Government Executive

Planning for a Delayed Retirement

By Tammy Flanagan

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According to the 17th Annual Transamerica Retirement Survey, workers' expectations regarding when they will retire have shifted dramatically from an earlier era, when most people expected to retire at age 65, the original full retirement age for Social Security. According to the Office of Personnel Management, the average retirement age for a federal employee between 2005 and 2014 was 60.2 years and average length of service was 27.8 years; 54 percent of those were age 60 or older; and half of retirees had 30 or more years of service. According to the Transamerica study, the majority of American workers (54 percent) plan to work past age 65, including 13 percent who do not plan to retire at all.

While most federal employees probably do plan to retire at some point, the top three largest federal agencies all have experienced a slight increase in the average retirement age, OPM reports. Of the 1,860,702 full-time permanent federal employees in 2015, 75,891 of them already were age 65 or older—a little over 4 percent of the workforce.

Ace, a regular reader of this column recently wrote: *Something I have never seen discussed in your* Government Executive *column, is "How does the Social Security tax and benefit payments work if you remain employed by the federal government past 70 years old?"*

That's a great question. In addition, older federal workers should also consider how retirement benefits under CSRS and FERS work after the normal retirement age, as well as what happens to Thrift Savings Plan assets if you are still employed when you are eligible to begin withdrawing from your retirement savings.

Let's begin with Social Security. If you work in a job that is covered by the FICA tax such as FERS, you must continue to pay the 6.2 percent tax on your Social Security-covered wages up to the annual maximum taxable amount ($127,200 for 2017). Your age doesn't matter. Of course, if you are covered under the CSRS retirement system, you are exempt from the FICA tax, however, you must pay the Medicare tax of 1.45 percent, the same as all federal employees. CSRS Offset employees of all ages pay both FICA and Medicare taxes on their wages.

You can work while you receive Social Security retirement or survivors benefits. When you do, it could mean a higher benefit for you in the future. Each year your earnings are reviewed and if they are higher than one of the years that were used to compute your benefit, your benefit will be recalculated. The increase in your benefit will be retroactive to January of the year after the year you earned the higher wage amount.

Until you reach your full retirement age for Social Security, there is an earnings limit. (Full retirement age is 66 for people born between 1943 and 1954. Beginning with 1955, two months are added for every birth year until the full retirement age reaches 67 for people born in 1960 or later.) If you are younger than full retirement age and make more than the yearly earnings limit, your earnings may reduce your benefit amount:

- If you are under full retirement age for the entire year, Social Security Administration will deduct $1 from your benefit payments for every $2 you earn above the annual limit. For 2017, that limit is $16,920.
- In the year you reach full retirement age, SSA will deduct $1 in benefits for every $3 you earn above a different limit. In 2017, the limit on your earnings is $44,880 but SSA only counts earnings before the month you reach your full retirement age.

When you reach full retirement age:

- Beginning with the month you reach full retirement age, your earnings no longer reduce your benefits, no matter how much you earn.
- SSA will recalculate your benefit amount to leave out the months when your benefit was reduced or benefits were withheld due to your excess earnings.

Even if you are still working, you may be able to receive some or all of your benefits for the months before you reach full retirement age.

There are special provisions for government employees who are eligible for pensions based on work that was not covered by Social Security such as CSRS. For CSRS employees who may be qualified for Social Security benefits from work performed outside of their federal career or based on the work record of their spouse or former spouse, there is no impact of the Windfall Elimination Provision or the Government Pension Offset if you are not receiving your government pension yet. If you are working and currently over age 66, you may be entitled to receive Social Security benefits as a federal employee that are higher than the Social Security benefits that you will receive after you retire under CSRS. Contact SSA to find out if you qualify for benefits if you are still working.

What about Medicare? All federal employees pay the Hospital Insurance Tax (HIT) or Medicare tax of 1.45 percent on wages throughout their career, regardless of age. At age 65, you will qualify for Medicare Part A, hospital insurance, even if you are still working. It is generally a good idea to enroll in premium-free Medicare Part A. You may enroll in Medicare online or by contacting the Social Security Administration at 1-800-772-1213. If you are admitted for an overnight hospital stay, you may receive some additional inpatient benefits by having Part A coverage in addition to your FEHB coverage. Your initial enrollment period lasts for seven months beginning three months before the month you turn age 65.

Most federal employees delay enrollment in Medicare Part B until retirement if they are covered by FEHB through their job or their spouse's job. You can avoid the late enrollment penalty for Part B if you are covered by health insurance through current employment. There is a special enrollment period that follows your retirement (or the retirement of your spouse) that lasts for eight months where you may enroll in Part B without penalty. You will need the Medicare Part B application as well as a form to verify that you were previously covered by health insurance. Part B of Medicare, along with FEHB coverage, can often provide close to 100 percent coverage for most outpatient medical expenses since many FEHB plans will waive their own deductibles, copayments and coinsurance once Medicare becomes the primary payer. FEHB pays first if it is employee coverage, but Medicare is primary if FEHB is retiree coverage. Although prescription copays may be lower if Medicare is primary, there are out-of-pocket expenses for prescriptions for all FEHB plans. This can be an important factor in choosing the best health plan once retired and over age 65.

There is one exception to this advice—it might make sense for a federal employee who is working past age 65 to delay enrollment in Medicare Part A in order to continue to contribute to a Health Savings Account (HSA). One of the rules for allowing tax-free contributions to an HSA is that your only health insurance coverage is a high-deductible health plan. If you have any other health insurance coverage, including Medicare, you are not eligible to make tax free HSA contributions, however, you may spend the money that you have previously saved in your HSA account, tax free, on eligible health care expenses.

Federal employees eligible for FEHB, TRICARE and Medicare also have a unique situation. TRICARE beneficiaries with Medicare Parts A and B are eligible to use TRICARE coverage for physician, hospital, surgical, and pharmaceutical services. The problem is that for many federal employees, enrolling in Medicare Part B while employed may cause the Income Related Monthly Adjustment Amount (IRMAA) to increase the cost of the Part B premium due to the fact that your salary is higher than your retirement income will be in the future. For some, it may make sense to use only FEHB and delay enrollment in Medicare Part B and TRICARE until you retire from federal service. For others, you may cancel your FEHB enrollment and use TRICARE for Life with Medicare A & B. There are a few things an employee should consider. First, to be eligible to continue FEHB coverage after retirement, a retiring employee must be enrolled or covered under the FEHB Program for the five years of service immediately before retirement, or, if less than five years, for all service since the first opportunity to enroll. Employees can count their coverage under TRICARE toward meeting this requirement. However, the employee must be enrolled in an FEHB health plan on the date of retirement to continue coverage. Second, if the employee dies when the cancellation is in effect, any surviving spouse will not be eligible to continue FEHB health benefits coverage.

Next week, we will explore some things to consider for older employees regarding CSRS, FERS, and the Thrift Savings Plan.

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