right. Another thing you can do is to take a look at your paycheck. Really look at that and see the withholdings coming out of that and then compare that net income, not the gross, but the net amount. Maybe even convert it to a monthly amount, multiply your biweekly paycheck by 26 pay periods, divide that by 12. Now we see the net amount of monthly income that we're used to having, and then try to plug in those other sources of income, your FERS pension, your social security benefit, your TSP, maybe a second career, and see how you're going to fill in to make sure you have the same net income. Most of us will need the same income in retirement or factor in the fact that maybe I'm moving, or maybe I have a need for travel, or I need for other things that I'm going to spend money on and make sure you're going to cover those expenses realistically, without running yourself short.

Micah Shilanski: I like that. So it's, have a plan, right? This is the summary of these things. We can break it down, but what is your plan is so, so important? Well, Tammy, one of the things that I know we would love to do is hear more from our listeners where we're getting great comments, we're getting great feedback. So leave us a comment, jump on our website, planyourfederalretirement.com/three. You can leave a comment on this episode. What did you like? What did you not like? What are things that we should have covered, potentially in a future episode? We would love to hear from you.

And in our next episode, we are really going to be going over, kind of, again, this five part series, the fourth part, we're going to be talking about insurances. Yay, isn't that so exciting?

Tammy Flanagan: Yes it is.

Micah Shilanski: It is, right? Because it is something that a lot of people don't spend time thinking about, but it has such a big impact in your retirement. How does FEHB, Federal Employee Health Benefits, work in retirement? What is Medicare? What about life insurance? What about longterm care? Right? All of these complex decisions that we put off, we don't want to talk about, it's time to talk about it. Understand what they are, they don't become that scary all of a sudden with a little bit of education and you can make the right decisions.

Tammy Flanagan: That's right. I look forward to it. That is one of my favorite topics to cover, Medicare and FEHB, because it's probably the most common question that I get, and it's a very important one. So I'm anxious and looking forward to talking about insurance.

Micah Shilanski: Perfect. Well until next time, happy planning.

principle. There is no assurance that any investment plan or strategy will be successful.