

A Rude Annuity Shock

By Tammy Flanagan

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In the federal retirement system, what you don't know can hurt you. This week, I present the story of a shocking—and arguably unfair—surprise the spouse of a retiree received upon his untimely death.

The case involves the quirky plan known as Civil Service Retirement System Offset. [CSRS Offset](#) is a version of CSRS established for employees who completed at least five years of civilian federal service creditable under CSRS, but who also had a break in federal service for at least a year that ended after 1983, and came under the Social Security system at some point in their careers. Further, when they returned to government, they didn't go back into CSRS or the newer Federal Employees Retirement System, but rather into CSRS Offset. Such people pay Social Security taxes and a reduced CSRS contribution. Their CSRS retirement and survivor benefits are offset by the value of the offset service in their Social Security benefits. (If you need further explanation, here's a [previous column explaining CSRS Offset](#).)

Although CSRS Offset can work to the advantage of the employee, that is not always the case for a surviving spouse. Let's look at why.

The “offset” part of CSRS Offset occurs when the retiree is qualified for Social Security benefits and is the lesser of the following calculations:

- The difference of the Social Security retirement benefit with and without the offset service included. The Social Security benefit may be affected by the [Windfall Elimination Provision](#).
- Computing a fraction of the Social Security benefit attributable to the offset service using the following formula: Social Security times years of CSRS Offset service divided by 40.

CSRS Offset retirees have the same options to provide a spousal benefit as standard CSRS retirees. They can choose to provide a surviving spouse with 55 percent of the maximum CSRS benefit. If they are married, they can also choose a partial spousal survivor benefit equal to 55 percent of something less than their full benefit. In choosing the maximum survivor annuity, the surviving spouse receives 55 percent of the CSRS benefit before the reduction for survivor benefits, before reductions for any unpaid redeposits and for the offset.

There is a possible offset to the spousal survivor annuity when the surviving spouse becomes entitled to survivor benefits from Social Security. The widow of one CSRS Offset retiree recently was shocked to find out just how dramatic effect that could have on the annuity.

Janet's husband, Don, retired under CSRS in January 2014, and they moved to Florida. He began receiving his CSRS Offset retirement benefit, calculated at \$6,636 but reduced to \$4,406 due to a variety of factors, including paying \$641 a month to provide a survivor annuity. He also received \$2,318 from Social Security. Janet was receiving \$1,816 in Social Security benefits, based on her own earnings.

Unfortunately, during the time leading up to his retirement, Don received a diagnosis of a serious illness. He died in January 2015.

Don had chosen to provide the maximum CSRS survivor benefit protection to help replace 55 percent of his retirement in the

event he passed away before Janet. Because Don's Social Security benefits were higher than Janet's, as his widow, she received an increase to her Social Security income of \$396 per month. Between that and the survivor annuity, Janet thought she would be in good shape financially.

However, her sense of security was short-lived. She soon received a notice from the Office of Personnel Management informing her that her survivor's annuity would be reduced by a whopping \$1,107 a month—more than \$700 per month over the amount she gained from the Social Security widow's benefit. Though she wasn't aware the annuity would be offset, she understands why it might be. But she can't understand why it wouldn't be some proportionate share of the \$396 Social Security survivor benefit—not over \$1,100. In her view, her Social Security benefit—based on her own 49 years of work in the private sector—is being taken away from her.

I contacted OPM to confirm the computation was not in error. In [Chapter 71 of the CSRS and FERS Handbook for Personnel and Payroll Offices](#), the agency has this to say:

When the spouse becomes entitled to Social Security survivor benefits, the CSRS survivor annuity is reduced (offset) by the amount of the survivor's Social Security benefit attributable to the period the deceased annuitant was under CSRS Offset.

The chapter goes on to state:

The offset of a CSRS survivor annuity stops on the date the survivor loses eligibility for Social Security survivor benefits due to any of the following reasons:

- The survivor becomes eligible for a Social Security benefit based on his or her own earnings under Social Security and the benefit exceeds the survivor benefit;
- The survivor remarries before age 60; or
- The Social Security benefit stops because a minor child reaches age 16 and the survivor is under age 60.

Unfortunately, Janet's own Social Security benefit is less than the survivor benefit, according to OPM's interpretation of the law. Under that interpretation, Janet's combined Social Security benefit (the largest portion being based upon her own earnings, and a small portion being based upon Don's work record) is counted as being a "survivor benefit." Janet expected 55 percent of Don's retirement benefit. Instead, she's getting 38 percent.

That, in her mind, is inequitable, and a disservice to someone who spent 31 years of his life in service to his country.

(Image via [Jerry Sliwowsk/Shutterstock.com](#))

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