A Financial Planning Checklist for New Federal Employees

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New federal employees – those hired or rehired within the last five years – have certainly much to do as they start or restart their professional careers with the federal government. Yet there are certain financial planning tasks that these employees should perform, hopefully as soon as possible but certainly within the first one to two years of their hire date. The following is summary of perhaps ten of the most important financial planning tasks that new federal employees should perform:

- **Check personnel forms for accuracy, in particular Form SF-50 (Notice of Personnel Action)**. On Form SF-50 there are two boxes that should be checked for accuracy. Box 30 (Retirement Plan) should be coded according to the retirement system that the employee is covered by – CSRS, CSRS-Offset or FERS. Box 31 (Service Computation Date or SCD for annual leave purposes; for many employees, the SCD for annual leave is the SCD for retirement) should be checked for the correct date. The SCD for annual leave is normally the start of the first pay period in which the employee starts federal service. However, the SCD can be backdated to include an employee's prior military service time (with some exceptions such as a military retiree for active duty) and/or to include an employee's prior temporary or seasonal service time. Employees are also encouraged to make sure they have the correct SCD for retirement. An employee should contact his or her Personnel Office to find out their SCD for retirement.

- **Make sure all beneficiary forms are filled out, up-to-date, and submitted**. Among the important beneficiary forms that all federal employees should fill out and submit are:
  (1) SF 1152 – Designation of Beneficiary for Unpaid Compensation of Deceased Civilian Employee;
  (2) SF 2823 (if the employee enrolls in the federal government's group life insurance program, the Federal Employees Group Life Insurance or FEGLI program) – FEGLI beneficiary designation;
  (3) TSP-3 – Designation of Beneficiary for TSP; and
  (4) SF 2808 (CSRS) and/or SF 3102 (FERS) – Designation of beneficiary of an employee's CSRS and/or FERS contributions if employee is not giving a survivor annuity. With the exception of the TSP beneficiary form (which can be downloaded from **www.tsp.gov**), all of these beneficiary forms can be downloaded from **www.opm.gov/forms/.**
  Any personal changes in an employee's life such as a change in marital status may necessitate in an update to these beneficiary forms. Employees are also encouraged to make copies of their beneficiary forms and to notify their designated beneficiary(s) who to notify and what to do when the employee dies.

· **Make and complete deposits, especially within the first three years of hire date**. Any employee with prior temporary or seasonal federal employment and who is eligible to make a deposit should make that deposit in order to either avoid any reduction in annuity or to add their temporary service to their permanent federal service time and to increase the amount of their CSRS or FERS annuity. The same recommendation is for those employees with prior military service. Both deposits for temporary/seasonal and military service should be completed within three years of an employee's hire date in order to avoid interest changes.

· **Take full advantage of Thrift Savings Plan (TSP) matching**. New employees are automatically enrolled in the TSP. Three percent of a new employee's gross salary is *automatically* contributed to the employee's TSP account. But in order to receive the agency's maximum matching contribution of four percent, the employee must contribute *each pay date* at least five percent of their gross salary. A new employee who has not elected otherwise should therefore immediately increase by a minimum of two percent of gross salary being contributed to the TSP in order the maximum agency match of four percent.

· **Make the right TSP decisions with respect to which funds to invest in and in which type of TSP account – traditional or Roth – to participate.** Understanding that the TSP is a long-term investment savings plan is important. As such, one must invest for long-term growth and pick the appropriate TSP funds to invest in. Also, understanding the advantages and disadvantages of the traditional TSP and the new Roth TSP is important.

•**Consider enrolling either in the health care flexible spending account (HCFSA) or in a health savings account (HSA).** While the Federal Employees Health Benefits (FEHB) program certainly provides excellent health insurance benefits to federal employees, employees are and will be paying more out-of-pocket for their and their family's medical, dental and vision expenses. Many of the rising expenses come in the form of increasing co-payments and deductibles. Employees are therefore encouraged to enroll in either a HCFSA or in a HSA in which before-taxed salary dollars are used to pay these qualifying out-of-pocket expenses. Information about the HCFSA may be found at **www.fsafeds/index.asp** and information about HSAs may be found **www.opm.gov/insure/health/hsa/index.asp**

- **Review one's life insurance needs and obtain the appropriate amount, best-priced and most affordable amount of life insurance**. Many new employees are automatically enrolled in the Federal Employees Group Life Insurance (FEGLI) program. While there are no medical qualifying requirements for FEGLI, the program may not be the most appropriate type of life insurance in terms of cost and amount for some employees. In particular, those employees who are young, in need of life insurance for at least 20 to 30 years, and who are generally in good health should consider purchasing term life insurance from a private insurance company. A good life insurance broker can assist employees in evaluating their life insurance needs as well as to assist them in purchasing the most appropriate and affordable life insurance policy. Insurance brokers are found in every state and in the District of Columbia.

- **Consider the purchase of an individual disability income insurance policy**. The only form of disability income insurance most federal employees own is their sick leave. Since most employees have an average less than six months of unused sick leave, those employees who unfortunately incur a long term disability or sickness will most likely have to go on leave without pay or depend on the donation of annual leave by other employees. New employees are therefore encouraged to purchase from a private insurance company an individual disability income insurance policy. If the employee is a member of a professional association, such as the American Bar Association or the American Institute of Certified Public Accountants, the employee may have the option to purchase disability income insurance through the professional association. New employees who are younger than age 40 face a greater chance of becoming disabled before age 45 in a non-occupational accident or than dying.

- **Check federal and state income withholding and take full advantage of available tax credits and deductions**. Many new employees tend to overlook the amount of federal and state income taxes that should be withheld from their paychecks. If they started working during 2011 and received a huge refund on their 2011 income tax return, then they were "overwithheld". If they had a rather large balance due when they filed their taxes, then they were "underwithheld". Both situations should be addressed and adjusted accordingly. Affected employees should discuss their respective situations with their tax advisors.
  Some new employees tend to overlook some of the available tax credits and deductions, including the student loan interest deduction, the saver's tax credit, the child tax credit, and traditional IRA contribution adjustment to income deduction. Employees should check with their tax advisors for more information.

· **Have an estate plan**. Now that they have started working and are accumulating some assets, new employees have an estate. They need to plan for incapacity as well as what happens if they were to suddenly die. All employees should have an estate plan which should include the following: (1) All beneficiary forms filled out and up-to-date; (2) Will or Revocable Living Trust; (3) Durable Power of Attorney; (4) Health Care Power of Attorney; (5) Living Will; and, if applicable, (6) Guardians named for minor children. Employees are encouraged to meet with an estate attorney in their state of residence to discuss these documents and to have these documents in place as part of their overall estate plan. Changes should be made to an estate plan in the event of any life event, such as the birth of a child, death of a family member, or a change in marital status.

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