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Everything You Ever Wanted to Know about Retirement...

To Coordinate with OWCP

Part 1

presented by

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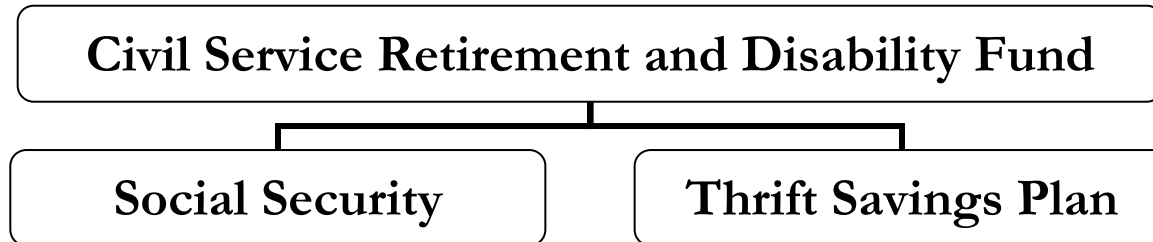


Retirement Planning

- Introduction
- Goals for session:
 - Provide a basic understanding of the retirement system to determine eligibility.
 - Assist employees who will be on the long term OWCP rolls in making decisions to preserve their rights and those of their survivors in the event they should lose OWCP entitlement in the future.
- Agenda
 - 1st session – background on retirement systems
 - 2nd session – coordinating with OWCP

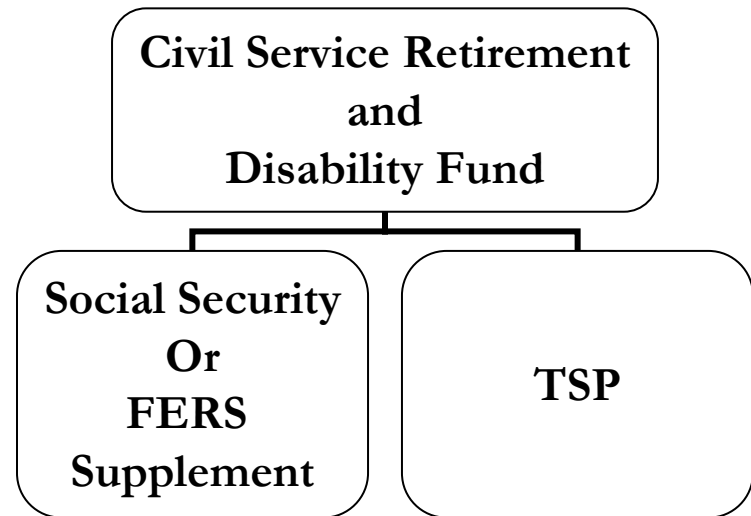
Background CSRS

- Background
 - August 1, 1920
 - Defined benefit based on high-3 average salary and length of service



Background FERS

- Social Security Amendments Act 1983
- Effective January 1, 1987
- Three tiered system
 - Defined Benefit
 - eligible immediately or can be deferred/postponed
 - based on high-3 average salary and length of service
 - Social Security
 - not eligible until age 62 under normal circumstances
 - Thrift Savings Plan
 - eligible immediately with/without penalty





Creditable Service

- Civilian service
 - Covered service
 - Non-Deduction Service
 - Redeposit Service
- Military service
- Unused Sick Leave
 - CSRS - unused sick leave added to length of service (cannot use to become eligible)
 - FERS – VHA RN’s unused sick leave added to length of service (cannot use to become eligible)
 - TransFERS – lesser sick leave balance on the date of transfer or the date of retirement added to CSRS component



Covered Service

- Federal civilian service when retirement contributions were withheld from wages
 - Counts for eligibility and computation
 - Break in service less than 4 days
 - LWOP
 - Intermittent service
 - Part-time service
 - OWCP



Deposit Service

- CSRS

- Prior to 10/01/82, creditable for length of service & annuity computation. Without deposit, 10% of amount owed + interest will be subtracted from annuity check. Interest is at the rate of 3% compounded annually.
- After 09/30/82, only counts as length of service unless a deposit is made. Interest is charged annually at a variable interest rate.

- FERS

- Non-deduction service performed prior 01/01/89 must make deposit to count for any purpose. Interest is charged annually at the rate of 3% through 12/31/1984 and at a variable interest rate beginning 01/01/1985.



Interest on Deposit Service

- Unless there is a specific statutory provision to the contrary, interest is computed on deposits, as explained below, from the midpoint of each period of non-deduction service
 - Interest for non-deduction service performed before October 1, 1982, accrues **daily**, compounded annually, and is charged at 4% through December 31, 1947; and 3% from 1948, through the date the deposit is made or to the commencing date of annuity, whichever is earlier.
 - Interest for non-deduction service performed on or after October 1, 1982, accrues **annually**, compounded annually on December 31 of each year, and is charged at 3% through December 31, 1984; and at a variable rate determined annually by the Department of the Treasury beginning January 1, 1985. The variable interest rate for any year equals the overall average yield to the Fund from retirement securities during the preceding fiscal year.



Redeposit Service

- CSRS
 - Refunded service prior to 10/01/90, redeposit not required (will be actuarially reduced).
 - Refunded 10/01/90 or after, counts for eligibility but redeposit must be made to be used in annuity computation.
- FERS
 - Refunded service is not included for length of service nor in annuity computation. Only an option if refunded as CSRS.



Interest on Redeposit Service

- Interest on refunds
 - If refund was based on an application received prior to 10/01/82, interest accrues daily (compounded annually) beginning on date refund was paid and charged at the rate of 3% from 1948 until date redeposit is made or date of retirement.
 - If refund was based on an application received after 09/30/82, interest is charged beginning on the date the refund was paid at a variable rate compounded annually.



Military Service

- Military service counts if
 - Performed prior to separation upon which title to an annuity is based
 - Is not included in the computation of retired military pay and
 - If performed after December 31, 1956, some employees will have to make a deposit to receive/retain credit



Military Service Deposits

- CSRS
 - If employed prior to 10/01/82, post-56 military service counts with no deposit but with possible reduction at age 62
 - If employed after 09/30/82, requires a deposit for eligibility and annuity computation purposes
- FERS
 - Post-56 military service requires a deposit for eligibility and annuity computation purposes



Voluntary Retirement

- Age and service requirement
 - CSRS 55/30 - FERS MRA/30 years of service
 - Age 60 with 20 years of service
 - Age 62 with 5 years of service
- Minimum 5 years civilian service
- Retire from a position covered by retirement contributions
- CSRS Only – Meet the “one-out-of-two” rule



What is Minimum Retirement Age?

| If year of birth is... | The minimum retirement age is... |
|------------------------|----------------------------------|
| Before 1948 | 55 years |
| 1948 | 55 years and 2 months |
| 1949 | 55 years and 4 months |
| 1950 | 55 years and 6 months |
| 1951 | 55 years and 8 months |
| 1952 | 55 years and 10 months |
| 1953 to 1964 | 56 years |
| 1965 | 56 years and 2 months |
| 1966 | 56 years and 4 months |
| 1967 | 56 years and 6 months |
| 1968 | 56 years and 8 months |
| 1969 | 56 years and 10 months |
| After 1969 | 57 years |



Minimum Retirement Age+10

- Retirement option for FERS employees only
- Minimum retirement age (MRA)
- Minimum 5 years civilian service
- 10-year service requirement
- No entitlement to immediate annuity based on age and service
- Position must be covered by retirement contributions
- Possible reduction for age



Early Voluntary

- Age and service requirement
 - Age 50 with 20 years of service or
 - Any age with 25 years of service
- Minimum 5 years civilian service
- Serve in position covered and separate by close of early out period
- CSRS penalty reduction under age 55 – 2% for every year-1/6 of 1% for every month under age 55, permanent penalty for life
- No age penalty for FERS
- Retire from a position covered by retirement contributions
- CSRS Only – Meet the “one-out-of-two” rule



Discontinued Service

- Age and service requirement
 - Age 50 with 20 years of service or
 - Any age with 25 years of service
- Minimum 5 years civilian service
- No declination of a “reasonable job offer”
- CSRS penalty reduction under age 55 – 2% for every year-1/6 of 1% for every month under age 55, permanent penalty for life
- No age penalty for FERS
- Retire from a position covered by retirement contributions
- CSRS Only – Meet the “one-out-of-two” rule



Deferred Retirement

- Not eligible for immediate annuity within one month of separation
- Minimum 5 years civilian service
- No refund of retirement deductions
- Retire from a position covered by retirement contributions
- CSRS Only – Meet the “one-out-of-two” rule



Special Provisions LEO/FF

- Age and service requirement
 - Age 50 with 20 years LEO/FF
- FERS - Any age with 25 years of service
- Mandatory retirement with 20 years of special provision retirement coverage
 - Law enforcement officers age 57
 - Fire fighters age 57
- Minimum 5 years civilian service
- Retire from a position covered by retirement contributions
- CSRS Only – Meet the “one-out-of-two” rule



Air Traffic Controllers

- Age and service requirement
 - Age 50 with 20 years ATC
 - Any age with 25 years ATC
- Mandatory retirement with 20 years of ATC covered service at age 56
- Minimum 5 years civilian service
- Retire from a position covered by retirement contributions
- CSRS Only – Meet the “one-out-of-two” rule



National Guard Techs

- Same requirements as regular employees for immediate retirement
- Eligible for special disability retirement if
 - CSRS - Medically disqualified for military duty and 5 years of service
 - FERS - Lose military status due to disability and 18 months of service
- Minimum 5 years civilian service
- Retire from a position covered by retirement contributions
- CSRS Only – Meet the “one-out-of-two” rule



Disability Retirement

- Covered by and disabled while subject to retirement coverage
- CSRS - 5 years civilian service
- FERS - 18 months civilian service
- Retire from a position covered by retirement contributions
- CSRS Only – Meet the “one-out-of-two” rule



Disability Requirements

- Document disability criteria
- Periodic medical reviews
- Medically recovered
- Restored to earning capacity

High-3 Average Salary

- Largest annual rate resulting from averaging rate of basic pay (includes locality pay, excludes overtime)
- Must be continuous 3 years of service

Retirement date 12/31/2007

| | | | | | |
|-------------------------------|-------------|---|----------|---|--------------|
| 01/01/2005 to 01/08/2005 | \$44,650.00 | x | 0.022222 | = | \$ 992.21 |
| 01/09/2005 to 03/26/2005 | \$45,900.00 | x | 0.216667 | = | \$ 9,945.02 |
| 03/27/2005 to 01/07/2006 | \$47,250.00 | x | 0.780556 | = | \$ 36,881.27 |
| 01/08/2006 to 01/06/2007 | \$51,300.00 | x | 0.997222 | = | \$ 51,157.49 |
| 01/07/2007 to 12/31/2007 | \$53,717.00 | x | 0.983333 | = | \$ 52,821.70 |
| Total salary over three years | | | | = | \$151,806.69 |

Divide \$151,806.69 by 3 = \$50,602 is high-3 average salary



Commencing Date of Annuity

- CSRS - First day of the month after separation from service (can work up to 3 days in a month and annuity will commence day after separation)
- FERS - First day of the month after separation from service
- Exceptions - Disability and discontinued service retirements



CSRS General Annuity Formula

- $1.50\% \times \text{high-3} \times 1\text{st } 5 \text{ years/service}$
- $1.75\% \times \text{high-3} \times 2\text{nd } 5 \text{ years/service}$
- $2.00\% \times \text{high-3} \times \text{years/months over } 10$

- Maximum annuity payable cannot exceed 80% of high-3 average salary = 41 years/11 months of service (sick leave can increase)



CSRS Special Provision Annuity Formula

- $2.50\% \times \text{high-3} \times 20$ years service of special provision service
- $2.00\% \times \text{high-3} \times \text{years/months over 20}$ (including special provision time over 20 years, military time, and/or unused sick leave)
- Maximum annuity payable cannot exceed 80% of high-3 average salary (sick leave can make it more than 80%)
 - 20 years special provisions = 50%
 - 15 other years = 30% (this can include special provision time over 20, military time, or other federal service time)



CSRS Disability Computation

- Disability annuitant receives **higher** of general annuity formula (the earned annuity) or a guaranteed minimum. The guaranteed minimum is the **lesser** of:
 - 40% of the high-3 average salary (this provides an individual with an annuity as if they had worked 21 years 11 months)
 - Amount obtained under general formula after increasing the actual years, months and days of service by the total years, months, and days remaining from the commencing date of the employee's annuity through the date they become age 60



CSRS Disability Comp Considerations

- Annuities computed under the earned annuity formula
 - Unpaid deposits – Earned annuities having a pre-10/01/1982 deposit service that has not been made, the annuity is reduced by 10% of total owed including interest.
 - Redeposits – The Omnibus Budget Reconciliation Act of 1990 (OBRA) which permits actuarial reductions for refunded CSRS service ending prior to 10/01/1990, specifically excludes this provision for disability retirees.
- Annuities computed under the guaranteed minimum formula
 - If using this formula, then making deposits might not be necessary since it is computed on a percentage instead of length of service
 - Payment or nonpayment of the deposit only affects the portion of the guaranteed minimum formula computed under the projecting service until age 60. If projected annuity exceed the 40% calculation without the deposit, then making the deposit has no effect since is it based on the lesser of the two computations.



CSRS Effect of Military Svc on Disability

- Employees receiving military retired pay or VA compensation in lieu of military retired pay are not eligible for the guaranteed minimum nor to have any military service used in the computation of the annuity UNLESS the military retired pay was awarded
 - On account of a service-connected disability incurred in combat with an enemy of the US; or
 - On account of a service-connected disability caused by an instrumentality of war or incurred in the line of duty during a period of war; or
 - Under provisions of 10 USC 12731-12739 (Chapter 1223) which grants retired pay to member of the reserved components of the armed forces on the basis of age and service (active and reserve.)
- Exception: If military retired pay, VA compensation, and the earned annuity combined are less than the guaranteed minimum, the CSRS benefit will be increased by the dollar amount of the difference.



CSRS Effect of Military Svc on Dis. Cont.

- Waiver of Military Retired Pay
 - Annuitant may waive military retired pay and renounce certain types of VA benefits to receive credit for military service in the computation of disability annuity.
 - Individuals not entitled to military retired pay may receive VA benefits and still have military service credited for retirement purposes
 - Individuals whose civilian retirement is not based on disability need not renounce VA benefits to receive credit for military service if they waive military retired pay



FERS General Annuity Formula

- General formula-immediate unreduced:
 - Under age 62 =
 - $1\% \times \text{high-3} \times \text{years/months of service}$ plus FERS annuity supplement
 - 62 or older with less than 20 years =
 - $1\% \times \text{high-3} \times \text{years/months of service}$
 - 62 or older with more than 20 years =
 - $1.1\% \times \text{high-3} \times \text{years/months of service}$



FERS Special Provision Annuity Formula

- $1.7\% \times \text{high-3 average salary} \times 20 \text{ years special provisions}$
(34%)
- $1.0\% \times \text{high-3 average salary} \times \text{years/months over 20}$
(even if worked in a special provision position)



Enhanced Annuity – BAL 04-105

- In limited circumstances, the law permits a 1 percent annuity enhancement for certain FERS employees receiving OWCP. This provision is designed to make up for FERS beneficiaries' inability to participate in SSA or TSP during a period of absence from the workplace while receiving OWCP benefits.
- FERS employees receiving OWPC benefits during qualifying periods of absence are eligible for the enhanced annuity computation if all qualifying periods of absence totals 2 months or more.



Enhanced Annuity – BAL 04-105 con't

- Qualifying periods of absence include:
 - A period of LWOP while employees is performing no work in receiving OWCP;
 - A period of separation from service while receiving OWCP benefits, if the former employees is later reinstated in Federal service and earns title to a FERS annuity; or
 - A period of retirement while receiving OWCP benefits in lieu of annuity payments, if the annuitants is later reemployed in the Federal service and earns title to a new FERS annuity.
- In order for the employee to receive the enhanced annuity computation, the date of final separation must be October 3, 2003 or later. The enhanced annuity computation is only applied to periods that are creditable under FERS rules.



FERS Disability Computation

- First 12 months - 60% of high-3 minus 100% of social security benefit
- After first 12 months - 40% of high-3 minus 60% of social security benefit
- Re-computed at age 62



FERS Annuity Supplement

- To provide a level of income before age 62 similar to Social Security
- Paid by OPM to FERS and TransFERS employees who have at least one calendar year subject to FERS computation rules; under age 62; and retire on an immediate annuity which is not reduced for age



Estimate the FERS Supplement

1. Check SSA benefit statement for age 62 benefit amount.
Example: \$1200.00
2. Compute number of FERS years of service. Do not include military buy back years: Example: 25 years
3. Divide FERS years of service by number 40 to get fraction: Example: 25 divided by 40 = .625
4. Multiply fraction by age 62 SSA benefit amount
Example: \$1200.00 x .625 = \$750.00

\$750 = estimated FERS supplement amount



Survivor Benefits

- 3 choices at retirement:
 - Self-only annuity
 - Partially reduced annuity
 - Fully reduced annuity
- For current spouse, former spouse, or a combination of the two unless there is a valid court order awarding a survivor benefit to the former spouse

CSRS Full Survivor Benefit Example

- Your annuity is \$25,000 per annum:

| | | | | |
|-----------------|---|------|---|-------------------|
| \$25,000 (base) | x | 55% | = | \$13,750* |
| <u>- 3,600</u> | x | 2.5% | = | \$ 90 |
| \$21,400 | x | 10% | = | <u>\$ 2,140</u> |
| | | | | \$ 2,230** |

*Amount of survivor benefit (\$1062.50/month)

**Cost to provide survivor benefit (\$178.34/month)

CSRS Partial Survivor Benefit Ex.

- Your annuity is \$25,000 per annum yet you elect something less than \$25,000 to be your base:
 - Cost is 2.5% of the first \$3600 of base elected and
 - 10% for any amount over \$3600
 - Value of partial survivor benefit equals 55% of base elected
- Example:

$$\begin{array}{r r r r r} \$10,000 \text{ (base)} & \times & 55\% & = & \$ \mathbf{5,500^*} \\ - \mathbf{3,600} & \times & 2.5\% & = & \$ \quad 90 \\ \$ 6,400 & \times & 10\% & = & \$ \mathbf{640} \\ & & & & \$ \mathbf{730^{**}} \end{array}$$

*Amount of survivor benefit (\$458/month)

**Cost to provide survivor benefit (\$61/month)



FERS Survivor Benefit Examples

- Full survivor benefit computation if your annuity is \$10,000 per annum
 - Cost is 10% of your annuity (reducing your annuity by \$1000)
 - Survivor will receive $\frac{1}{2}$ of your annuity or \$5000 per year in the event of your death

- Partial survivor benefit computation if your annuity is \$10,000 per annum
 - Cost is 5% of your annuity (reducing your annuity by \$500)
 - Survivor will receive $\frac{1}{4}$ of your annuity or \$2500 per year in the event of your death



Death Benefits

- Survivor benefits payable if employee:
 - Completed 18 months creditable civilian service and died while subject to CSRS/FERS
- To be an eligible spouse:
 - Been married for at least 9 months or
 - Child born of the marriage or
 - Death of employee was accidental AND
 - No court order awarding benefits to a former spouse



CSRS Death Benefit

- Spouse receives 55% of the higher of:
 - Annuity computed under general formula or
 - Guaranteed minimum which is the lesser of:
 - 40% of deceased employee's high-3 average salary or
 - Regular annuity obtained after increasing deceased employee's length of service to age 60



FERS Death Benefit

- Basic death benefit:
 - \$ 27,461.91 plus
 - 50% of employee's final annual salary rate (or high-3 average salary if higher)
- Monthly survivor benefit payable if employee had at least 10 years creditable service and died while subject to FERS



Child/Children Benefit

- The definition of a child is one that is
 - legitimate
 - born out of wedlock
 - stepchildren or
 - adopted
- To be eligible for a monthly benefit child must be unmarried and dependent and
 - under age 18 unless
 - full time student then under age 22 or
 - if disabled, became disabled prior to age 18



COLAs

- Determined by percent change in base quarter price index from previous year in which COLA is to become effective
- CSRS receive full COLAs immediately
- FERS receive reduced COLA after age 62 (unless disability or special provisions)



Thrift Savings Plan

- Tax Deferred Saving Plan
 - CSRS employees can contribute up to \$15,500
 - no matching contributions
 - FERS employees can contribute up to \$15,500
 - automatic 1% government contribution of base pay
 - government match up to 4% more of base pay



TSP While Working

- Open Seasons
- Investment Options
- Loan Program
- In-Service Withdrawals
- LWOP
- Leaving Federal Service
 - Payout Options

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Everything You Ever Wanted to Know about Retirement...

To Coordinate with OWCP

Course #21

Part 2

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Discussion Topics

- How/why does retirement tie in with OWCP?
- How do you
 - count service, if collecting OWCP if on LWOP?
 - count service, if collecting OWCP and separated from the agency?
 - compute the high-3 salary if they have been separated from the agency, return, and then retire?
- Tell me about
 - FEHB
 - FEGLI
 - TSP



Websites of Interest

- The following websites are of great assistance:

www.opm.gov/retire

www.tsp.gov

www.opm.gov/insure

www.opm.gov/benefits

www.ssa.gov

www.narfe.org

www.tsp.com

www.opm.gov/forms

www.ltcfeds.com

www.tricare.osd.mil

- In closing, thank you for attending today and please feel free to contact me anytime.

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