Government Executive

Phased Retirement: Case Studies

By Tammy Flanagan

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With all the news lately about the upcoming phased retirement option for federal employees, many people are considering whether it makes sense for them. To help clarify the issues at stake, let's look at a couple of case studies, one for an employee under the Federal Employees Retirement System and another for someone covered by the Civil Service Retirement System.

FERS

Let's say Jim is 66 and still loving his federal job. He has 30 years of service and a high-three average salary of $100,000. His retirement would be computed as 1.1 percent x 30 years of service x $100,000, or $33,000 per year (before any reductions for survivor benefits). He would love an extra day or two a week to play golf. Under phased retirement, he can collect half of his salary ($50,000) and half of his FERS retirement ($16,500).

Here are some factors Jim should consider as he weighs phased retirement:

Social Security: Because Jim is over the full retirement age for Social Security and is no longer subject to the earnings limit, he could begin to draw benefits (let's say $20,000 a year). That brings his total phased retirement income to $86,500. But he also could choose to delay his application for Social Security until he turns 70, when it would increase by 32 percent, to $26,400 (or more, since he would be adding additional income to his lifetime average earnings).

Medicare: Jim may choose to delay Medicare Part B enrollment without a penalty, because he's still working and health insurance payments are still being deducted from his salary. The Medicare Part B premium is $104.90 per month (or more depending on total income), so Jim would be saving at least $1,258.80 a year by not enrolling in Part B. If Jim's wife also is 65 and covered under Jim's federal health insurance, she can also delay Part B enrollment without a penalty until Jim fully retirees. (By the way, Jim could have enrolled in Medicare Part A -- hospital insurance -- at 65 since there is no premium for it.)

Survivor Benefits: This option is delayed during phased retirement. Eventually, to provide a survivor's annuity for his wife, Jim would need to take a 10 percent reduction to his FERS annuity. This would provide 50 percent of his unreduced FERS benefit to his wife in the event he dies before her. But the $3,300 (10 percent of $33,000) reduction to his retirement will be delayed until he enters full retirement. If Jim should die during phased retirement, his wife would be entitled to the basic FERS death benefit -- in this case, a lump sum payment of about $32,000, plus half his final salary. She also would be entitled to receive the full survivor annuity of 50 percent of his FERS retirement, which would be computed on Jim's full retirement, crediting the phased retirement period as part-time service. The survivor annuity is paid if the employee had a minimum of 10 years of federal service at the time of death.

Thrift Savings Plan: Jim is able to continue to contribute $23,000 per year to his TSP account if he wants to, and will continue to receive matching agency contributions of $2,500 based on his salary. Of course, if he continued to work full-time, his matching would be $5,000. The other thing he could do is take advantage of the age-based in-service withdrawal option, transferring a portion of his TSP to an IRA and then taking withdrawals from the IRA.

Income During Phased Retirement: If Jim applies for his Social Security retirement benefit he would receive more money during phased retirement than he would if he fully retired. His income during phased retirement would be $86,500.

But if he fully retired, his income would be $53,000 ($33,000 in a FERS benefit plus $20,000 in Social Security). And if Jim provides survivor benefits for his wife, his retirement benefit would be reduced to $29,700.

Final Payment: If Jim works in phased retirement for four years, he will earn another 4.4 percent of his high-three average salary ($100,000 x 4.4 percent = $4,400 / 2 = $2,200 per year). In addition, if his salary increased during this time, he would benefit from a new high-three average for the phased retirement portion of his retirement benefit. He also would have received annual cost of living adjustments on his phased retirement annuity. His total retirement income would be his FERS retirement benefit computed at approximately $35,200, plus any COLAs received during phased retirement and pay raises that might have affected his high-three, plus Social Security retirement (for Jim and his spouse), plus TSP monthly payments (if necessary for additional monthly income or to meet IRS rules for required minimum distributions).

CSRS

Let's say Sarah is 56, still loves her federal job, and has 35 years of service with a high-three average salary of $65,000. Her retirement would be computed as 66.25 percent of $65,000, or $43,062 per year (before any reductions for survivor benefits). She would love an extra day or two a week to spend with her new granddaughter and begin to pursue interests that she can develop for her years of full retirement.

Under phased retirement, Sarah can collect half of her salary ($32,500) and half of her CSRS retirement benefit ($21,531). So her total income would be $54,031.

Here are some factors Sarah should consider:

Survivor Benefits: This option is delayed during phased retirement. Eventually, Sarah can take a little less than a 10 percent reduction to her CSRS annuity to provide 55 percent of her unreduced CSRS benefit to her husband in the event she dies before him. But this $4,036 reduction to her retirement for survivor benefits is delayed until she enters full retirement. If Sarah should die during phased retirement, her husband would be entitled to receive the full survivor annuity of 55 percent of her CSRS retirement, which would be computed on Sarah's full retirement (with the retirement period credited as part-time service).

Thrift Savings Plan: Sarah is able to continue to contribute up to $23,000 a year (the $17,500 normal elective deferral limit, plus $5,500 in catch-up contributions for participants who are 50 or older) to her TSP account.

Other Reductions: If Sarah owes a deposit for pre-Oct. 1, 1982 "nondeduction" service (temporary federal service that was not covered by CSRS), her retirement would be reduced by 10 percent of the unpaid deposit at the time she enters phased retirement. She would have the option of paying the amount due before entering phased retirement to avoid this reduction. If Sarah owes a redeposit of a refund of retirement contributions for service that ended before March 1, 1991, her retirement would be reduced when she entered phased retirement. The amount of the actuarial reduction for an unpaid redeposit will be updated when she enters full retirement. If Sarah wants to repay some or all of her redeposit, she would have to decide this before entering phased retirement.

Final Payment: If Sarah works in phased retirement for four years, she will earn another 8 percent of her high-three average salary ($65,000 x 8 percent = $5,200 / 2 = $2,600 a year). In addition, if her salary increased during this time, she would benefit from a new high-three average for the phased retirement portion of her retirement benefit. She also would have received annual cost of living adjustments on her phased retirement annuity.

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