

Retirement Benefits FAQs for Retirees

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Retirees

Checklist for Foreign Service Retirees

AFSA's "Checklist for Current Retirees" highlights 14 things that Foreign Service retirees should review to make sure that their retirement benefits are on track. The checklist is posted on the AFSA Retirement Services web page at <http://www.afsa.org/retirement-services> under General Information on Retirement Issues for viewing and printing.

The checklist covers topics including ensuring your beneficiary designations are up to date, briefing your next of kin on how to apply for survivor benefits, how to access your online pension records, and keeping informed of federal benefits procedures and changes. For each topic, the document cites one or more references where you can get more information.

An AFSA webinar that walks through the Checklist for Current Retirees, providing invaluable context, is available on the AFSA Retirement Services web page at www.afsa.org/retirement, under General Information on Retirement Issues.

(Updated May 2022)

How to Report the Death of a Foreign Service Annuitant

If a Foreign Service employee dies on active duty, their agency will initiate the process of authorizing survivor benefits. But when a Foreign Service retiree dies, their next of kin must take the first steps. Because our family members often are unfamiliar with offices and functions

in Foreign Service agencies, it is vital for next of kin to know what steps to take in the event of the death of a Foreign Service retiree, spouse, or ex-spouse.

The first step is to notify the Department of State's Human Resources Service Center in Charleston, S.C. during regular office hours at (866) 300-7419 (toll free), (843) 308-5539 (from outside the U.S.), or HRSC@state.gov. A checklist of subsequent steps to take is posted on the AFSA Retirement Services web page at <http://www.afsa.org/retirement-services> under the Annuities heading. We suggest that retirees download and print it (perhaps on a brightly colored sheet of paper), show it to your next of kin, and leave it in a place where they can easily find it if the need arises. The same checklist is in the annual AFSA Directory of Retired Members. (Updated May 2022)

Divorce and Foreign Service Retirement Benefits

The Foreign Service Act has unique provisions regarding the impact of divorce on retirement benefits about which even some Washington, D.C.-area divorce attorneys are unaware. A State Department summary of the rules is contained in a May 2019 ALDAC cable which is posted on the AFSA Retirement Services web page at <http://www.afsa.org/retirement> under Getting Ready for Retirement.

For example, Foreign Service spouses enjoy a default statutory entitlement to benefits if they meet certain requirements. The default entitlements can be altered through a court order or spousal agreement. However, to be valid the order or agreement must specifically refer to Foreign Service benefits.

Divorced Foreign Service employees must submit all relevant divorce documentation to the Department of State's Office of Retirement prior to retirement. E-mail a certified copy of the entire court order and all attachments to the HR Service Center at HRSC@state.gov or e-mail that address asking for mailing instructions. The Office of Retirement will review the documentation and provide a divorce determination letter explaining who gets which retirement benefits, or portions thereof.

Retirees should report any change in marital status (divorce, marriage, or death of spouse) by notifying the HR Service Center and providing the relevant documentation. A retiree who remarries has a limited period within which to make a survivor election for the new spouse. (Updated May 2022)

Accessing Your Annuity Records

Your Foreign Service annuity records can be viewed on www.EmployeeExpress.gov. On that site, you can also instantaneously update your tax withholdings, change your mailing address, and download your Form 1099-R. (Note: if you need to change your state or country of residence or the account where your annuity is electronically deposited, you must email AnnuityPaySupport@state.gov.)

In October 2021, the Office of Personnel Management implemented a new logon process requiring two-factor authentication. To logon, go to www.EmployeeExpress.gov and click on "Sign in with Login.gov." If you have not yet used the new logon system, you will need to follow the steps to register. If you have difficulties, submit a help request using the link on the page. In the field for agency, enter Foreign Service Annuitant. (Updated May 2022)

Accessing Your Social Security Records

All future and current Social Security beneficiaries should create a My Social Security account on the Social Security Administration's website. On it, future beneficiaries can view a personalized retirement benefits report that estimates the monthly payment they will receive depending on the age they apply (between age 62 and 70). Current Social Security beneficiaries can perform numerous functions, including updating their address and direct deposit information.

To create a My Social Security account, go to www.ssa.gov and click on Sign In/Up. You will be asked to verify your identity by providing personal information about yourself and answering questions taken from your credit report that only you are likely to know. You will need to enter a valid U.S. mailing address. If you currently have a fraud alert on your credit reports, you will face additional registration steps.

Once logged in, you can generate a personalized Social Security statement showing your year-by-year lifetime earnings history. Check to make sure it captures all your income that was subject to Social Security withholding. If any are missing, see the online instructions on what action to take. (Updated May 2022)

Do not let your FSPS Annuity Supplement get Suspended

Retirees in the FSPS retirement system who are under age 62 receive an Annuity Supplement. For those who have reached their Minimum Retirement Age (55 to 57 depending on year of birth), that supplement is subject to reduction through an annual earnings test. The earnings test looks at wage earnings from post-retirement employment (not income from pension, TSP withdrawals, investments, or other non-wage income).

In 2022, reductions start if you earn over \$19,560 during the calendar year. Your Annuity Supplement is reduced \$1 for every \$2 earned over that amount. For example, if a retiree has wage income of \$30,000 in 2022, then their 2023 Annuity Supplement will be reduced by \$5,220 (\$435 per month). One year later if they are still under age 62, their 2023 wage earnings will determine if reductions will be taken to their 2024 Annuity Supplement.

Reductions are based on the income report that Annuity Supplement recipients between their MRA and age 62 are required to send to the Human Resources Service Center in Charleston, SC in early January each year. Retirees who fail to file their earnings report will have their Annuity Supplement suspended without warning. While State will reinstate payments following a late submission of the earnings report, doing so takes staff time away from helping retirees with other questions or concerns.

For more information and the required form, see the Foreign Service Annual Annuitant Newsletter posted online by the State Department's Office of Retirement at <https://RNet.state.gov> under the "What's New?" tab. It is also posted on the AFSA Retirement Services web page at <http://www.afsa.org/retirement> under General Information on Retirement Issues. (Updated May 2022)

How Your FS Pension Functions as a Bond

Financial advisors recommend keeping retirement savings in a diversified portfolio. The most basic diversification is between stocks and bonds. Stocks provide gains over the long-term that allow the value of your investments to outpace inflation. Bonds limit short-term drops in the value of your investments during stock market downturns.

Two examples of diversified portfolios are:

- the TSP L Income Fund (usually recommended for current retirees) which is around 76 percent bonds (G and F Funds) and 24 percent stocks (C, S, and I Funds).

- the TSP L 2045 Fund (usually recommended for people who expect to begin TSP withdrawals around 2045) which is currently around 23 percent bonds and 77 percent stocks.

However, few TSP account holders realize that their Foreign Service pension is a functional equivalent to a bond. That is because pensions like bonds provide a reliable stream of fixed periodic payments. Moreover, a Foreign Service pension is equivalent to a U.S. government bond that, unlike corporate bonds, is backed by the full faith and credit of the USG.

This means that, for example, a retiree who is receiving, or a current employee who will receive, a \$5,000 per month pension is benefiting from periodic payments equivalent to their owning a \$1.5 million bond that pays four percent of its value annually.

Here are two examples of the impact of that fact:

- for a retiree with a \$5,000 per month pension who has \$900,000 in the TSP L Income Fund, their combined portfolio of TSP plus pension is equivalent to their holding 91 percent (not 76 percent) of their retirement assets in bonds.

- for a current employee who expects to receive a \$5,000 per month pension and to retire with \$900,000 in the TSP L 2045 Fund, their combined portfolio of TSP plus pension is equivalent to their holding 71 percent (not 23 percent) of their retirement assets in bonds.

Those allocations may satisfy people whose top concern is the preservation of their current TSP balance during occasional stock market downturn. However, people who are more concerned about maintaining the purchasing power of their retirement assets over several decades may wish to hold more of their TSP holdings in stocks. (Updated May 2022)

When to Apply for Social Security

One of the most important financial decisions facing American retirees is when to start receiving Social Security benefits. You can apply anytime between age 62 and 70. For every month that you wait after your 62nd birthday your monthly payment rises but you permanently forgo the skipped payments. So, what is the best age to start Social Security? The answer depends on your own individual situation. Here are factors to consider when you reach age 62:

- Are you still working? If you are earning significant income from a job or self-employment and you have not yet reached your full Social Security age (for example, age 67 for everyone born after 1959), then you probably do not want to start Social Security yet because the earnings test before that age reduces Social Security benefits by \$1 for every \$2 in earned income over \$19,560 a year. For example, \$50,000 in earned income would reduce your annual Social Security benefit by \$15,220. Earned income is money from work performed and excludes other income such as pension payments, TSP withdrawals, capital gains, and rental income.

- What is your life expectancy? For every month you wait to start Social Security, your payment rises at an annual rate of 6 to 8 percent. That makes waiting to apply a relatively good investment, but only if you live long enough for the total value of added monthly benefit to exceed the monthly payments that you skipped. That break-even point depends on your specific situation but is typically between ages 75 and 80. So, consider your family history and your current health to estimate your chances of living into your 80s to benefit from the extra money.

- When do you need the money? If you are either financially strapped or just want to increase spending on things like travel while you know you are in good health, you may want to start Social Security early in retirement despite the downside of locking in a lower monthly payment for life. On the other hand, consider if you might need that higher monthly payment in late retirement to cover long-term care costs or compensate for depleted TSP savings.

- Do you have a spouse? The age at which you claim Social Security benefits can impact the benefits available to your spouse. For example, if your lifetime earnings were substantially higher than your spouse's earnings then your spouse might qualify for a larger Social Security monthly payment calculated on your earnings instead of the spouse's.

When to start receiving Social Security is an important decision, so please do your own research. Websites of financial services companies such as Fidelity Investments have free calculators to help you evaluate different filing dates. You could also consult with a certified financial planner. (Updated May 2022)

Medicare Part B at Age 65

Around 75 percent of federal retirees sign up for Medicare Part B at age 65 to supplement continuing coverage under their Federal Employee Health Benefits plan. That eliminates almost all out-of-pocket medical costs and allows some retirees to reduce their FEHB premiums by switching from a high option FEHP plan to a lower, basic option. But retirees pay a premium for Part B which in 2022 is \$170.10 a month. Higher income retirees (over \$182,000 a year for those filing a joint tax return) pay even more. Coverage is per person, so a couple who each elect Part B coverage would both pay the premium.

Whether or not to sign up for Medicare Part B is a complex subject. Everyone should weigh the pros and cons as they apply to their specific health and financial situations. The pros and cons were briefly discussed during AFSA webinar "2022 FEHB Insurance and Benefits" starting at minute 52:26 posted on the AFSA Retirement Services web page at <http://www.afsa.org/retirement> under The Federal Employees Health Benefits Program. A detailed presentation by noted federal benefits expert Tammy Flannigan is on the website of the National Active and Retired Federal Employees Association (NARFE) at <https://new.narfe.org/open-season/>. (Updated May 2022)

Part of Your Foreign Service Pension is not Taxed

Because a small part of your Foreign Service pension is attributable to the mandatory contributions that you made during your career from after-tax income, that amount is not subject to re-taxation in retirement. If you retired in 2012 or later, your annual Form 1099-R lists both the gross amount and the taxable amount of your annuity. Input those numbers into your tax preparation software or give them to your tax preparer so that you do not pay taxes on the non-taxable amount. You continue deducting the annualized amount each tax year until you have deducted the full amount that you contributed to the retirement system. You will know that you have reached that point when your annual 1099-R no longer lists a lower taxable amount.

If you retired before 2012 when the State Department finance office started putting that data on 1099-R forms, then your 1099-R each year only lists the gross amount. The finance office should have sent you a letter at retirement detailing the total amount that you contributed to the Foreign Service retirement fund. If you prepare your own tax return, plug that number into the worksheet in IRS publication 721, "Tax Guide to U.S. Civil Service Retirement Benefits" to calculate the taxable amount of your annuity each year. See the explanation starting on page 5 of that publication which is available at www.irs.gov. Similar information is in the instructions to IRS Form 1040 starting on page 27.

If in past years you inadvertently paid taxes on the non-taxable portion of your annuity, you can avoid doing so in the future by following the instructions in the preceding paragraphs. If

you need the State Department finance office to tell you the total amount that you contributed to your pension system, email AnnuityPaySupport@state.gov.

The only way to recoup past tax overpayments is to file amended tax returns. This may not be worth your effort if the non-taxable portion of your annuity is relatively small, and your marginal tax rate is not in the upper brackets. You can generally only amend federal tax returns going back three years. (Updated May 2022)

Foreign Service Medallion

AFSA's Foreign Service Medallion is an elegant, five-inch architectural bronze medallion, etched with a modification of the Great Seal and the words United States Foreign Service. These high-quality medallions, which come in velour presentation boxes, can be used for presentation and commemorative purposes, or even affixed to gravestones.

The medallions, which cost \$149, can be purchased via credit card by clicking on a link at <http://www.afsa.org/medallion>. Domestic shipping is included. Contact AFSA for a price quote on international shipping.

Separately, the *Washington Post* has agreed to include AFSA's Foreign Service emblem in death notices and in-memoriums of Foreign Service members and retirees. To place a death notice in the *Washington Post* email deathnotices@washingtontimes.com. (Updated May 2022)

Foreign Service Retiree Associations

There are 16 state or regional Foreign Service retiree associations around the country. These groups are independent of AFSA but support the common goal of keeping Foreign Service retirees and other former foreign affairs personnel in touch with each other and their profession. The groups are varied in their size and activities – some offering lunch programs with speakers, while others are more focused on collegiality, and still others are active in outreach and advocacy.

If you have never participated in one of these groups, please see the list in your AFSA Directory of Retired Members or at www.afsa.org/retiree-associations. They are in 12 states plus two groups serving a multistate region (for example, New England). California and Texas have multiple chapters. If you live near one, please consider contacting the organizer to join. If you are interested in starting an association, AFSA can help contact members in your local area. Email member@afsa.org for more information.

Annual Retirement Benefits Information Updates

Each year around November 10, the State Department's Office of Retirement posts its Foreign Service Annual Annuitant Newsletter online at <https://RNet.state.gov> under the "What's New?" tab. A copy is posted on the AFSA Retirement Services web page at www.afsa.org/retirement under General Information on Retirement Issues. The over 40-page newsletter includes important information on retirement benefits including how to change your FEHB plan during Open Season, an explanation of the tax-free portion of your pension, and instructions on how next-of-kin can apply for survivors' benefits. Retirees receiving the FSPS annuity supplement will find the form that most of them must submit by early January reporting any previous-year wage (W-2 and/or 1099-NEC) income otherwise payment of their supplement will be suspended.

Each year by late December, AFSA mails all retirees its Directory of Retired Members. The over 200-page directory has a state-by-state listing of AFSA retiree members and contact

information for local Foreign Service retiree associations. The front section contains information to answer your questions on Medicare, FEHB, Social Security, TSP, beneficiary designations, survivor benefits, former spouse benefits, REA/WAE employment, and other topics. It also lists contact information for State Department offices that serve Foreign Service annuitants from all agencies. (Updated May 2022)

Expert Financial and Estate Planning Advice

If you ever need a professional financial planner, tax expert, or an attorney specializing in wills and trusts, check the referral list on AFSA's website at www.afsa.org/retirement under Financial Planners, Tax Help, and Estate Planners.

The list features financial planners, accounting services, and estate planners who have successfully represented Foreign Service employees. Some on the list were recommended by AFSA members, some have advertised with the Foreign Service Journal, and some are frequent speakers at retirement planning presentations at the Foreign Service Institute and AFSA.

This list is provided as a courtesy. Just like the attorney list that has long been on the AFSA website, AFSA does not endorse anyone on the list, nor does it accept responsibility for the consequences of acting on their advice. (Updated May 2022)

AFSA's Speakers Bureau

AFSA has a Speaker's Bureau which connects active-duty or retired member of the Foreign Service to organizations interested in hosting a speaker. Members of the Foreign Service who are interested in speaking to organizations to share their expertise and increase awareness of the work of the Foreign Service can sign up with the AFSA Speakers Bureau at www.afsa.org/about-afsas-speakers-bureau.

The Speakers Bureau also supports members of the Foreign Service who arrange their own speaking engagements. AFSA has resources available on the aforementioned webpage, including talking points, to help prepare presentations and do local outreach.

AFSA's One-Stop Retirement Services Webpage

AFSA maintains a Retirement Services page at www.afsa.org/retirement that contains over 100 documents and links useful to retirees, ranging from State ALDACs with authoritative information on retirement to AFSA-sponsored webinars on financial planning and post-retirement employment opportunities to clear retirement-related checklists. It is helpful for both active duty and retired personnel as it contains pre- and post-retirement information.

AFSA recommends that you familiarize yourself with this resource, as it is a ready place to answer the most common questions regarding retirement. Retirees have especially noted how valuable the page is once they lose access to their agencies' intranets.

How to Get Help from AFSA on Retirement Issues

AFSA's Counselor for Retirees is available to help AFSA members with retirement-related questions and can refer members to an array of resources. The Counselor also can help when members hit bureaucratic snags with their retirement benefits, or just do not know how to get a particular matter resolved. You can reach the Counselor, Dolores Brown, at brown@afsa.org