Government Executive

Neither CSRS nor FERS

By Tammy Flanagan

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It's been a while since I've written about a group of federal employees who sometimes feel overlooked or forgotten -- those who are are neither under the Civil Service Retirement System or the Federal Employees Retirement System. Rather, they're in a system that has some of the elements of both, but with a few complicated twists -- CSRS Offset.

CSRS Offset covers employees who completed at least five years of civilian federal service creditable under CSRS, but who also have come under the Social Security system at some point. I've written about this program in the past. These three columns should answer most questions about CSRS Offset:

- Best of Both Worlds An introductory description of CSRS Offset, along with a little history and some resources.
- Understanding CSRS Offset An overview of the system, with an explanation of how the offset is computed at age 62 or at the time of retirement, if later.
- Complicating Factors A look at what happens when a CSRS Offset retiree is married to CSRS retiree and the CSRS Offset retiree dies.

I recently received a question from a reader about CSRS Offset that I think sheds some light on the system, and provides some general insights into how to think about retirement benefits:

With CSRS I've always understood that if you work long enough (41 years and 11 months, I think) your annuity would be 80 percent of your high-three average salary. That is not the case with Offset, is it? I have about 38 years of service and am 66 years old. I have had several projections done by my agency benefits personnel. It looks as though whether I retired now or two or three years down the road, the CSRS part of my annuity would change very little unless I received a promotion or our annual cost-of-living increase went up considerably more than the current 1 percent or the frozen rate of the past several years. If this understanding is correct, it causes me to question whether there is any financial benefit to continue to work.

Whether you are covered under pure CSRS or CSRS Offset, the computation of your CSRS annuity increases 2 percent per year of additional service after your first 10 years. The first 10 years are computed at 16.25 percent of your high-three, so if you retire with 20 years of service, that would be 16.25 percent for the first 10 years and 20 percent for the remaining 10 years, for a total of 36.25 percent. So, for 38 years of service, the total would be 72.25 percent. Every additional year of service would add another 2 percent of your high-three average salary. Even if your salary is not increasing very much, you would still receive credit for another year of service.

Let's say that your high-three average salary is $65,000 and you have 38 years of service. Your CSRS benefit would a little less than $47,000 a year. Another year of service would add an additional $1,300 per year to your benefit.

Keep in mind that even though recent pay increases have been slim and far between, even small increases in your salary would cause this additional service credit to be computed on a higher high-three average. Let's say that by working another year, your high-three average creeps up to $66,000. Now your benefit would be a little more than $49,000 a year. That's an increase of more than $2,000, because all 39 years are computed at the new high-three average.

Of course, since you're in CSRS Offset, you have a Social Security component to this discussion and your CSRS benefit that I've computed above will be subject to the offset based on your Social Security-covered CSRS Offset service. The promise of CSRS Offset is that your combined CSRS and Social Security benefit won't be less than your CSRS retirement benefit without the offset.

If you've been covered under CSRS Offset for 15 years of your career, then the offset would generally be computed as follows:

15/40 x the Social Security benefit you're entitled to upon retirement at the time your CSRS annuity begins. (If you're not entitled to Social Security at age 62, there is no offset until you later become entitled to Social Security.)

Let's say that your Social Security benefit is $14,000 per year. The offset would be $5,250. If you work another year, then the offset would be 16/40 x your Social Security benefit. The Social Security benefit also would have increased because you would have worked another year at higher wages. And, since you're retiring past your full retirement age, you will earn an 8 percent delayed retirement credit on your benefit and a cost of living adjustment. So now, let's say that your Social Security benefit is $15,500. The offset to your CSRS benefit will now be computed as 16/40 x $15,500, or $6,200.

So here's your CSRS Offset retirement with 38 years of service:

$46,962 - $5,250 = $41,712 + $14,000 = $55,712

And here it is with 39 years of service:

$49,005 - $6,200 = $42,805 + $15,500 = $58,305

By waiting a year to retire, your total income has increased by $2,592. This is a larger boost than you would have received had you been covered under pure CSRS, because you're entitled to Social Security increases that are more than 2 percent a year once you're past your full retirement age and you receive cost-of-living adjustments on your Social Security benefit. In addition, you could have forfeited the delayed retirement credit and began receiving your Social Security retirement benefit at your full retirement age whether or not you were still working, since there is no longer an earnings limit on your Social Security entitlement.

The lesson from this example is that there are many moving parts to a retirement computation. To fully understand the benefit of working another year -- or even another month -- you need to look at your retirement benefits as a whole rather than just one part individually. This can get complicated, because only your agency can compute your CSRS or FERS benefit for you. And you'll need to visit the Social Security website to estimate your Social Security benefit. Then there's the Thrift Savings Plan, which can provide retirement income via a wide variety of withdrawal options.

By the way, for those who are wondering, the employee in the example above mentioned she had more than 30 years of Social Security covered employment, meaning she's exempt from the Windfall Elimination Provision. But after a 38-year career, the question she has to think about is, if she has enough income to retire comfortably, is it worth another $1,300 or even $2,600 to stay another year -- and have one less year to enjoy retirement?

That's a discussion for another day.

(*Image via Jerry Sliwowski/Shutterstock.com*)

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http://www.govexec.com/pay-benefits/retirement-planning/2015/02/neither-csrs-nor-fers/104727/