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What You Should Know if You Find That Your Retirement Coverage is Incorrect

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What would you need to know if you suddenly learned that your Federal retirement coverage is incorrect? You would likely need to have answers to at least the following questions:

- Why is your coverage in error and how did this happen?
- How serious is the mistake and what are its consequences for your retirement benefits?
- What are the financial and tax implications?
- Do you have any options in choosing or electing your correct coverage?
- What will this coverage error mean for your retirement planning and are you still on track?
- And last but not least, why do errors in retirement coverage happen in the first place?

One would think that retirement coverage should be relatively simple to determine and, at one time, it was. Before the Federal Employees Retirement System (FERS) was implemented in 1987, employees were covered under the Civil Service Retirement System (CSRS), based on the type and length of their Federal appointments. Generally, if a Federal appointment was permanent, or otherwise for a term of service greater than a year, you were covered; if the appointment was temporary and for period of service of one year or less, you were not covered. This "not covered" group is now subject to Social Security payroll deductions only (also known as the FICA tax).

The "CSRS-only" world was dramatically altered by the passage of the Social Security Amendment Act of 1983. Among its requirements, the Act mandated Social Security or FICA tax withholding from all Federal employees whose first date of hire was after 1983. Equally important, that Act led to the creation of the Federal Employees Retirement System (FERS) which now covers most Federal employees. FERS employees must contribute to both their retirement plan and Social Security. The Act also resulted in a new "hybrid" retirement coverage known as CSRS Offset. CSRS Offset covers employees who had five or more years of creditable service before FERS and were: 1) reappointed to Federal service after 1983 following a service break of more than one year, or 2) appointed to their first permanent Federal position after 1983.

Administering and assigning appropriate retirement coverage to all of these plans - CSRS, CSRS Offset and FERS - added significant complexity to the coverage determination process. In addition to type and length of appointment, HR hiring activities must now consider start or "entrance on duty" (EOD) dates; length of service breaks from Federal service and dates of reappointment or rehire; and the dates and amounts of prior Federal service upon rehire. Specifically, those making retirement coverage determinations must assign:

- CSRS coverage when a hiree was originally employed in a CSRS-covered position prior to January 1, 1984, with no subsequent breaks in service longer than 1 year, and no election of FERS coverage on record in his/her official personnel file (OPF);
- CSRS Offset (a combination of CSRS and Social Security) coverage, when a hiree was originally employed in a CSRS-covered position, with previous CSRS service totaling 5 or more years, and is now being rehired after a service break of more than one year after 1983;

- CSRS Offset coverage when a hiree has 5 years of creditable civilian service as of December 31, 1986 (including FICA-only), but first permanent position was on or after January 1, 1984;
- FERS coverage when a hiree was first hired on or after January 1, 1984;
- FERS coverage when a hiree's first permanent appointment was not until January 1, 1984 or later and previous Federal civilian service totals less than 5 years as of December 31, 1986;
- FERS coverage, when a hiree's prior coverage is CSRS Offset and he/she elects FERS coverage within 6 months of their hire date;
- FERS coverage when a hiree was originally CSRS and elected FERS coverage in one of two open enrollment periods that occurred in 1987 and 1998; and finally,
- FICA-only when a hiree's appointment is for one year or less (with some exceptions).

The complexity of running multiple retirement plans and considering all of above scenarios during hiring has led to coverage errors. Some of the more common errors over the years have included assigning incorrect CSRS coverage when correct coverage should be FERS; incorrect FERS coverage when correct coverage should be CSRS or CSRS Offset; incorrect CSRS, CSRS Offset, or FERS coverage when correct coverage is "none of the above" and should be FICA-only.

When caught and corrected quickly, coverage errors cause minimal if any disruption to retirement planning. But when they languish, perhaps for years, those affected would often be met with different retirement annuities, changes to their Social Security benefits, and different TSP balances. As such, their retirement planning was often off course based on incorrect assumptions regarding the value of their benefits and many faced harsh changes to their planning strategies, often late in their careers. This often included postponing retirement dates, working longer, changing TSP investment strategies, and otherwise delaying their long-anticipated retirement activities and lifestyles.

To deal more equitably with long-standing retirement coverage errors, the Federal Erroneous Retirement Coverage Corrections Act, better known as FERCCA was passed on September 19, 2000. FERCCA can provide a choice of alternative retirement coverage to affected individuals and more lenient rules for paying required deposits for uncovered service and redeposits for refunded service. When coverage is corrected to FERS from something else, FERCCA can offer an option for make-up contributions to TSP accounts which ultimately increases them by large amounts due to accumulated interest on lost earnings on both the contributions and agency matching funds that had never been contributed. Other major remedies under FERCCA include:

- Comparative annuity estimates and counseling; an explanation of the relative value of Thrift Savings Plan Accounts under plan elections; the effect of plan elections on Social Security benefits, retirement eligibility; and deposits and redeposits owed; and access to outside resources that are essential for making informed coverage elections.
- Agency adjustments to government and employee retirement deductions and FICA tax amounts withheld for Social Security during the period of the coverage error. These amounts are resolved and reconciled by the agency that finds the coverage error and those affected are in not responsible for over or underpayments. In some situations, erroneous Social Security withholding provides benefits to individuals whose retirement coverage would otherwise not have qualified them to receive it.
- And, agency-designed TSP makeup schedules that permit the makeup of TSP contributions previously not allowed due to former erroneous retirement coverage. The schedules give affected employees the ability to choose biweekly payment amounts and determine how long to make them. Makeup contributions are in addition to regular and catchup contributions and are not subject to current IRS elective deferral limits.

While FERCCA rules are extensive and can put a lot on the table to consider, the process generally makes those affected financially whole and allows them to either proceed with retirement planning on schedule, or if already retired, to maintain chosen lifestyle and activities without significant financial disruption.

So, if you believe your retirement coverage is incorrect, contact your human resources office as soon as possible. If you do indeed have a coverage error and that error has been in effect for more than 3 years, your situation must be resolved under FERCCA provisions. If you have already retired, contact OPM at 1-888-767-6738.

For more information about FERCCA, see the following websites:

https://www.opm.gov/retirement-services/benefits-officers-center/aids/#url=FERCCA
https://www.opm.gov/FAQs/topic/retire/index.aspx?cid=d2c547f4-a029-4c84-b2f3-4c76143ec253
https://www.opm.gov/retirement-services/publications-forms/benefits-administration-letters/2004/04-108attachment1.pdf

Bob Braunstein is a retired Federal Human Resources professional whose 30-year Federal HR career spanned five Federal agencies. Since retiring from Federal service in 1997, Mr. Braunstein's primary focus has been in the retirement and benefits area where he has served as an expert consultant on numerous high profile projects including the counseling of over 1,200 FERCCA cases during the OP's 2004 transition of FERCCA responsibilities to Federal agencies. Bob has been a Retirement and Benefits Seminar and Webinar Instructor and Radio Show cohost for NITP for the past 10 years and continues to provide FERCCA and general Federal Retirement and Benefits counseling to private clients.

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