2026 Annual Federal Employee Retirement Report

For FERS Employees Only

FED PILOT

PFM Elite

Prepared for federal employees — December 2025 (for the 2026 plan year)

2026 brings a mix of predictable, legislated changes (higher contribution limits and COLAs), substantive benefit-cost pressures (notable FEHB premium increases and plan changes), ongoing operational challenges at OPM that are delaying retirements, and several practical opportunities for federal employees to optimize retirement outcomes (use of TSP catch-ups, health-plan selection during Open Season, tax-savvy timing of retirement, and contingency planning). Key authoritative sources are OPM, TSP, SSA, and IRS guidance linked below.

I. Major rule changes & adjustments for 2026

1. **Thrift Savings Plan (TSP) contribution limits increased**

   The IRS/TSP limits for 2026 increase the standard employee elective deferral to **$24,500** (up from $23,500 in 2025), and the §414(v) catch-up for eligible participants is set (check TSP bulletins for participant-specific catch-up rules). These higher limits give higher-earning federal employees more room to accelerate tax-advantaged savings in 2026. TSP

2. **Social Security and COLAs**

   Social Security announced a **2.8% COLA** for 2026; OPM has published differing COLA adjustments for annuitants under FERS (2.0%) for annuity calculations and federal retirement indexing — employees should model the impact when projecting retirement income. Social Security

3. **FEHB / OPM health-insurance changes**

   OPM's Open Season materials for plan year 2026 show **premium increases** and plan design shifts (including changes to deductibles, catastrophic out-of-pocket limits, and government contribution calculations). OPM set a higher government contribution benchmark for 2026, and many plans changed premiums meaningfully — some enrollees could be auto-enrolled into higher-premium options if they do nothing. U.S. Office of Personnel Management

4. **IRS / broader retirement tax changes (impacting federal employees indirectly)**

   2026 sees higher IRS limits for employer-sponsored plan deferrals and IRA phase-ins (e.g., 401(k)/TSP limits and IRA limits increased); SECURE-2.0 indexing changes continue to affect catch-up rules and other retirement plan mechanics. Federal employees should evaluate how higher limits and catch-up mechanics interact with federal plan rules. IRS

5. **Operational & administrative changes at OPM**

   OPM continues modernizing retirement systems but processing delays have increased retiree wait times and case backlogs, which affects timing of annuity starts and benefit elections. This is a practical (non-statutory) “rule change” in experience: expect longer processing timelines and plan liquidity accordingly. Federal News Network

Top risks for federal employees in 2026

1. **Healthcare cost shock at retirement**

   FEHB premium increases and plan design changes may raise retiree premiums and out-of-pocket exposure; employees nearing retirement risk underestimating future healthcare costs if they assume 2025-level pricing. U.S. Office of Personnel Management

2. **Timing risk from OPM processing delays**

   Delays in retirement processing can push annuity start dates out, affecting bridging income and tax timing (e.g., delayed TSP withdrawals or temporary Medicare/FEHB transitions). Plan for cash reserves in months after separation. Federal News Network

3. **Inflation / purchasing-power erosion**

   While COLAs partially offset inflation, differences between Social Security and FERS COLAs mean retirees may see real-world cost pressures depending on their benefit mix. Model worst-case inflation scenarios in cashflow plans. Social Security

4. **Behavioral risks — “do nothing” enrollment decisions**

   Auto-defaults during Open Season (or doing nothing) can leave some enrollees in suboptimal FEHB plans; similarly, failing to increase TSP deferrals to the new limits or to take advantage of catch-up rules leaves money on the table. U.S. Office of Personnel Management

5. **Tax/timing mismatches with external investments**

   Increased IRS limits change what's optimal between TSP, IRAs, and taxable accounts; poor sequencing of rollovers/withdrawals can create avoidable tax spikes.

Opportunities and recommended actions

1. **Maximize TSP with the new 2026 limits**

   Increase elective deferrals toward the **$24,500** limit where cashflow allows. For those eligible for catch-up contributions, model catch-up strategies (traditional vs Roth TSP) to optimize tax outcomes. Use Roth conversions strategically if you expect higher tax brackets in retirement. TSP

2. **Health-plan triage during Open Season**

   Run a "total cost" scenario (premiums + expected OOP + Rx) for each FEHB option you're eligible for in retirement. If you expect high Rx or specialty drug exposure, prefer plans with better specialty drug coverage even if premiums are higher; otherwise low premium + low utilization may be optimal. Act deliberately — do not assume defaults are best. U.S. Office of Personnel Management

3. **Build a retirement cash buffer to absorb OPM delays**

   Maintain 3–6 months of living expenses in accessible cash (or bridge income solutions) to handle potential annuity delays. Prepare retirement date flexibility and contingency cash plans. Federal News Network

4. **Run multi-scenario modeling that includes different COLA outcomes**

   Because FERS COLAs differ and Social Security is indexed separately, model a range (0–5% real inflation scenarios) to stress-test purchasing power.

5. **Tax planning with new IRS limits**

   Use higher 2026 contribution limits to shift taxable income; coordinate Roth vs traditional deferrals based on projected tax rate differentials. Consider SEP/IRA coordination for spousal side incomes. IRS

6. **Estate & survivor benefit alignment**

    Revisit survivor elections (SRS/FERS options) in light of updated spouse/beneficiary health coverage costs and tax projections. Small adjustments to survivor elections can materially affect both premium and annuity levels.

Additional Attachments:

- FERS Retirement Readiness Checklist
- FERS Retirement Readiness Scorecard

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2026 FERS Retirement Readiness Checklist

Use this one-page checklist to prepare for retirement under the Federal Employees Retirement System (FERS). Designed for printing and annual review.

12–24 Months Before Retirement

- ❒ Obtain an official FERS retirement estimate from your agency
- ❒ Verify creditable service time, unused sick leave, and high-3 salary
- ❒ Increase TSP contributions toward the 2026 IRS limit if cash flow allows
- ❒ Review Roth vs Traditional TSP strategy for tax diversification

6–12 Months Before Retirement

- ❒ Compare FEHB plans using total cost (premium + expected out-of-pocket)
- ❒ Confirm eligibility to carry FEHB into retirement (5-year rule)
- ❒ Decide on FERS survivor benefit election and FEGLI coverage
- ❒ Build a 3–6 month retirement income cash reserve

90 Days Before Retirement

- ❒ Submit retirement application and confirm agency processing timeline
- ❒ Finalize TSP withdrawal, rollover, or income strategy
- ❒ Coordinate Social Security claiming strategy with TSP withdrawals
- ❒ Update beneficiaries on TSP, FEGLI, and personal accounts

First 6 Months After Retirement

- ❒ Track OPM retirement claim and interim annuity payments
- ❒ Review first annuity statement for accuracy
- ❒ Confirm FEHB coverage and premium deductions
- ❒ Reassess cash flow, taxes, and withdrawal strategy

Important: This checklist is educational and should be paired with individualized planning.

2026 FERS Retirement Readiness Scorecard

1. Core FERS Retirement Foundations (25 points)

☐ I have obtained an **official FERS retirement estimate** from my agency (10 pts)
☐ My **High-3 salary** and **creditable service time** are verified (10 pts)
☐ My **unused sick leave** is included in my annuity estimate (5 pts)

Section Total: ______ / 25

2. TSP & Investment Strategy (30 points)

☐ My **TSP contributions** are optimized for current IRS limits (10 pts)
☐ I have evaluated **Roth vs. Traditional TSP** for tax diversification (10 pts)
☐ I have a **documented withdrawal / rollover strategy** for retirement (10 pts)

Section Total: ______ / 30

3. Healthcare & Insurance Planning (25 points)

☐ I compared **FEHB plans using total cost** (premium + out-of-pocket) (10 pts)
☐ I meet the **5-year rule** to carry FEHB into retirement (10 pts)
☐ My **FEGLI coverage** has been reviewed or adjusted (5 pts)

Section Total: ______ / 25

4. Income, Taxes & Timing (25 points)

☐ My **Social Security claiming strategy** is coordinated with FERS & TSP (10 pts)
☐ I have a **tax-efficient withdrawal order** planned (10 pts)
☐ I have a **3–6 month cash reserve** for OPM processing delays (5 pts)

Section Total: ______ / 25

5. Survivor & Estate Planning (15 points)

☐ My **FERS survivor benefit election** is decided and understood (10 pts)
☐ **Beneficiaries** are updated on TSP, FEGLI, and personal accounts (5 pts)

Section Total: ______ / 15

Total Score: ______ / 120

How to Interpret Your Score

100–120 → Retirement Ready
You are well-positioned under FERS with minimal planning gaps.

75–99 → On Track, but Exposed
You are close, but unaddressed risks could reduce income or increase taxes.

Below 75 → Action Needed
Significant planning gaps exist that could materially impact retirement security.

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