

## Buying a Bigger Retirement Benefit

By Tammy Flanagan

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Last week, we looked at the [importance of service credit](#) in the federal retirement planning process. This week, let's dig deeper into the issue of service credit deposits and redeposits.

In general, such deposits come into play in cases where you have performed federal service without having retirement deductions withheld from your pay, or have received a refund of your retirement deductions. You can pay the money back into the Civil Service Retirement System or the Federal Employees Retirement System. But there is some federal service that is not creditable and a deposit cannot be paid.

To learn more, you can start by reviewing the following resources:

- [CSRS Service Credit](#)
- [FERS Service Credit](#)
- [Military Service Deposits](#)
- [Estimated Earnings During Military Service form](#)
- [CSRS application to make a deposit or redeposit](#)
- [FERS application to make a deposit or redeposit](#)

If you determine that you are eligible to pay a military or civilian service credit deposit or redeposit, it is important to determine if it will be worth your while to do so. All deposits are optional; some are clearly worth paying while others might be a "six of one or half a dozen of the other" situation.

Here are some things to keep in mind as you decide:

- How much do you owe for each deposit period? It's possible that you have more than one type of deposit and separate deposit periods.
- How much will your retirement be reduced if you don't pay the deposit or redeposit? Under FERS, it is generally going to be "no payment, no credit," but for CSRS, it's not quite so clear-cut.
- Where do you have the money invested that you would use to pay back the deposit? How well is it performing?
- You may delay making the deposit until you retire, but it is a good idea to find out how much you owe earlier so you can save up the funds during your career.
- Interest accrues and accumulates on your unpaid balance throughout your career or until the deposit is paid. The 2016 variable interest rate is 2 percent for most deposits. Some older periods of service might be charged a 3 percent interest rate if the service is creditable under CSRS or the CSRS portion of a FERS retirement.
- The decision to pay or not pay a deposit will ultimately depend on the impact to your retirement benefit versus the ability to have those funds available for another purpose.
- Remember that once a deposit is paid, the funds will no longer be available to be withdrawn unless you later become eligible for a refund of your retirement contributions.
- What would be the return on your investment if you pay the deposit? Let's say you owe a \$9,000 deposit payment, and if you don't pay back the money, it would result in a \$900 per year reduction to your retirement. (These are purely hypothetical numbers.) At that rate, you'll recover your \$9,000 investment in 10 years of retirement. That's a guaranteed 10 percent return -- not bad by today's standards.
- The return on investing in a service credit deposit might even be a little higher than that, because federal retirees usually receive annual cost of living adjustments. In the above example, the \$900 reduction to your retirement would become \$927 if there is a 3 percent COLA -- and that amount would go even higher with COLAs in subsequent years.

The above figures are just one example. The amount you owe and the impact of how an unpaid deposit will affect your retirement will depend on your retirement coverage, when the service was performed, whether it was civilian or military service, and several other factors. This is why you should request information about your service credit from your agency's retirement specialist or another qualified expert. The experience that a coworker may have had is not likely to be the same as yours.

Finally, if you're married, remember that some unpaid deposits will reduce the value of a survivor's annuity payment, but there also are some situations where the reduction only applies to the employee's retirement and not to the spousal survivor annuity. Be sure to explore this issues if you are married and you are planning to provide a survivor's annuity.

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<http://www.govexec.com/pay-benefits/retirement-planning/2016/04/buying-bigger-retirement-benefit/127476/>