
Should you stay in FERS?

A guide to choosing between FERS and CSRS Offset retirement plans when you were erroneously put in FERS.

Introduction

You were given this book because a mistake was made in your retirement coverage. You were erroneously put in the Federal Employees Retirement System (FERS). You should have been put in the Civil Service Retirement System (CSRS) Offset and then informed of your opportunity to choose to move to FERS.

Congress created the Federal Employees Retirement System (FERS) in 1986, and it became effective on January 1, 1987. Since that time, new Federal civilian employees who have retirement coverage are covered by FERS.

However, when the Congress created FERS, one of the rules it established was that people who already had enough Federal civilian service to potentially be eligible for an annuity some day under CSRS could choose whether or not to be covered by FERS. Based on your employment history, your agency should have placed you in CSRS Offset and given you an opportunity to elect FERS.

Even though you are already in FERS, you now have a choice to make about whether you want to stay in FERS or have your coverage corrected to CSRS Offset. This is a very important decision. Depending on what the future holds for you, your decision can make a difference to you in how early you can retire from the Federal Government and how much retirement income you will have.

The information in this guide is based on the law in effect as of the edition date.

Simplifying Your Decision

Whether you choose FERS or CSRS Offset, you can't change your mind later, so you want to choose the plan that fits best with your future plans. Both CSRS Offset and FERS are good retirement plans. Each plan has advantages and disadvantages. Neither plan is best for all Federal employees.

If you are like many people, your initial reaction may be that this will be a complicated decision. For some people who have complex situations, it may be. However, for most people, it becomes a fairly simple decision when they think about the choices in terms of their own situations. You need to consider factors such as your work history, when you want to retire, and whether or not you plan to stay in Federal service until then.

The same election considerations apply, whether you are working full time or part-time. If you are married, we encourage you to discuss your choice with your spouse.

This guide takes you through important considerations and shows you why they're different in CSRS Offset and FERS. Many people reach a decision without reading very much of this guide, but we encourage you to at least review the first several sections because there are some special circumstances that may change your mind. When you finish reading, you should be prepared to make a choice based on the plan overviews and comparisons. In most cases, you shouldn't have to do any calculations to decide which retirement plan is better for you.

Making Your Own Decision

Remember, the decision whether to stay in FERS is yours to make. This guide contains the information you need to consider, but it won't tell you what to do. You must decide based on what you know about yourself, your past, and your expectations for the future. You shouldn't decide based on what someone else did. There may be one key factor in that person's situation that would make his or her choice inappropriate for you.

We have tried to keep this guide as simple as possible, but if you have questions; your agency should have personnel who can help answer your questions. So, if there is a part of the guide that's important to your situation and that you don't understand, you should ask for help. However, while your agency should help answer your questions about the guide, they will not tell you what to do.

Finally, remember that you are choosing between two very different retirement systems. This guide stresses the differences. If you try to understand the differences between the systems in terms of what's important to you, your choice will be easier. If you try to master exactly how each system works, your decision will take more time and effort on your part. Of course, this guide in no way replaces the many pages of regulations that govern benefits under CSRS and CSRS Offset, FERS Basic Benefits, the Thrift Savings Plan (TSP), and Social Security, but it should contain all of the information you need to make your decision.

What Happens If I Do Nothing?

If you do nothing, your current FERS coverage continues. You will remain covered by FERS for all future Federal service that is not excluded from FERS by law or regulation (generally temporary appointments that last for less than 1 year). You will not have another opportunity to choose CSRS Offset coverage.

If you think you'll need more time to decide let your human resources office know. Your agency can extend the time limit for making an election under certain circumstances.

What Things Do You Need to Make Your Choice?

For many employees, this guide will give you enough information to decide which retirement plan is best for you. You will need only a pen to fill out the retirement plan election form, Standard Form 3109.

Both FERS and CSRS Offset employees have Social Security coverage. Knowing how many Social Security credits you already have will help with your decision. The Social Security Administration mails annual Social Security Statements to all workers who are ages 25 and older and not receiving Social Security benefits. Workers automatically receive their statement about 3 months before their birth month. You also may request a Social Security Statement at any time. You may use the Social Security Administration's web site at <http://www.ssa.gov> to request a Statement, or you can use form SSA-7004, Social Security Statement request form, to request the Statement. You can download the form from the Social Security Administration web site, or you can request it by calling 1-800-SSA-1213.

Some employees want to see some calculations before deciding. Your agency's human resources office can help prepare estimates of your future retirement annuity under FERS and CSRS Offset, as well as TSP benefits. Please remember that any estimate is a projection into the future that requires making assumptions that may or may not turn out to be accurate, so you should not base your decision solely on the estimated amount of future benefits. Instead, the estimates allow you to evaluate the relative benefits of the two retirement systems based on the data you provide.

Finally, you need some time to read this guide. Choosing your retirement coverage is an important decision, so set aside some time to read the parts of this guide that are important to you, and to fill out your retirement plan election form.

Making Your Election

Whether you stay in FERS or switch to CSRS Offset, you should complete the election form (Standard Form 3109) your human resources representative gave you and return it to your human resources office. Your election is effective on the date that you were first erroneously put in FERS. Your election is retroactive, which means it affects service you already performed.

Your election is irrevocable once it is processed by your human resources office.

Your spouse does not need to consent to a decision to change retirement plans. However, if you were ever divorced or separated, you cannot decide to stay in FERS without your former spouse's consent if:

- your former spouse (or current spouse if separated) is entitled, by court order, to a portion of your annuity or survivor benefits,
- the court order is on file at OPM,
- your former spouse has not remarried before reaching age 55, and
- your former spouse is still living.

Your former spouse must complete SF 3110, Former Spouse's Consent to FERS Election for you to be able to stay in FERS. OPM can waive this requirement only in very limited circumstances. If you don't know whether OPM has a qualifying court order on file, or you want to request a waiver of the consent requirement, ask your human resources office for Standard Form 3111, Request for Waiver, Extension, or Search.

Regardless of which retirement plan you choose, you may want to file a new designation of beneficiary form. Form SF 3102, Designation of Beneficiary, Federal Employees' Retirement System, is the form for FERS employees and form SF 2808, Designation of Beneficiary, Civil Service Retirement System, is the form for CSRS Offset employees. All these forms are available from OPM's web site at http://www.opm.gov/fers_election.

Civil Service Retirement System (CSRS) Offset

✓ Overview

The Civil Service Retirement System (CSRS) has traditionally been a single benefit retirement plan. Employees have had one payroll deduction for the plan and, after retirement, have received one payment from CSRS each month for the rest of their lives.

However, since 1984, certain CSRS covered employees also have had Social Security coverage. These employees have what is known as CSRS Offset coverage. As an Offset employee, you have payroll deductions for both CSRS coverage and Social Security. If you stay with the Federal Government until retirement, you will receive payments from both the CSRS and Social Security.

CSRS Offset employees may also contribute to the TSP to receive additional retirement income. CSRS Offset employees receive no agency contributions to their Thrift accounts. If you choose CSRS Offset, you can currently contribute up to 7% of your basic pay each pay period and receive a tax break today. This percentage will continue rising until it reaches 10% in 2005. In 2006, the percentage limit will be abolished. In no case, however, can you save more than the Internal Revenue Service annual limit on tax-deferred contributions. For 2002, the limit is \$11,000.

If you are a law enforcement officer, firefighter, air traffic controller, or military reserve technician, you also need to read the Special Employee Groups section.

✓ When You Can Receive Retirement Benefits

If You Stay Until Retirement Age

With CSRS Offset, you can retire with full benefits as soon as your age and years of Federal service match one of the following retirement combinations:

- At least age 55 with 30 years of service or more.
- At least age 60 with 20 years of service or more.
- At least age 62 with 5 years of service or more.

CSRS Offset does not allow you to retire voluntarily before you have the required age and service combination and take a reduced annuity like FERS and many other modern plans do.

If You Leave Before Retirement Age

The list above shows when you can retire and begin receiving an immediate CSRS Offset annuity. If you leave Federal service before you are eligible to retire, you must wait until age 62 to receive a monthly annuity, no matter how many years of service you have.

For example, let's say you simply stop working for the Federal Government at age 53 with 30 years of service. You're not 55 yet, so you don't qualify for retirement. Your monthly checks from CSRS Offset won't start until you turn 62. Your monthly annuity amount is based on your pay when you leave. With inflation, those dollars won't buy as much by the time you receive them at age 62. You can't continue your health or life insurance as a retiree, either.

If you don't want to wait until age 62 to get an annuity, you can withdraw all the money you've contributed when you leave. However, in most cases, your money will be returned to you without any interest, and you will not get monthly payments from CSRS Offset, even at age 62.

✓ How Much You Will Receive After Retirement

The amount of your annuity -- the monthly CSRS Offset payments you receive after retirement -- depends primarily on two things: your pay and your length of service. In computing your annuity, the Government uses your 3 highest consecutive years of basic pay and your length of service (the number of years and months you worked for the Federal Government and your creditable military service). If you retire and receive an annuity right away, you will also get credit for any unused sick leave.

Here is how the CSRS Offset annuity formula works:

CSRS Offset Annuity Formula	
Years of Service	What You Receive
For 5 years of service	1.5% of your high-3 average pay for each year, or 7.50% of your high-3
For another 5 years of service	1.75% of your high-3 average pay for each year, or 8.75% more for a total of 16.25%
For all years over 10	2% of your high-3 average pay for each year over 10 For example: <ul style="list-style-type: none"> • 20 years of service would give you an annuity that is about 36% of your high-3. • 30 years of service would give you an annuity that is about 56% of your high-3.

The maximum annuity you can receive from CSRS Offset is 80% of your high-3 pay plus credit for your sick leave. This limit generally affects only those who have more than 42 years of service when they retire.

You will receive your full monthly annuity even if you have other retirement income or start a second non-Federal career when you retire. There is no reduction in your annuity because of other non-Federal employment.

This is a very generous annuity formula compared to those used by many other retirement plans. As you can see, it rewards long service, because you receive more money for the years of service that come late in your career. It's not quite as generous if you have less than 10 years of service.

When you retire under CSRS Offset, your annuity is computed under the same rules that apply to all CSRS employees. However, when you become eligible for Social Security benefits (normally at age 62), your CSRS Offset annuity is reduced, or offset, by the value of your CSRS Offset service in your Social Security benefit. If you want to estimate the amount of the offset from your future annuity, see the section on Social Security for instructions. If you do not become eligible for Social Security benefits, there is no offset. If you are eligible for Social Security benefits, the offset applies even if you have not applied for Social Security. Social Security rules are discussed in detail in the Social Security section of this guide.

✓ **How Your Annuity Can Increase After Retirement**

Inflation is a fact of life, but the actual rate of increase varies from year to year. To help your annuity keep pace with inflation, CSRS Offset gives all those who retire annual cost-of-living adjustments or COLA's.

Your annuity may increase by a cost-of-living adjustment in the year after you retire, and every year after that. The increases you receive each year actually match the rate of inflation, as measured by the Consumer Price Index.

For example, if the increase in the Consumer Price Index is 2%, CSRS Offset retirement checks will increase by 2%. If the increase in the Consumer Price Index is 5%, the cost-of-living adjustments will also be 5%.

Cost-of-living adjustments help make sure that your retirement dollars keep the same buying power year after year. CSRS Offset is better than many other retirement plans because it provides complete protection against inflation.

✓ How Much it Costs You to Participate

Your contributions and your agency's contributions finance your CSRS Offset annuity. Your contributions are automatically deducted from your pay. In general, your total CSRS Offset contribution is 7.0% of your basic pay. Of that amount, 0.8% is paid into the Civil Service Retirement and Disability Fund (the Fund) and 6.2% is for Social Security taxes. You only pay the CSRS Offset contributions on basic pay. However, you pay Social Security tax on all your earnings including overtime, bonuses, etc.

Your agency pays an amount equal to 8.51% of your basic pay to the Fund and also matches your 6.2% Social Security deduction.

If your earnings in a year exceed the maximum amount that is subject to Social Security taxes (\$84,900 in 2002), the 6.2% Social Security tax stops, but the contribution to the Fund increases from 0.8% to 7.0% on your earnings for the rest of the year. The Social Security tax will start again on your earnings for the next year.

Since your CSRS Offset annuity cost more than the amounts you and your agency pay, the U.S. Treasury pays the balance of the cost.

✓ Savings Options That Are Available

Thrift Savings Plan for CSRS Offset

CSRS Offset employees may participate in the TSP. The TSP gives you a way to save extra money for the future and gives you a tax break today. The TSP allows you to contribute up to 7% of your basic pay per pay period on a before tax basis. Effective in January 2003 and each following January, you may increase your contribution by 1% each year until January 2006. At that time, the percentage limit will be eliminated completely. The amount you contribute to TSP will be limited only by the Internal Revenue Code annual dollar limit, which is \$11,000 for 2002. CSRS Offset employees do not receive Agency Matching or Automatic (1%) Contributions.

The TSP investment options, withdrawal and tax information are the same for both CSRS Offset and FERS employees. The TSP is discussed in more detail in the explanation of FERS benefits later in this guide.

Voluntary Contributions for CSRS Offset

CSRS Offset employees may make voluntary contributions if they do not owe any deposits or redeposits for prior civilian service.. Total contributions may not exceed 10% of the total pay an employee has received to date in his or her Federal career.

At retirement, each \$100 in voluntary contributions (including interest earned) will provide an additional annuity of \$7 a year, plus 20 cents for each full year you are over age 55 at the time you retire. You may also elect a survivor benefit under this annuity. Voluntary contributions paid out as additional annuity are not increased by cost-of-living adjustments.

You can also get a refund of your voluntary contributions at any time before you retire.

Voluntary contributions earn a variable interest rate determined by the Treasury Department each calendar year, based on the average yield of new investments purchased by the Fund during the previous fiscal year. The interest rate payable for 2002 is 5.5%. Interest accrues to the date of the refund calculation, separation, or transfer to a position not subject to CSRS Offset or FERS, whichever is earliest.

Employees who choose to stay in FERS may keep a voluntary contributions account they opened while covered under CSRS, but may not add to it after becoming covered by FERS.

Interest on voluntary contributions is not taxed until the tax year in which it is paid out. At that time, you may roll interest over to an Individual Retirement Arrangement to further defer taxes. However, in contrast with TSP contributions, voluntary contributions are not pre-tax dollars that permit you to reduce your taxable income. For further information on voluntary contributions, ask your servicing human resources office for the pamphlet RI 83-10, Voluntary Contributions Under the Civil Service Retirement System, or get it from OPM's web site at www.opm.gov/benefits.

The U.S. Office of Personnel Management administers the voluntary contributions program. This program is not part of the TSP.

✓ Important Conclusions About CSRS Offset

There are some important advantages to CSRS Offset:

- You can retire as early as age 55 with 30 years of service and begin receiving a full annuity. Even if you start a second career somewhere else, your annuity isn't affected.

- Once you begin receiving monthly payments, you also receive annual cost-of-living adjustments that match the increases in the Consumer Price Index. So your retirement dollars keep the same buying power.
- The annuity formula is very generous when compared to many other retirement plans. It especially rewards employees who spend many years in Federal service.
- If you take an immediate retirement, you get retirement credit for your unused sick leave.
- You have the flexibility of Social Security coverage that continues to build if you leave Federal Government to work elsewhere.
- You may contribute to the TSP to save for retirement. If you separate before retirement, you may transfer your TSP account balance to an Individual Retirement Arrangement or other eligible retirement plan. You may also leave your TSP account balance in the TSP where it will continue to accumulate earnings based on your investment decisions.
- You receive the value of the CSRS Offset annuity formula and cost-of-living adjustments, but pay a small amount for this annuity.

There are also some disadvantages to CSRS Offset that apply if you leave the Federal Government before you're eligible to retire:

- The earliest you can begin receiving monthly retirement checks is at age 62. While you're waiting to become eligible for your annuity, the buying power of your retirement dollars goes down because of inflation. You don't receive cost-of-living adjustments until your annuity begins. Also, the monthly payments you receive will be smaller than if you had stayed in Federal service and continued to get pay increases. Your annuity is calculated according to the pay and service you had when you left Federal service.
- If you die before you become eligible for an annuity, all that will be paid to your spouse (or other heirs) is a lump sum payment of the money you contributed.

In general, the CSRS Offset is a good retirement plan for employees who know that they will stay with the Federal Government until they are eligible to retire and who retire young. It is not very well suited to employees who may not spend their entire careers in Federal service, particularly if they leave before retirement.

Federal Employees Retirement System (FERS)

✓ Overview

FERS is a retirement plan that provides benefits from three different sources: a Basic Benefit Plan, Social Security, and the TSP. Two of the three parts of FERS (Social Security and the TSP) can go with you to your next job if you leave the Federal Government before retirement. FERS gives you more control over the retirement benefits you receive.

The Basic Benefit and Social Security parts of FERS require you to pay your share each pay period. Your agency withholds the cost of the Basic Benefit and Social Security from your pay as payroll deductions. Your agency pays its part too. Then, after you retire, you receive annuity payments each month for the rest of your life. The TSP part of FERS is an account that your agency automatically sets up for you. Each pay period your agency deposits into your account an amount equal to 1% of the basic pay you earn for the pay period. You can also make your own contributions to your TSP account and your agency will also make a matching contribution.

Although FERS is a single retirement plan, the three benefit sources have different rules. The Basic Benefit and Social Security portions will be discussed together first. The TSP will be explained by itself later.

Information about Social Security appears throughout this section on FERS. A brief overview of the Social Security program prepared by the Social Security Administration is also presented in this guide.

✓ When You Can Receive Retirement Benefits

Basic Benefit Plan

If You Stay Until Retirement Age

With FERS, you can retire with a Basic Benefit as soon as you reach the Minimum Retirement Age (MRA) and have just 10 years of service. The MRA is the first year in which you can receive an annuity. It varies according to the year you were born. For anyone born before 1948, the MRA is age 55. It increases gradually to age 56 for those born before 1965 and goes up to 57 for those born in 1970 and after.

The following chart will help you determine what your MRA is:

Minimum Retirement Age (MRA)	
If you were born	Your MRA is age
Before 1948	55
In 1948	55 and 2 months
In 1949	55 and 4 months
In 1950	55 and 6 months
In 1951	55 and 8 months
In 1952	55 and 10 months
In 1953 - 1964	56
In 1965	56 and 2 months
In 1966	56 and 4 months
In 1967	56 and 6 months
In 1968	56 and 8 months
In 1969	56 and 10 months
In 1970 and after	57

Under FERS, you can retire with a full annuity as soon as your age and years of Federal service match any of the retirement combinations below.

- at least your MRA with 30 years of service or more
- at least age 60 with 20 years of service or more
- at least age 62 with 5 years of civilian service or more.

In addition, FERS allows you to retire voluntarily with a reduced annuity at your MRA with at least 10 years, but less than 30 years of service. This is known as an MRA+10 immediate retirement.

These are all immediate annuities that also allow you to keep your Federal Employees Health Benefits (FEHB) and Federal Employees' Group Life Insurance (FEGLI) coverage as a retiree if you have been enrolled for enough time (usually the 5 years immediately preceding your retirement) before you retire.

Postponing Your Benefits

If you leave Federal employment at:

- Your Minimum Retirement Age with at least 10, but less than 30 years of service or
- Age 60 with at least 10, but less than 20 years of service

you can wait and take a postponed annuity at age 62 with full benefits. You can begin receiving a reduced annuity any time before age 62. Your monthly annuity will be reduced 5/12 of 1% for each month (up to 5% per year) you are younger than age 62 when you start receiving the annuity. For example, if you retire at age 56 with 10 years of service, you are 6 years away from age 62. Your retirement benefit checks will be reduced by 30% if you start receiving your annuity right away. In contrast, if you wait until age 58, the reduction in your payments would be 20%.

Additionally, if you are at your minimum retirement age and have at least 20 years service, you may postpone your annuity until age 60 and receive full benefits.

If you choose to postpone the starting date of your annuity, your FEHB and FEGLI coverage will terminate. When you start receiving your annuity, you may reinstate your FEHB and FEGLI coverage if you met the eligibility requirements to continue coverage into retirement when you left Federal employment.

If You Leave Before Retirement Age

If you leave Federal service before you are eligible to retire, and you have less than 10 years of service, you must wait until age 62 to receive a monthly annuity. If you have at least 10 years of service when you leave, you may begin to receive a monthly annuity as early as your MRA. If you begin receiving an annuity at your MRA and you have less than 30 years of service, your annuity will be subject to the reduction described in the "Postponing Your Benefits" section above.

If you do not want to wait until retirement age, you can withdraw all the money you have contributed toward the FERS Basic Benefit Plan. It will be paid to you with a market rate of interest; that is, the same rate of interest earned by the U.S. Treasury securities purchased by the Civil Service Retirement and Disability Fund (the account that contains all employee and employer contributions to CSRS and FERS). However, you permanently give up your right to a Basic Benefit based on that service. If you take your money out, you cannot put it back in if you return to work with the Federal Government later. It is usually better to leave your money in FERS so that you can receive a monthly annuity when you retire. This is because you pay very little compared to the benefits you will eventually receive from the Basic Benefit.

Social Security

For almost all American workers, Social Security is the basic retirement plan to which other benefits are added. To qualify for Social Security retirement benefits, you must have paid Social Security taxes for at least 10 years (or 40 credits or 'quarters') over the course of your lifetime. (This 40-credit rule applies if you were born after 1928. If you were born before 1929, you need fewer credits to qualify.) The Social Security credits you earn as a Federal employee are added to those you have earned in other employment throughout your career.

You can receive unreduced Social Security benefits if you wait until your full retirement age. For anyone born before 1938, the full retirement age is 65. It increases gradually to age 66 for anyone born between 1938 and 1954, and goes up to age 67 for anyone born in 1960 or later. You can also retire at age 62 and receive reduced benefits. Your monthly Social Security checks will be reduced about 20% from the full benefit amount you would receive if you waited until the full retirement age. (This gradually increases to a 30% reduction for those born in 1960 or later.)

Leaving the Federal Government before you retire has no effect on the Social Security benefits you receive later. All the Social Security credits you earned under FERS-covered employment still count. You may continue to add more Social Security credits as long as you work under Social Security. You can still receive reduced Social Security benefits at age 62 or full benefits at age 65 (or later as the Social Security retirement age goes up to 67).

✓ How Much You Will Receive After Retirement

Basic Benefit Plan

The amount of your FERS Basic Benefit annuity -- the monthly checks you receive after retirement - depends primarily on two things: your pay and your length of service.

As in most other retirement plans, an annuity formula is used to determine your benefits. The Government averages your highest 3 consecutive years of basic pay in your Federal career. This "high-3" average pay, together with your length of service, is used in the annuity formula. Your length of service is the total number of years and months you were covered under FERS.

Here is the annuity formula:

FERS Annuity Formula
One Percent of your high-3 average pay for every year of service. (Exception: If you are age 62 or older and have at least 20 years of service when you retire, you will receive 1.1% of your high-3 pay for every year of service.)

According to this formula, if you retire at age 55 with 30 years of service, you will be eligible for an annual annuity that is 30% of your high-3 pay. If you retire at age 62 with 30 years of service, you would get 33% of your high-3 pay.

In addition, if you have at least one calendar year (January 1 to December 31) of service creditable under FERS, you may be eligible for the *Special Retirement Supplement*. The Special Retirement Supplement is also known as the FERS Annuity Supplement. You may receive the Supplement if you retire:

- After 30 years of service at your MRA,
- After 20 years of service at age 60, or
- Under the discontinued service or early voluntary retirement provisions. (You do not begin to receive the Special Retirement Supplement until you reach your MRA.)

The Supplement represents the amount you would receive from the Social Security Administration for your FERS service as if you were 62 on the day you retire. This annuity substitutes for the Social Security part of your total FERS benefit until age 62, when most people become eligible for Social Security. Like Social Security benefits, the Supplement is subject to an earnings test, which means your benefits are reduced if your income from earnings or self-employment is higher than an allowable amount.

If you take advantage of the FERS MRA+10 retirement option (retiring at your MRA after leaving the Government with at least 10 years of service), your annuity will be calculated according to the FERS annuity formula shown at the beginning of this Guide. Then, if you have less than 30 years of service, it will be reduced 5% for each year you are younger than age 62 when you retire or elect to receive an annuity. If you are 60 with 20 years of service, there is no reduction.

Remember, the Basic Benefit is just one of the three sources of benefits you will receive. You may also get Social Security and TSP benefits.

Social Security

It is difficult to predict exactly how much you will receive from Social Security.

A number of factors can affect your Social Security benefits, such as your complete salary history, whether or not you plan to work after retirement, and whether your spouse has been covered by Social Security.

Social Security benefits are determined by a three-part formula that is applied to your lifetime earnings under Social Security. Those who postpone receiving Social Security benefits until the full retirement age get a benefit that is not reduced for early retirement.

Your Social Security benefits could be reduced by the Windfall Elimination Provision or the Government Pension Offset. These 2 reductions are discussed in greater detail in the Social Security section of this guide.

If you start receiving Social Security benefits before the full retirement age, you should be aware that continuing to work might result in what is called an earnings offset under the Social Security Earnings Test. If you work at any job after you start receiving Social Security payments, your benefits will be reduced if you earn over the allowable amount. The same rules apply to the Special Retirement Supplement.

✓ How Your Annuity Can Increase After Retirement

Basic Benefit Plan

Cost-of-Living Adjustments, or COLA's Under the FERS Basic Benefit Plan Begin When You Reach Age 62.

FERS cost-of-living adjustments match the rate of inflation when the increase in the Consumer Price Index (CPI) is 2% or less. (The CPI is a monthly survey that measures changes in consumer prices.) If the increase in the CPI is between 2 and 3%, the cost-of-living adjustments will be 2%. If the CPI increases 3% or more, the cost-of-living adjustments will be the rate of increase in the CPI minus 1%. This means that FERS cost-of-living adjustments are sometimes less than the rate of inflation.

For example, if the increase in the CPI is 2%, FERS Basic Benefit payments will increase by 2%. If the increase in the CPI is 5%, your FERS retirement annuity will increase by 4%.

The Special Retirement Supplement paid to age 62 is not increased by cost-of-living adjustments.

Social Security

Social Security gives cost-of-living adjustments that match the rate of inflation.

✓ How Much It Costs You to Participate

Basic Benefit Plan

FERS Basic Benefits, including the Special Retirement Supplement, are financed by very small contributions from you and much larger contributions from your agency. Your contributions are automatically deducted from your paychecks. The Basic Benefit deduction for most employees is 0.8% of the total basic pay (basic pay does not include overtime, bonuses, etc.) earned in a pay period. However, in contrast, your agency pays 10.7% of your basic pay for your Basic Benefit.

Social Security

Your contributions to Social Security are actually a tax. This means that there are no refunds - even if you never gain enough years of Social Security credit to qualify for benefits.

Social Security taxes are a percentage of your pay, including overtime and bonuses. They are limited to earnings below the maximum taxable wage base, which in 2002 is \$84,900. This amount increases each year based on the annual average increase in earnings of the American work force as a whole. (You do not pay Social Security taxes on any earnings above the maximum taxable wage base. However, these excess earnings are not used in calculating your Social Security benefits, either.) The Social Security tax rate, not counting Medicare, in 2002 is 6.2% of salary up to the maximum taxable wage base. Your agency also pays the same amount.

Total Cost to Participate

As a general rule, the total cost to you of the FERS Basic Benefit contribution and Social Security is currently 7.0% of your basic pay. This 7.0% is made up of 0.8% of pay for the Basic Benefit and 6.2% for Social Security. However, FERS will cost you less than 7.0% if you earn more than the maximum taxable wage base because the Social Security tax stops when your earnings reach

this amount. You will then pay only 0.8% of basic pay for the Basic Benefit on your earnings for the rest of the year. You will start paying Social Security tax again on earnings for the next year.

✓ Savings Options that Are Available

Thrift Savings Plan for FERS

The TSP is an important part of the total FERS retirement package. It gives you a way to save extra money for the future and to get a tax break today.

When you join FERS, your agency sets up a TSP account in your name. Every pay period, your agency automatically puts in an amount equal to 1% of your basic pay. This money is called your Agency Automatic (1%) Contribution. It is not a deduction from your basic pay. It is an amount your agency contributes for you based on your basic pay per pay period.

In addition, you can contribute up to 12% of your basic pay per pay period to your TSP account. This percentage will continue rising until it reaches 15% in 2005. In 2006, the percentage limit will be abolished. In no case, however, can you save more than the Internal Revenue Service annual limit on tax-deferred contributions. For 2002, the limit is \$11,000. This limit is indexed to cost-of-living adjustments referred to in the Tax Code and may change from year to year.

If you contribute to your TSP account, you will also receive Agency Matching Contributions as follows:

- The first 3% you save each pay period will be matched dollar for dollar, and
- The next 2% you save each pay period will be matched 50 cents on the dollar.

Your own contributions and your Agency Matching Contributions as well as the earnings on these contributions belong to you right away. There is no waiting (vesting) period. You are vested in the Agency Automatic (1%) Contributions and attributable earnings after you have completed 3 years of Federal (generally, civilian) service (2 years for some noncareer participants). The following chart shows how your agency matches your contributions:

Percent of Basic Pay Contributed to Your Account (FERS Participants Only)		
If You Put In	Then Your Agency Puts In	And the Total Contribution is
0%	1%	1%
1%	2%	3%
2%	3%	5%
3%	4%	7%
4%	4.5%	8.5%
5%	5%	10%
6-12%	5%	5% plus the percentage you contribute

You can invest the money in your TSP account in any of the five investment funds: the Government Securities Investment (G) Fund, the Common Stock Index Investment (C) Fund, the Fixed Income Investment (F) Fund, the Small Capitalization Index Investment (S) Fund, and the International Stock Index Investment (I) Fund. The C, F, S and I Funds are riskier than the G Fund but have the potential for earning higher rates of return. For example, during the 10-year period 1990 through 1999, the C Fund's compound annual rate of return was 18.2%.

Twice each year there is a TSP open season. During the open season, you can start, stop, increase or decrease your TSP contributions. You can change the investment of your TSP contributions at any time. You may move any portion of your existing account balance among the five funds by requesting an interfund transfer in any month you choose, without an annual limit.

You can stop contributing to the TSP at any time. However, if you stop contributing outside an open season, you must wait until the second open season after you stop before you can contribute again. If you stop contributing during an open season, you may resume contributions during the next open season.

You get a tax break for saving in the TSP because your TSP contribution comes out of your basic pay before Federal and many State and local income taxes are figured. You will not owe taxes on your contributions and attributable earnings until you withdraw your TSP account. You can withdraw your account when you separate or retire from Federal service. If you transfer all or any portion of your TSP account balance to an Individual Retirement Arrangement or other eligible retirement plan, you do not pay taxes on the funds transferred when they are

transferred. You will, however, be subject to applicable taxes when you withdraw your funds from the Individual Retirement Arrangement or other eligible retirement plan.

You may withdraw money from your Thrift account while you are working for the Government if you are age 59 1/2 or older or document financial hardship. You are limited to one withdrawal as an employee at age 59 1/2 or older during your lifetime. You will be liable for taxes on the amount withdrawn. In addition, if you are under age 59 1/2, when you make a withdrawal for financial hardship, you will owe a 10% early withdrawal penalty.

When you retire, you will be eligible to withdraw your TSP account. You may receive your entire account as a single payment, receive your account in a series of monthly payments, or have the TSP purchase an annuity for you. If you elect a single payment or certain monthly payments, you may have TSP transfer all or any portion of the payment(s) to an Individual Retirement Arrangement (IRA) or other eligible retirement plan.

TSP payments are taxable as ordinary income for Federal income tax purposes for the year in which they are disbursed. In addition, if you retire before the year in which you reach age 55 and receive a direct single payment or monthly payments determined by dollar amount or number of months before you reach age 59-1/2, the payment(s) will be subject to the Internal Revenue Service 10% early withdrawal penalty tax. If you transfer all or any portion of the payment(s) to an IRA or other eligible retirement plan, the amount transferred is not taxable income when it is transferred (it becomes taxable income when it is disbursed from the plan to which it was transferred) and, consequently, is not subject to early withdrawal penalty tax. If you receive a TSP annuity, or monthly payments computed by your life expectancy, the payments are not subject to the early withdrawal penalty.

You can borrow from your account. There are two types of TSP loans: general purpose and residential. You must have at least \$1,000 of your own contributions and associated earnings to be eligible for a loan.

The Federal Retirement Thrift Investment Board, an independent Government agency, manages the TSP. The Board manages the G Fund and contracts with a professional asset manager to manage the C, F, S, and I Funds.

This guide describes the elements of the TSP that are most important in making a decision about FERS or CSRS Offset. To find out more about the TSP, ask your employing agency for the most recent booklet prepared and issued by the Board. You should read the Board's detailed information on each Investment Fund and review each Fund's performance before making any investment decision. The Board also issues a Fact Sheet each month containing the monthly returns for the Thrift funds. This is available from your agency. TSP publications, forms, and rates of return are also available from the TSP web site www.tsp.gov.

Special Considerations about TSP

As a FERS employee, you may be contributing up to 12 percent of salary to your TSP account. You may also have already begun to receive Agency Automatic (1%) and Government Matching contributions.

If you decide CSRS Offset is best for you, you are not entitled to the agency contributions made to your TSP account and attributable earnings. They will be removed from your account. Also, you will not be permitted to contribute beyond the maximum contribution rate for CSRS Offset employees. Any contributions you may have already made in excess of the CSRS Offset limit, and the attributable earnings, may remain in your TSP account.

If you decide to stay in FERS, then your agency may owe you additional Agency Automatic (1%) contributions. You may also have an opportunity to make-up missed TSP contributions. This is because when you choose to be covered by FERS, you immediately become eligible to contribute to the TSP and receive Government contributions. Your agency should have allowed you to immediately begin contributing rather than serving a waiting period of up to 1 year.

✓ Some Important Conclusions About FERS

FERS is flexible for a work force that is more likely to work for several different employers over the course of a career. It allows for the fact that many employees may not retire from the Federal government. FERS builds on the Social Security credits that employees already have or may earn in the future from non-Federal work. Also, the TSP keeps its value after an employee leaves Federal service.

There are some important advantages to FERS

- FERS allows you to take most of your retirement benefits with you when you leave Federal service and add to them in your future jobs. You will probably earn more Social Security credits wherever you work next. Also, you may transfer your TSP account balance to an Individual Retirement Arrangement or other eligible retirement plan. You may also leave your TSP account balance in the TSP where it will continue to accumulate earnings based on your investment decisions. The part of FERS that does decrease in value, the Basic Benefit, only requires a small contribution from you. If you withdraw your Basic Benefit contributions, you receive interest on that money.
- You have more control over the amount of your retirement benefits. For example, you decide how much to contribute to the TSP and where the money is invested. If you

contribute, your agency pays matching contributions on your contributions up to 5% of your basic pay.

- **Minimum Service Requirement** - You can receive a reduced annuity after only 10 years of service once you reach your **Minimum Retirement Age**, whether or not you reach that age while a **Government employee**. You do not have to wait until age 62.
- **Early Annuity Eligibility** - If you leave the **Federal Government** before you are old enough to retire, but with at least 30 years of service, FERS lets you begin to receive a full annuity as soon as you reach the **Minimum Retirement Age**. If you leave with at least 20 years of service, you may begin to receive a full annuity at age 60. You do not have to wait until age 62.

FERS has some disadvantages too

- To get the most out of FERS, you have to pay more than the 7.0% that the **Basic Benefit** and **Social Security** require. You need to take advantage of the **TSP**, especially if you are an upper income employee, for whom **Social Security** will make up a smaller percentage of retirement income.
- If you continue to work after you start receiving the **FERS Retirement Supplement** or **Social Security**, you could lose some benefit dollars if your earnings are more than the allowed amount.
- The cost-of-living adjustment that FERS provides (**CPI minus 1%**) does not completely make up for inflation if the increase in the **Consumer Price Index** is more than 2%. Also, cost-of-living adjustments do not start until you are age 62, even if you retire sooner.

FERS is a good retirement plan, especially for employees who are not sure whether they will stay with the **Federal Government** until they retire. FERS gives you more control over the amount of your retirement benefits. It also allows you more flexibility in deciding when to retire.

Special Rules for Employees who choose FERS

✓ Overview

For most people, choosing to stay in FERS means you may take advantage of the features of both CSRS Offset and FERS. You keep most of the annuity you have already earned and build on it. All of your prior CSRS or CSRS Offset service is creditable toward eligibility for death and disability benefits, as well as retirement, so you and your family do not risk any gaps in protection if you choose FERS.

However, if you have very many years of CSRS Offset coverage, you need to think carefully about staying in FERS. This is because all of your Offset service will be credited under the less generous FERS annuity formula. In addition, if you have less than 5 years of creditable civilian non-Offset CSRS service, all of your CSRS service will be switched over to FERS. These rules are explained in more detail in the following section.

✓ How CSRS Offset Service Is Credited

If you have service that was covered by CSRS Offset provisions and you choose FERS, your Offset service becomes subject to the less generous FERS annuity formula. You will not be able to make-up TSP contributions at the FERS level to cover the CSRS Offset service period. Also, you will not get TSP Government contributions for the period you were covered under CSRS Offset.

You must have at least 5 years of non-Offset civilian service to be eligible for an annuity with a part (component) computed under CSRS rules - in other words you must have at least 5 years of civilian service other than your Offset service. (Count all civilian service, even if you didn't pay CSRS deductions or you received a refund. Do not count any military service.)

If you have less than 5 years of civilian service other than CSRS Offset at the time you became covered by FERS, all of that CSRS service will become FERS service if you decide to stay in FERS. You can request a refund of the extra money you paid for CSRS and receive it plus interest. Employees whose CSRS service will become FERS service may also receive a partial refund of any military deposits they may have paid under CSRS rules.

WARNING: Since all Offset service becomes subject to FERS when an employee chooses FERS, it is particularly important that employees with past service that was CSRS Offset give careful consideration to their first opportunity to elect FERS. Even though your employment history may result in your having another opportunity to elect FERS at a later date, the more Offset service

you have, the more you can lose if you wait to transfer to FERS. You may not make TSP contributions or get a Government TSP match on CSRS Offset service that is credited under FERS rules.

✓ **When You Can Receive Retirement Benefits**

If you stay in FERS, your past CSRS service and all FERS Service will be added together to determine when you can retire. Instead of the CSRS retirement rules, you will follow the more flexible FERS rules.

FERS rules will also apply if you leave the Federal Government before you have the right combination of age and service to retire. You'll keep your service credit and, once you reach the necessary age, can start receiving an annuity. This is an important advantage to transferring to FERS. If you choose CSRS Offset and leave before retirement, you will not receive any benefits until age 62.

✓ **How Much You Will Receive After Retirement**

If you had at least 5 years of non-Offset civilian service, the annuity you actually receive normally will come from both CSRS and FERS. The higher CSRS annuity formula will be used for the years of non-Offset service you put in under CSRS if you had at least 5 years of non-Offset civilian service. If you do, and you retire on an immediate annuity, you can also get credit for your unused sick leave. The amount of the sick leave that can be credited in your annuity equals the amount of sick leave you had when you were erroneously put in FERS or the amount you have when you retire, whichever is less.

The lower FERS Basic Benefit formula will apply only to the years you spent under FERS and CSRS Offset if you had at least 5 years of non-Offset civilian service, so you're probably not giving up all the CSRS annuity you've already earned. By staying in FERS, you are trading a higher CSRS annuity for increased flexibility.

In addition, if you retire with an immediate, unreduced annuity, you will receive the Special Annuity Supplement until the end of the month before you are eligible to receive Social Security benefits, or when you reach age 62, whichever is earlier. All your years of CSRS Offset and FERS coverage are used to determine your eligibility for and to compute this supplement.

The high-3 pay that determines your annuity at retirement will be the average of the 3 highest, consecutive years of earnings in your entire Federal career, under CSRS or FERS. Your Social Security benefits will be based on all of the Social Security credits you've earned in your lifetime.

✓ **How Your Annuity Can Increase After Retirement**

If you had at least 5 years of non-Offset civilian service, once you start receiving an annuity, the CSRS part of your annuity will receive cost-of-living adjustments (COLA's) right away, even if you are receiving your CSRS annuity before you could have under CSRS rules. The FERS part of the annuity won't be eligible for a COLA until you reach age 62. Remember that the FERS part of your annuity will include your CSRS Offset service. The FERS COLA usually is 1% less than the rate of inflation.

✓ **Important Conclusions**

If you have many years of CSRS Offset coverage, you need to think carefully about staying in FERS. This is because all of your Offset service will be credited under the less generous FERS annuity formula. In addition, if you have less than 5 years of creditable civilian non-Offset CSRS service, all of your CSRS service will be switched over to FERS. You may not make TSP contributions or get a Government TSP match on CSRS service that is credited under FERS rules.

Making Your Decision

This decision about your retirement plan normally comes when you wouldn't otherwise have thought about all of this. You may be uncomfortable trying to consider a lot of details about a retirement plan now, especially if retirement seems far away.

Rather than sorting through every detail of how the two plans are structured, perhaps it would be easier to think about your future career plans. Consider whether or not you think you'll stay with the Federal Government for the rest of your career, and, if you are married, your spouse's career plans.

This section will help you consider some important factors about yourself and your work history that may make either FERS or CSRS Offset clearly a better choice for you.

✓ Which plan is better?

CSRS Offset Is Probably Better For You If:

- You have a substantial number of years of CSRS Offset coverage. You probably don't want these years of service treated under FERS rules at 1% of your high-3 instead of 2% under CSRS Offset. You also would not be able to make a TSP contribution or get a Government TSP contribution for your CSRS Offset service.
- You expect to retire from the Federal Government at age 55 with 30 years of service. The CSRS Offset retirement annuity, with its generous annuity formula and full COLA, is generally better than the FERS retirement annuity under these circumstances.
- If you are concerned about the survivor benefits that your retirement plan will provide, you may want to stay with CSRS Offset. The FERS survivor benefit rules apply to all the benefit -- even the CSRS part if you decide to stay in FERS. This formula is less generous than the one used under CSRS Offset.
- You aren't able to contribute very much money to the TSP. Only with TSP participation are FERS benefits comparable to the benefits you would receive under CSRS Offset.

FERS Is Probably Better For You If:

- You are uncertain whether you will stay with the Federal Government until you are eligible to retire. FERS gives you options for receiving a deferred annuity as early as your Minimum Retirement Age (MRA) with as little as 10 years of service. CSRS Offset doesn't pay a deferred annuity until age 62.
- One advantage of coverage under FERS is the Government contribution to the TSP. FERS employees are vested in their own contributions and the Government matching contributions (plus all earnings) immediately. They are also vested in the Government automatic contributions (plus all earnings) if they have at least 3 years civilian service. The TSP account of a FERS employee will always be greater than that of a CSRS Offset employee contributing an equal amount.
- You want to retire before age 60, but you won't have 30 years of service. FERS is more flexible than CSRS Offset. It allows you to take a reduced annuity as early as your MRA with as few as 10 years of service and there's no minimum period of FERS service required. If you decide to stay in FERS, you can take advantage of this flexibility and begin to receive your retirement annuity, including the CSRS annuity that was transferred to FERS (if you had at least 5 years of non-Offset civilian service), earlier than you can under CSRS Offset. Your entire annuity, including the part earned under CSRS, will be reduced at the rate of 5% a year for each year you elect to receive an annuity before age 62. Exception: If you have at least 20 years creditable service and are 60 years old or wait to receive your annuity until age 60, there is no reduction.
- You will have 30 years of service before your MRA and you want to leave Federal service early. FERS gives you the flexibility to leave then. Later, at your MRA, you can start getting an annuity. With 30 years of service, there is no age reduction. You won't get COLA's on the part of your annuity that is based on FERS and Offset service until age 62, but you will get COLA's right away on the part that is based on CSRS-only service.
- You plan to work to a fairly late retirement age. FERS can provide more valuable benefits to those who plan to work until later ages, that is, age 65 or beyond. You will continue to receive Government contributions to your TSP account and until you withdraw it, earnings will continue to compound. In addition, you continue adding to your Basic Benefit. Under CSRS Offset, your annuity is limited to 80% of your high-3 (about 42 years of service). FERS does not have this cap.

✓ **The Trade-offs**

With CSRS Offset, you have a plan that offers superior retirement benefits, if you're able to take advantage of them. With FERS, you get more flexibility and portability, but you may have to give up a little in the way of benefits, or pay more in contributions while you're working, if you want to reach the same benefit level.

The TSP under FERS is very attractive if you're in mid-career and can contribute to your TSP account. If you can contribute at least 5% of your basic pay each pay period, the Agency Matching Contributions and the Agency Automatic (1%) Contributions you receive will add an amount equal to another 5% of your basic pay to your account for that pay period. This, coupled with the effect of compounding, may provide a significant source of retirement income. In fact, this kind of TSP account balance, when added to your FERS Basic Benefit and Social Security payments, can easily produce a FERS benefit that exceeds the CSRS Offset benefit.

If you stay in FERS and can contribute to your TSP account, you will gain the portability of the increased TSP portion of FERS. And you will gain the flexibility to choose to receive benefits earlier with fewer years of service.

Staying in FERS involves some trade-offs. For the advantages of greater flexibility and equal or better benefits, you have to make greater contributions. In fact, you may need to contribute more of your pay each pay period to the TSP than you would under CSRS Offset because some FERS employees (especially those with higher incomes) must contribute more in order to receive equivalent retirement benefits to those received by CSRS Offset employees.

Under CSRS Offset coverage, you have the benefits of the good CSRS annuity formula and cost-of-living adjustments, as well as the advantage of Social Security coverage. However, there is an offset of your CSRS Offset annuity at 62 by the amount of Social Security attributed to your CSRS Offset service. This offset will apply if you're eligible for Social Security even if you decide to postpone receiving Social Security until a later date.

CSRS Offset is an excellent package if you plan to retire from the Federal Government on an immediate annuity. However, if you do not expect to retire from the Government, the more flexible FERS rules about when you can receive your annuity may be better for you. In addition, you can take advantage of the TSP Government match and Agency 1% Automatic Contribution and the ability to contribute more to your account.

✓ **Some Important Cautions**

There are some factors that can make FERS clearly a better choice for you. There are other factors that can mean switching to FERS is not the best thing for you to do. Although you can't predict the future, use what you know now to make the best decision you can. This section contains some information you should consider before you make your final decision.

If You Are Unable to Meet Social Security Eligibility Requirements

In general, choosing to stay in FERS can be a mistake if you are not able to earn the 10 years or 40 credits of Social Security coverage that will allow you to receive a Social Security benefit.

You will make a mistake by not thinking ahead about how much longer you want to work when you choose FERS. You cannot receive a Social Security benefit unless you've earned the required years of coverage. In most cases, 10 years are required. So you will have lost one of the three parts of your FERS benefit. Also, if you do not qualify for a benefit, the percentage of salary that you pay in for Social Security taxes is simply lost.

CSRS Offset normally is a better choice if you will not be able to earn enough years of Social Security coverage to qualify for that portion of your FERS benefit. A CSRS Offset retiree also is not eligible for Social Security benefits unless he or she has sufficient credits. However, under CSRS Offset, you have the advantage of the more generous basic annuity. There is no offset to that annuity if you are not eligible for Social Security benefits.

If You Are Unable to Contribute Enough to the Thrift Savings Plan

The TSP portion of FERS can provide a valuable benefit if you're able to contribute to it. If you're not, choosing FERS can be a mistake.

If you are not able to begin contributing to your TSP account soon after you become covered by FERS, your benefit will probably be significantly less than the benefit you could have received by retiring under CSRS Offset. Also, if you have already been in FERS for a number of years and have not contributed to the TSP, a FERS benefit will probably be less than the benefit you could receive by retiring under CSRS Offset. If you are concerned about whether you can participate adequately in the TSP, you may want to review your financial situation carefully to see what level of savings you can expect to be able to make.

If You Should Die Soon After Choosing

It is not likely you will base your choice of retirement plan on the possibility that you may die soon after choosing. However, if you are married, you should be aware that you must have 10 years of creditable Federal service before your spouse can receive a survivor annuity under FERS. All your creditable civilian service counts toward meeting the 10-year requirement regardless of the retirement coverage, i.e., CSRS, CSRS Offset, FERS.

You must have also earned the minimum number of Social Security credits required before your survivors can receive Social Security benefits if you die. The number of credits required depends on when you were born and how old you are when you die. The least number of credits required is 6 credits or 18 months.

Whether you are under CSRS Offset or FERS, all TSP contributions, including any Agency Automatic (1%) and Matching Contributions, will be paid to your beneficiary (or beneficiaries).

Survivor benefits are discussed further in the Survivor Benefits section.

Disability Benefits Under CSRS Offset and FERS

✓ Introduction

CSRS Offset and FERS both provide disability benefits. The benefits offered by the two plans are alike in some ways and different in others. Depending on your personal situation, the benefits offered by one plan or the other may be better for you.

Unless you have a serious chronic illness or a life-threatening medical condition, you will probably base your choice between FERS and CSRS Offset more on what you want your retirement benefit to be than on the disability benefits offered. You should be aware of the differences between the plans, though, in case one or the other clearly meets your needs better. Note that, if you stay in FERS, all of your disability benefits will be paid according to FERS rules.

This section explains the key features of the disability benefits of both plans. It also points out some areas to think about in deciding which plan is better for you.

✓ Eligibility

CSRS Offset requires you to have at least 5 years of creditable civilian service before you can qualify for a disability annuity. FERS requires 18 months of creditable civilian service.

If you apply for a disability annuity under CSRS Offset or FERS, you must also apply for Social Security disability benefits or show that you are not eligible for them.

There are separate eligibility requirements that you must meet in order to qualify for a Social Security disability benefit. You must meet Social Security eligibility requirements and have earned a specified number of Social Security credits before becoming disabled.

✓ Definition of Disability

CSRS Offset and FERS both use the same definition of disability. To be declared disabled under either plan, you must

- 1) be unable to do your job, and
- 2) not turn down a suitable vacancy. A suitable vacancy is one that is
 - in your agency,
 - in your commuting area, and
 - at the same grade or pay level as your current position.

The Social Security Administration uses a definition to determine your eligibility for Social Security disability payments that is stricter than under CSRS Offset and FERS. It requires you to be unable to perform any job, rather than just your current job. So even if you have the required number of Social Security credits, you may qualify for FERS or CSRS Offset disability payments, but not qualify for Social Security disability payments. However, if your medical condition is progressive, you may qualify for Social Security benefits at a later date if your condition gets worse.

✓ How Much a Disability Annuity Will Be

CSRS Offset

Under CSRS Offset, your disability annuity will generally be equal to what your annuity would have been if you had worked until age 60, or 40 percent of your high-3 average salary, whichever is less. If you have more than 22 years of service when you become disabled, you will receive the annuity you have earned because it will be more than 40% of pay.

If you qualify for Social Security benefits, OPM must reduce your annuity by the value of your Offset service in your Social Security benefit.

Cost-of-living adjustments (COLA's) will be added annually at the full rate of inflation.

RI 83-4, Retirement Facts 4, Disability Retirement Under the Civil Service Retirement System describes how disability annuities are computed. RI 83-19, Retirement Facts 13, CSRS Offset Retirement explains the offset (reduction) to your CSRS Offset annuity if you qualify for Social Security benefits. Both pamphlets are available from your human resources office and on our www.opm.gov/benefits/ web site.

FERS

FERS uses a different annuity formula that also takes into account any Social Security disability benefits you may be eligible for.

During your first year of disability, FERS will pay you 60% of your high-3 average salary minus 100% of any Social Security benefit you qualify for. No COLA's will be paid during this year.

(NOTE: Social Security disability payments and the reduction in your FERS annuity will not begin until 5 months after you qualify for Social Security disability benefits. You will receive a full FERS annuity during this period.) If the annuity you earned based on your years of service and high-3 average salary produces a higher annuity, you receive your earned annuity.

During your second and any future years until age 62, your basic FERS annuity will amount to 40% of your high-3 salary increased by FERS COLA's. If you are entitled to Social Security disability benefits, your FERS annuity will be reduced by 60% of your Social Security benefit. If the annuity you earned based on your years of service and high-3 average salary produces a higher annuity, you receive your earned annuity.

COLA's match the inflation rate if it is 2% or less. If the inflation rate is more than 3%, the COLA will be 1% less than the inflation rate.

The total FERS and Social Security benefits you receive will be equal to at least 40% of your high-3 salary plus 40% of your Social Security disability benefits.

Your basic FERS disability annuity will be recomputed at age 62. At that time, you will receive your accrued FERS retirement annuity. Your accrued FERS annuity will be based on years of service that include the time you were receiving a disability annuity. Also, the average salary used will be based on your average salary at the time you became disabled, increased by all COLA's under FERS during that period.

CSRS Offset and FERS

Under the Social Security law, the Social Security Administration must reduce your Social Security disability benefit if the combined amount of your Social Security payment and/or public disability benefit is more than 80% of what is called your "average current earnings." Public disability benefits are from employment not subject to Social Security taxes, such as CSRS. Since FERS and CSRS Offset include Social Security, this type of reduction is less likely when you are covered under these retirement programs.

If you retire under either a CSRS Offset or FERS disability retirement, you have the same options to withdraw your TSP account as you would have under regular retirement.

✓ **Continuing Eligibility for Disability Payments**

Under both CSRS Offset and FERS, if you retire on disability and then decide to work again, your disability annuity may be affected. If your total income from work is more than 80% of the current salary of the position you retired from, your disability annuity will end. It may also end if you go back to work for the Federal Government.

Also, at times you may be required to prove that you still meet the CSRS Offset and FERS definition of disability.

✓ **Conclusion**

In general, the combined FERS and Social Security disability benefit (if you qualify for the Social Security benefit) will be larger than the CSRS Offset annuity. However, it is more difficult to qualify for the Social Security disability benefit, and you must be covered for the number of years required by Social Security. Depending on how recently you have worked under Social Security, you may have to work under CSRS Offset or FERS for as much as 5 years before you have Social Security disability protection. See the Social Security Program section for more information.

Note also that, when OPM recomputes your FERS annuity at age 62, you may stand to lose a significant portion of your annuity. Remember that if you decide to stay in FERS, any prior CSRS Offset service becomes FERS service.

If disability benefits are a serious concern for you, you should ask your agency to do estimates of benefits under both CSRS Offset and FERS before you make a retirement coverage decision.

Survivor Benefits Under CSRS Offset and FERS

✓ Introduction

CSRS Offset and FERS both provide survivor benefits, but the benefits offered by the two plans differ greatly. Depending on your personal situation, the benefits offered by one plan may be better for you than the other plan's benefits.

✓ Recipients of Survivor Benefits

Current and former spouses and children can receive CSRS Offset, FERS, and Social Security survivor benefits under various conditions. Dependent elderly parents can also receive Social Security benefits. Surviving spouses must meet certain age and length of marriage requirements in order to qualify for benefits. You can also elect an annuity for a spouse you marry after retirement under both FERS and CSRS Offset. The rules for who is eligible for spousal benefits are the same for FERS Basic Benefits and CSRS Offset. Under both CSRS Offset and FERS, children's annuities are payable to each unmarried child:

- up to age 18;
- up to age 22 if a full-time student; and
- at any age if the child became disabled before age 18.

Also, under both CSRS Offset and FERS, your TSP account will be paid to your designated survivor. If you want more information about CSRS Offset and FERS survivor benefits (including court ordered benefits for a former spouse), several pamphlets on OPM's web site have more information. Go to www.opm.gov/benefits.

✓ If You Die as an Employee

CSRS Offset

CSRS Offset will pay an annuity to the eligible survivors of an employee who had at least 18 months of creditable civilian service.

Under CSRS Offset, if you die while you are a Federal employee, your eligible spouse will receive 55% of your accrued annuity. If a larger annuity would result, your spouse would receive the smaller of the following computations:

- 55% of 40% of your high-3 annual salary, or
- 55% of what your annuity would have been if you had worked until age 60.

Your eligible children will receive an annuity that is based on how many children you have and whether or not your spouse is still living. This is true under CSRS Offset whether you die as an employee or retiree.

OPM must reduce the CSRS Offset survivor annuity if your widow(er) or children are entitled, or would be entitled upon proper application, to Social Security benefits as your widow(er) or children. OPM computes this reduction the same way it does a reduction in a retiree's annuity.

FERS

FERS also pays benefits to the eligible survivors of an employee who had at least 18 months of creditable civilian service. Your prior service in CSRS and CSRS Offset counts to meet this requirement.

Under FERS, if you die as a Federal employee, and have at least 18 months of creditable civilian service but less than 10 years of total service, your eligible spouse will receive a two-part FERS benefit. It includes a lump-sum payment that is adjusted each year for inflation (\$24,018.48 in 2002), plus the greater of half of your high-3 average pay or half of your annual rate of pay at death. This is the Basic Employee Death Benefit payment. Social Security and other survivor benefit payments will not affect this lump-sum benefit.

In addition, if you have 10 years of service, your eligible spouse will receive an annuity equal to one-half of your accrued Basic Benefit.

FERS children's annuities depend on whether your spouse is still living and how many children are eligible for benefits. In addition, children's annuities are reduced dollar for dollar by Social Security children's benefits that may be payable.

Social Security also provides benefits to your eligible survivors if you meet the minimum Social Security eligibility requirements. The number of Social Security credits needed depends on when you were born and how old you are at the time of death. The minimum number of credits required is based on 18 months' work in the 3 years before your death.

Under CSRS Offset and FERS, these benefits are available without additional cost to you, that is, at the regular deduction rate for CSRS Offset and FERS benefits.

✓ If You Die After You Retire

CSRS Offset

If you are a CSRS Offset retiree when you die, your eligible spouse will be paid 55% of the amount you were receiving as your annuity or a lesser amount that you and your spouse agreed on when you retired.

As a married retiree, your annuity will be reduced to provide for this survivor annuity unless you and your spouse waive this annuity. The amount of the reduction is 2.5% of the first \$3,600 of your annual annuity, plus 10% of the amount over \$3,600. For most career retirees, this amounts to a 8% to 9% reduction. Note that the 55% annuity is based on the amount of your annuity before this reduction is taken. If your spouse agrees, you may also choose a smaller or no survivor annuity.

If you want more information about survivor benefits, see the pamphlet RI 83-5, Retirement Facts 5, Survivor Benefits Under the Civil Service Retirement System available at your personnel office or on the Internet at www.opm.gov/benefits/.

OPM must reduce the CSRS Offset survivor annuity if your widow(er) or children are entitled, or would be entitled upon proper application, to Social Security benefits as your widow(er) or children. OPM computes this reduction the same way it does the reduction in a retiree's annuity.

Cost of living increases on survivor annuities are equal to the consumer price index, the same as for CSRS Offset retirees.

Children's benefits are the same for both retirees and employees.

Social Security benefits are also payable to survivors of former employees who meet the Social Security requirements. These benefits are based on the Social Security benefit for which the former employee was eligible. Benefits vary based on the age and situation of the survivor.

FERS

If you are a FERS retiree when you die, OPM will pay your eligible spouse 50% of your annuity, plus a Retirement Supplement if your spouse is younger than age 60 and not yet eligible for Social Security benefits.

As a married retiree under FERS, your annuity will be reduced to provide for this survivor annuity unless you and your spouse waive the annuity. Under FERS, the reduction is larger than under

CSRS Offset. It is 10% of your entire annual annuity amount. The 50% annuity is based on the amount of your annuity before this reduction is taken.

You and your spouse also can choose a smaller survivor annuity of 25% of your annuity. This would reduce your annuity by 5%. However, under FERS you cannot choose other annuity levels as you can under CSRS Offset.

Cost of living increases are generally equal to the consumer price index increase less 1%--the same as for FERS retirees.

Children's benefits are the same for both retirees and employees.

✓ **If You Die After You Leave Federal Service, But Before You Retire Under FERS**

If you have at least 10 years of service and die after you leave Federal service but before you begin to receive your annuity, your eligible spouse may receive a FERS survivor annuity. The amount of the annuity payable to the surviving spouse is 50% of your accrued basic retirement annuity.

The annuity will begin at the time you would have reached age 62, or sooner if your survivor elects a reduced annuity. For your spouse to be eligible, you must not take a refund of your contributions. No similar annuity exists in CSRS Offset.

Social Security benefits are also payable to survivors of former employees who meet the Social Security requirements. These benefits are based on the Social Security benefit for which the former employee was eligible. Benefits vary based on the age and situation of the survivor.

✓ **Conclusion**

The survivor benefits under FERS and CSRS Offset differ substantially. Your individual circumstances will determine which system is better for you. Also, you need to remember that FERS rules apply to all of your survivor benefits if you decide to stay in FERS.

As a general rule, surviving spouses will receive a greater benefit from CSRS Offset. However, the value of the deceased's TSP account could result in higher benefits under FERS.

Involuntary Retirement and Early Retirement

✓ Introduction

This section discusses what your annuity will be under CSRS Offset and FERS if you must retire based on involuntary separation because of a reduction in force, reorganization, transfer of function, or similar circumstance, or you choose to retire early under a voluntary "early out" opportunity. These provisions do not apply if your agency fires you because of misconduct or delinquency or if you refuse a reasonable offer of another position.

CSRS Offset

Under CSRS Offset, if you are involuntarily separated, you are eligible for an immediate annuity at any age with 25 years or more of service, or age 50 with 20 years of service or more. OPM will reduce your annuity 2% for each year that you are under age 55. This is a permanent reduction that applies to your entire annuity, including your payments after you reach age 55. The same rules apply for early voluntary retirements. In addition, your annuity will be offset at age 62 if you are eligible for Social Security benefits.

FERS

Under FERS, if you are involuntarily separated, you are also eligible for an immediate annuity at any age with 25 or more years of service, or at age 50 with 20 years of service or more. The difference between CSRS Offset and FERS in this case, however, is that OPM does not reduce your FERS annuity if you are under age 55.

If you decide to stay in FERS and are involuntarily separated, you are eligible for an immediate annuity at any age with 25 or more years of service or at age 50 with 20 or more years of service. Your retirement annuity will be calculated using the CSRS formula for your years of service under CSRS (if you had 5 or more years of non-Offset civilian service prior to your FERS coverage) and the FERS formula for your FERS service. Any CSRS Offset service will be converted to FERS.

OPM will permanently reduce the CSRS part of your annuity by 2% for each year that you are under age 55 when you retire.

No reduction applies to the FERS portion of your annuity but you will not begin to receive a Special Retirement Supplement until your Minimum Retirement Age. The same rules apply for early voluntary retirements.

Considerations for Involuntary Retirees and Early Voluntary Retirees

Whether or not you may be involuntarily separated or have an opportunity for early voluntary retirement may not be a key factor in determining which retirement plan you choose. You should be aware of the differences between CSRS Offset and FERS, however.

If you meet the age and service requirements and retire early, your CSRS Offset annuity will be reduced if you are under age 55. Your FERS annuity will not, unless part of your FERS annuity is computed under CSRS rules. However, the CSRS Offset retirement annuity is larger than the FERS annuity to begin with. Even with the reduction, the CSRS Offset annuity is likely to be larger than the FERS annuity. This is especially true if you retire below your Minimum Retirement Age under FERS, because your Special Retirement Supplement will not be paid until you reach your Minimum Retirement Age. FERS cost-of-living adjustments (COLA's) do not begin until age 62, but CSRS Offset COLA's start immediately.

If you think you may be involuntarily separated from Government service or want to take advantage of an opportunity for early voluntary retirement, FERS is probably the better choice. In general, FERS is better for those who do not plan to retire from the Federal service. This is especially true if transferring to FERS could give you eligibility for retirement at your Minimum Retirement Age with as little as 10 years of service (MRA+10 retirement), which could allow you to keep your Federal health and life insurance as a retiree.

Brief Description of the Social Security Program

✓ Introduction

Social Security is a national system of old-age, survivors and disability insurance cash benefits. The program's basic plan is a simple one: During working years, employees, their employers, and self-employed persons pay Social Security taxes. When their earnings stop or are reduced due to retirement, severe disability, or death, monthly cash benefits are paid to replace part of the earnings the employee and the family have lost.

Both FERS and CSRS Offset include Social Security coverage, so you will earn credits toward a Social Security benefit under either retirement system. This brief description of the Social Security Program is included so you have information about this part of your benefits package when you make your retirement coverage decision.

Beginning October 1, 1999, the Social Security Administration began mailing annual Social Security Statements to all workers who are ages 25 and older and not receiving Social Security benefits. You will automatically receive your statement about 3 months before your birth month if you ever had any work under Social Security.

You also may request a Social Security Statement at any time. Use the Social Security Administration web site at www.ssa.gov to request a Statement, or you can use form SSA-7004, Social Security Statement request form, to request the Statement. You can download the form from the Social Security Administration web site, or you can request it by calling 1-800-SSA-1213.

✓ How the Program Is Financed

The primary sources of financing are the Social Security taxes paid by employees and their employers and by the self-employed. In 2002, employers and employees each contribute 7.65% of the employee's wages, which includes 1.45% for Medicare hospital insurance. The maximum amount of earnings taxed for Social Security purposes (\$84,900 in 2002) is adjusted every year. However, you pay Medicare taxes on all of your income.

✓ **Qualifying for Benefits**

You earn credits of coverage when you work in a job covered by Social Security. During your working years, your wages are posted to your Social Security record, and you receive Social Security earnings credits based on those wages. These credits are later used to determine your eligibility for Social Security benefits. In 2002 you receive one Social Security credit for each \$870 of earnings, up to a maximum of 4 credits (\$3,480) for the year.

The number of credits you need to be eligible for Social Security benefits depends on your age and the type of benefit. Everybody born in 1929 or later needs 40 credits to be eligible for Social Security retirement benefits. People born before 1929 need fewer credits.

The minimum requirement is 6 credits for death and disability benefits. An additional insured status test must be met by employees in order to qualify for disability insurance benefits. Employees who become disabled after age 31 must have worked under Social Security at least 5 of the last 10 years preceding the onset of disability.

Your family may be able to get survivors benefits if you die even if you had fewer credits than are otherwise needed for retirement benefits.

✓ **Who Is Eligible for Benefits**

You are eligible for retirement benefits as early as age 62 if you are fully insured, or you can choose to receive your benefit at any time between age 62 and your full retirement age. However, if you begin receiving the Social Security benefit early, your benefit will be permanently reduced. Your full retirement age is based on your year of birth. The following chart shows this the full retirement ages:

Year of Birth	Full Retirement Age
1937 or earlier	65
1938	65 and 2 mos.
1939	65 and 4 mos.
1940	65 and 6 mos.
1941	65 and 8 mos.
1942	65 and 10 mos.
1943 - 1954	66
1955	66 and 2 mos.
1956	66 and 4 mos.
1957	66 and 6 mos.
1958	66 and 8 mos.
1959	66 and 10 mos.
1960 and later	67

✓ Amount of Social Security Benefits

Your primary insurance amount (PIA) is the monthly benefit amount payable at disability or at your full-benefit retirement age. All other monthly benefit amounts are based on the PIA.

If you receive an annuity based on CSRS service (including if you transfer to FERS from CSRS Offset) a modified formula may be used to compute your Social Security retirement or disability benefit. (See information about the Windfall Elimination provision in this section.)

Benefits taken before the full benefit retirement age are permanently reduced. For example, if both your spouse's and your full retirement ages under Social Security are 65 and you begin receiving benefits at age 62, your benefits will be reduced by 20% and your spouse's benefits will be reduced by 25%.

Under the "dual-entitlement" provision, a person who qualifies for benefits based on the earnings of more than one employee (for example, a benefit as an employee and a benefit as a spouse of another employee) cannot receive both benefits in full. The amount of the spouse's or surviving spouse's benefit is offset dollar for dollar against the person's own employee's benefit so that the person receives the larger of the two benefits.

Social Security benefits increase each year whenever the cost of living, as measured by the Consumer Price Index, rises.

✓ **Spouse Benefits**

Social Security law provides that a worker is entitled to the higher of the Social Security benefit based on his or her own earnings or the Social Security benefit based on the spouse's earnings. If you are entitled to Social Security benefits based on your spouse's earnings history and you begin taking this benefit at full retirement age, it will be one-half (50%) of the amount your spouse receives. If you start receiving this benefit at age 62, it will be permanently reduced.

✓ **Social Security Earnings Test**

The Social Security Earnings Test is part of the Social Security law. It means that your Social Security benefits may be reduced if you work after retirement and earn more than the allowable amount.

Who Is Affected?

If you choose to stay in FERS, this provision could also affect the FERS Retirement Supplement part of your benefit. This provision also applies if you choose CSRS Offset and have enough Social Security credits to qualify for a benefit.

How the Social Security Earnings Test Works

If you are under your Social Security full retirement age and you work after your Social Security benefits begin, the amount of money you earn by working can reduce your Social Security benefits. Income from savings, most investments, and insurance does not affect your Social Security benefit. Earned income can affect your benefits. The Social Security Administration counts wages for services you provide plus self-employment net earnings minus self-employment net loss as earned income.

The money you receive from your FERS or CSRS Offset Basic Benefit and from the TSP are not income for the Social Security Earnings Test.

Whether or not your Social Security benefit is reduced depends on how much you earn when you work. In 2002, you can earn up to \$11,280 a year if you are under your Social Security full retirement age and your benefit will not be affected. If you earn more than that, your Social Security benefit (or FERS Retirement Supplement) will be reduced by \$1 for every \$2 you earn above that amount.

If you are at or older than your Social Security full retirement age, your Social Security benefits will not be reduced because of your earnings.

The amount you can earn each year before your benefit is affected increases yearly. How much it increases is based on how much the average wage levels increase in the United States as a whole.

If you plan to work past age 62, you can delay applying for Social Security benefits in order to receive higher benefits. In any case, remember that the earnings test only applies when you have substantial earned income before you reach your full retirement age for Social Security benefits.

How the Earnings Test Affects the FERS Retirement Supplement

If you are eligible for the FERS Retirement Supplement (that is, you retire at your Minimum Retirement Age with 30 or more years of service, at age 60 with 20 or more years of service, or under other rules that allow receipt of the Supplement), the earnings test may reduce the amount of your Supplement.

It works exactly the same way as it does for Social Security benefits. In 2002, you can earn up to \$11,280 and your Supplement will not be affected. If you earn more, the Supplement will be reduced by \$1 for every \$2 you earn above that amount. OPM uses the same definition of "earnings" that the Social Security Administration uses.

How the Earnings Test Affects a CSRS Offset Benefit

When you retire under CSRS Offset, your annuity is computed under the same rules that apply to all CSRS employees. However, when you become eligible for Social Security benefits, your CSRS Offset annuity is reduced, or offset, by the value of your CSRS Offset service in your Social Security benefit. This reduction occurs at age 62 if you are eligible for Social Security benefits, even if you do not apply for Social Security or your Social Security benefit is reduced or eliminated because of the earnings test.

Therefore, if you retire under CSRS Offset and do not apply for Social Security at age 62, your CSRS Offset retirement annuity will still be reduced because you meet the age and credit requirements to qualify for a Social Security benefit. Similarly, if you are working outside the Government and your Social Security benefit is reduced or eliminated under the earnings test, the reduction in your CSRS Offset annuity will still take place.

If you do not become eligible for Social Security benefits, there is no offset.

✓ **Windfall Elimination Provision (WEP)**

Regardless of whether you choose to stay in FERS or switch to CSRS Offset, you already have Social Security coverage, so the Windfall Elimination Provision or WEP is not a consideration. However, you may want to read this section to find out if your future Social Security benefits will be reduced by the WEP.

What the Windfall Elimination Provision Is

Social Security law includes a provision that reduces Social Security benefits for those who have less than 30 years of "substantial earnings" under Social Security and who have earned a retirement annuity from employment not covered by Social Security; for example, CSRS service. (In 2002, the amount of substantial earnings is \$15,750. In contrast, the amount needed to earn four credits of coverage in 2002 is \$3,480.) If the WEP applies to you, the Social Security Administration will figure your benefits under a different formula.

Who Is Affected

If you have less than 30 years of substantial earnings under Social Security and become eligible for a Social Security benefit, this provision will affect you if you are also eligible for a retirement annuity that includes service performed under CSRS where you did not pay Social Security taxes.

NOTE: The provision will apply to you even if you have past CSRS (non-Offset) service that will become subject to FERS rules if you choose to stay in FERS.

If you do not earn at least 10 years (or 40 credits) of Social Security coverage, you will not be eligible for a Social Security benefit (unless you were born before 1929, in which case fewer credits of coverage are required). This provision would, of course, not apply to you if you are not eligible for Social Security benefits. Likewise, it does not apply to you if you already have 30 years of substantial earnings under Social Security. Request your earnings history from the Social Security Administration if you are uncertain how many years of substantial earnings you have.

How the Windfall Elimination Provision Works

The WEP was designed to eliminate the "windfall" that could result if you were to receive a CSRS annuity based on many years of employment not covered by Social Security and also receive a full Social Security benefit because you had a few years of employment covered under Social Security. If you're subject to the WEP, your earned Social Security benefits will be figured using a modified benefit formula. Even though the modified formula provides a lesser benefit, you

still will be eligible to receive your Social Security benefit. The WEP never totally eliminates the benefit you have earned. For example, in 2002, the maximum amount the WEP can decrease a Social Security benefit is \$296 per month.

The modified formula is not used to compute survivor benefits upon your death or the FERS Special Retirement Supplement. It is used to compute Social Security retirement as well as disability benefits if you become disabled.

The regular Social Security benefit formula uses three levels of earnings. Each level of earnings is multiplied by a different percentage. The first level of earnings is multiplied by 90%, the second by 32% and the third by 15%. Those amounts are added together to determine a person's Basic Benefit rate.

Under the modified benefit formula, the first level of earnings is not multiplied by 90%, but by a smaller percentage, depending on the number of years of substantial earnings under Social Security that you have. The modified formula reduces your Social Security benefit the most if you have less than 21 years of substantial earnings under Social Security. In that case the first level of earnings is multiplied by 40% instead of 90%.

For each year of substantial earnings over 20 years the percentage increases by 5% increments (e.g., 45% for 21 years, 50% for 22 years, etc.). However, in no case will the reduction in your Social Security benefit because of the WEP be greater than one-half of the portion of your pension from employment not subject to Social Security taxes; for example, that part of your CSRS Offset or FERS annuity that is based on your CSRS-only service. This aspect of the WEP will only help if the amount of your CSRS part of your CSRS Offset or FERS annuity is relatively low.

You will be earning the same number of Social Security credits and years of substantial earnings under Social Security whether you remain under FERS or decide to switch to CSRS Offset. If you have between 21 and 30 years of substantial earnings under Social Security, they will reduce or cancel the effect of the WEP.

✓ **Conclusion**

If you become eligible for a Social Security benefit, you may be subject to the WEP whether you choose to stay with FERS or switch to CSRS Offset. This is because, either way, you may not be able to acquire 30 years of substantial earnings under Social Security. If you earn 21 or more years of substantial earnings under Social Security, you can lessen the effects of this provision.

Social Security generally provides a higher proportion of benefits to lower income employees than it does to those who are higher paid. The reduction that results from the WEP, however, tends to cancel out this effect. Lower salaried employees who are subject to the WEP will find FERS a less attractive alternative than those who are not. If you are low salaried, choosing CSRS Offset is usually a better choice if you are sure you will retire from the Federal Government and will not be able to earn enough Social Security substantial earnings years to avoid the WEP reduction.

✓ How to Estimate the Reduction in your Social Security Benefit Resulting from the WEP

Compare your earnings from the Social Security Statement to the table below to determine the number of years of substantial earnings under Social Security that you have. Your earnings for each year must be at least the amount shown to equal 1 year of substantial earnings.

The Social Security Statement lists your yearly earnings that were covered by Social Security and provides a Social Security retirement benefit estimate assuming retirement at alternative ages -- 62, your full retirement, and age 70.

Year	Substantial Earnings	Year	Substantial Earnings	Year	Substantial Earnings
1937-50	\$900*	1979	\$4,725	1992	\$10,350
1951-54	\$900	1980	\$5,100	1993	\$10,725
1955-58	\$1,050	1981	\$5,550	1994	\$11,250
1959-65	\$1,200	1982	\$6,075	1995	\$11,325
1966-67	\$1,650	1983	\$6,675	1996	\$11,625
1968-71	\$1,950	1984	\$7,050	1997	\$12,150
1972	\$2,250	1985	\$7,425	1998	\$12,675
1973	\$2,700	1986	\$7,875	1999	\$13,425
1974	\$3,300	1987	\$8,175	2000	\$14,175
1975	\$3,525	1988	\$8,400	2001	\$14,925
1976	\$3,825	1989	\$8,925	2002	\$15,750
1977	\$4,125	1990	\$9,525		
1978	\$4,425	1991	\$9,900		

*Total credited earnings from 1937 through 1950 are divided by \$900 to get the number of years of coverage with a maximum of 14 years.

The following table shows how you can adjust your Social Security Statement to reflect the WEP by subtracting a specified amount from the age 62 or "full retirement age" benefit estimate. The amount you need to subtract depends on the number of years of "substantial" Social Security earnings (see Glossary) you will have by the time you begin to receive Social Security benefits.

If your full retirement age is over 65, the reduction shown at age 62 will be less.

Years of substantial earnings	Retire at age 62	Retire at age 65
30 or more	\$0	\$0
29	\$24	\$30
28	\$47	\$59
27	\$71	\$89
26	\$95	\$119
25	\$118	\$148
24	\$142	\$178
23	\$166	\$207
22	\$190	\$237
21	\$214	\$267
20	\$237	\$296

NOTE: The amounts shown apply only to Social Security Statements generated in 2002. To use with Social Security Statements generated in 2003 and later, increase the amounts shown by about 5% for each subsequent year after 2002. The increases adjust the wages by the average increase in wages in the economy -currently about 5% per year.

✓ Use of Social Security Statement to Estimate CSRS Offset Reductions

If you are considering whether to switch to CSRS Offset, you may want to know how much your CSRS annuity will be reduced under the CSRS Offset calculation. Generally, this reduction is the smaller of:

1. The difference between (a) the Social Security benefit including future Federal CSRS Offset employment and (b) the Social Security benefit excluding all CSRS Offset employment; or
2. 1/40 of the Social Security benefit (including future Federal employment), multiplied by the number of years of all CSRS Offset employment.

You can estimate the offset (reduction) to your CSRS annuity in one of two ways.

NOTE: Method 1 below does not work if you already have several years of Offset service. Use Method 2 instead.

1. Request two Social Security Statements from the Social Security Administration. On one Social Security Statement request form, indicate the annual Federal pay you estimate that you would have (in today's dollars) until age 62. On the second Social Security Statement request form, show no future earnings under Social Security. When you receive the two statements from SSA, adjust each benefit estimate for the windfall elimination provision (WEP) as explained in the previous section.

After adjusting for the WEP, the difference between the age-62 benefit on the two Social Security Statements is an estimate of the offset to your CSRS annuity at age 62, assuming that you continue to work under CSRS Offset until age 62. If you plan to work under CSRS Offset until you are eligible for full Social Security benefits, adjust the full retirement age amounts on each Social Security Statement for the WEP and use the difference in the two as the estimate of the offset to your CSRS annuity.

2. Use the Social Security Statement that includes estimated earnings for all the years you intend to work under CSRS Offset. Adjust that benefit amount on that statement for the WEP. Divide the number of years you worked under CSRS Offset by 40, and multiply the adjusted Social Security benefit by that result.

✓ **Government Pension Offset**

The Government Pension Offset is a law that reduces spouse or survivor Social Security benefits for certain individuals who are also entitled to a Government pension. However, Federal employees who are mandatorily covered under Social Security, such as CSRS Offset and FERS employees, are exempt from the provisions of the Government Pension Offset. Therefore, it does not apply to you.

Effect of Staying in FERS

If you choose to remain in FERS rather than switch to CSRS Offset, you continue to be exempt from the Government Pension Offset

Special Employee Groups

This section covers four types of employees: law enforcement officers, firefighters, air traffic controllers, and military reserve technicians.

✓ Law Enforcement and Firefighting Personnel

CSRS Offset

If you work in a position that your agency has determined to be a law enforcement or firefighting position, you are covered under special CSRS rules. You pay a higher retirement contribution rate (in 2002, 7.5% total for CSRS Offset deduction and OASDI tax) for a more generous retirement annuity. You can also retire at age 50 after 20 years of law enforcement officer/firefighter covered service.

The annuity you receive will be computed based on 2.5% of your high-3 average pay for each of the first 20 years of law enforcement/firefighter service, and 2% per year of service (covered or not) thereafter. Once you have 20 years of covered service, you are subject to mandatory retirement at age 57 if you are a firefighter or a law enforcement officer. Other CSRS Offset rules apply to you in the same manner as to any other employee.

FERS

Under FERS, there are also special benefits for law enforcement and firefighting personnel, but the rules are different. First, the FERS definition of a law enforcement or firefighting position includes a requirement that the positions be limited to "young and vigorous" personnel. Second, in order to qualify for the special benefits, you must have occupied a Federal primary or first-line law enforcement or firefighting position for at least 3 years before moving to a secondary (that is an administrative or supervisory) position. Agency heads may determine that some supervisory positions are "primary" because they meet the "young and vigorous" requirement. The FERS definition and the 3-year requirement are generally more strict than the CSRS Offset rules.

The contribution rate for the FERS special law enforcement and firefighting annuity is a half percent more of pay than for a regular annuity. FERS also has different rules for when you can retire: at age 50 with 20 years of covered service, like CSRS Offset, or at any age with 25 years of covered service.

Under FERS, the special annuity formula is 1.7% of your high-3 average pay for each of the first 20 covered years of FERS service and 1% of pay per year of service thereafter.

Law enforcement and firefighting retirees will receive cost-of-living adjustments at retirement. The FERS cost-of-living adjustments begin at retirement instead of at age 62, the age when most FERS retirees begin to receive cost-of-living adjustments.

In addition, law enforcement and firefighting retirees will receive the FERS Retirement Supplement at retirement. The earnings test does not apply to the Special Retirement Supplement until you reach the Minimum Retirement Age.

Once you have 20 years of covered service, you are subject to mandatory retirement at age 57 for firefighters and law enforcement officers. Other FERS provisions, including those for Social Security and the TSP, are the same as for regular employees.

✓ Special Transfer Rules

In general, the same transfer rules apply to CSRS Offset law enforcement and firefighting personnel who elect FERS as they do to regular employees. That is, you take your credit with you for your previous CSRS service, including your 2.5% credits, and the full CSRS cost-of-living adjustments payable on those credits. (You must retire under the special provisions to get the 2.5% credits.)

However, you should keep in mind that your law enforcement/firefighter service that was subject to the higher CSRS or CSRS Offset deduction rate will not count against the 20-year limitation for the more generous FERS annuity formula.

Example: If you choose to stay in FERS after 13 years of CSRS law enforcement/firefighter service, you can still earn up to 20 years of additional service at the 1.7% rate under FERS. In effect, the period of time during which you can earn special benefits is extended by choosing FERS. However, mandatory retirement age requirements are not affected by transferring.

✓ Additional Considerations for Law Enforcement and Firefighting Personnel

If you will complete, or have already completed 25 years of work as a law enforcement officer or firefighter before reaching age 50, the FERS provisions permitting retirement at any age after 25 years of service permit you to retire earlier under FERS than under CSRS Offset.

If you are close to meeting or have met the 20-year limitation for the special annuity formula under CSRS but contemplate working beyond 20 years, you may wish to consider FERS as a means of extending your eligibility for the special annuity formula. The FERS 1.7% rate, plus Social Security and the TSP, generally provide more value than the regular 2% per year CSRS formula you earn after 20 years of covered service under CSRS.

However, keep in mind that if you choose to stay in FERS, any previous CSRS Offset service will be computed under the FERS rules. For example, if you have 17 years under full CSRS and 3 years under CSRS Offset at the time you move to FERS, only the 17 years will be calculated at 2.5% and the remaining years of CSRS Offset and FERS service will be calculated at 1.7% (up to 20 years).

Of course, as has been stated throughout this handbook, if you plan to leave Federal service short of retirement, FERS is almost always the better choice. This is especially important for those who leave before becoming eligible to retire under the law enforcement/firefighter provisions. They will be treated the same as any other employee under CSRS Offset or FERS.

✓ **Air Traffic Controllers**

The definition of an Air Traffic Controller, or Controller is the same under CSRS Offset and FERS.

CSRS Offset

Under CSRS Offset you can retire at age 50 after 20 years of service as a controller, or at any age after 25 years as a controller. You pay the same contribution rate as other employees (in 2002, 7.0% total for CSRS Offset deduction and OASDI tax).

While there is no special annuity formula, there is a guaranteed annuity after at least 20 years of controller service. The guarantee is 50% of your high-3 average pay. If you retire after 25 years, it works out to earning 2% per year. If you retire after 27 years, the guarantee provides no more than the regular formula would have. Other than the guaranteed annuity and mandatory retirement, there are no special CSRS Offset rules for controllers. Keep in mind, however, that your annuity will be offset if you become eligible for Social Security.

FERS

While FERS has the same rules as CSRS Offset for when a controller can retire, FERS doesn't have a guaranteed annuity. Instead, FERS provides the same special annuity computation that is

provided to law enforcement and firefighting personnel, discussed on the previous page. You pay a higher retirement contribution rate (in 2002, 7.5% total for the FERS deduction and OASDI tax).

✓ Special Transfer Rules

There are no special rules for controllers who choose FERS.

✓ Additional Considerations for Controllers

If a controller chooses to stay in FERS, the regular CSRS formula is used to calculate the CSRS credit that the controller will receive under FERS, and the guaranteed annuity is completely disregarded. In cases where a controller plans to retire before completing 27 years of service, this can have the effect of significantly reducing the value of the CSRS service performed before the FERS service. All CSRS Offset service is calculated under FERS rules.

Example: A controller who has between 20 and 25 years of controller service under full CSRS has earned the CSRS guaranteed annuity of 50% of average pay. When that service is transferred to FERS, its value will be computed using the regular CSRS formula; 36% for 20 years and 46% for 25 years. This results in a loss of 4 to 14% of average pay compared to the value of the service under CSRS. Unless the controller expects to perform many years of service, the special formula for controllers under FERS won't make up the difference.

A CSRS or CSRS Offset air traffic controller is subject to mandatory separation at age 56 even if he or she has not acquired sufficient years of air traffic controller service to qualify for retirement under the special retirement provisions. A FERS air traffic controller who has reached age 56 but has not acquired sufficient years of air traffic controller service to qualify for retirement under the special provisions is subject to mandatory separation on the last day of the month in which he or she acquires 20 years of service.

In general, all air traffic controllers are subject to mandatory separation at age 56. However, CSRS and CSRS Offset controllers hired prior to specific dates are exempt from the mandatory separation provision. There are no such exemptions under FERS. **The exemptions granted certain CSRS and CSRS Offset controllers are not extended to employees retiring under FERS, and an exempt CSRS or CSRS Offset covered controller will lose the right to the mandatory retirement exemption if he or she chooses to stay in FERS.**

Of course, the CSRS Offset guaranteed annuity is only available to employees who retire under the special retirement provisions. FERS is almost always a better system for those who expect to leave Federal service short of retirement.

✓ **Military Reserve and National Guard Technicians**

A military reserve technician or National Guard technician is a civilian employee who is a member of the Army National Guard of the United States, the Army Reserve, the Naval Reserve, the Marine Corps Reserve, the Air Force Reserve, or the Coast Guard Reserve who is assigned to duties in one of these components and who is required to maintain a specific military grade in order to continue in his/her civilian employment.

CSRS Offset

A technician is treated the same as any other employee under CSRS Offset. A technician who is involuntarily separated (not for delinquency or misconduct) from his/her position can get a discontinued service annuity at any age with 25 years of service, or at age 50 with 20 years of service. The annuity is reduced at a rate of 2% for each year the employee is under 55 years of age.

A National Guard technician who is medically disqualified for military duty and has 5 years of creditable civilian service may receive disability benefits without meeting the usual CSRS Offset disability criteria. This special provision does not apply to military reserve technicians.

FERS

Under FERS, a technician who is separated from civilian service because he/she no longer qualifies as a member of a military reserve component may retire and receive an unreduced annuity at age 50 with 25 years of service. If a FERS employee loses military status due to a disability, disability benefits are payable after only 18 months of FERS service. Also, the Special Retirement Supplement is paid immediately rather than at the Minimum Retirement Age (MRA). It is not subject to the Social Security Earnings Test until the employee reaches the MRA. However, technicians are not eligible for the 1.1% annuity formula under FERS, no matter how long they work or their age at retirement.

Service Credit Deposits and Redeposits

✓ Civilian Service

As a general rule, Federal civilian service is creditable for retirement purposes under CSRS Offset or FERS. You may have to pay a deposit if you didn't pay retirement deductions when you worked or a redeposit if you took a refund of your retirement deductions. In addition, certain non-Federal service is creditable, such as service as a District of Columbia employee if the District employed you before October 1, 1987.

Generally, service while you were employed but not working (such as leave without pay) is creditable for up to 6 months in a calendar year. You don't have to make a payment to get credit.

✓ Deposits

If you worked in jobs that were not covered by retirement (nondeduction service), you may have to pay a deposit before OPM can credit the service. The deposit amount is a percentage of your basic pay for the period of service (generally 7% for CSRS or CSRS Offset service and 1.3% for FERS) plus interest computed from the midpoint of the service period. You may pay a deposit to OPM any time before we finish processing your retirement application. Under FERS, you can't pay a deposit for service that occurred after 1988 and wasn't covered by retirement deductions.

✓ CSRS Redeposits

If you were covered by CSRS retirement and took a refund of your CSRS contributions after you left your Federal job, you may have to pay a redeposit before OPM can credit the service. The redeposit is the amount of the refund plus interest from the date of the refund. You may pay a redeposit to OPM any time before we finish processing your retirement application.

✓ Interest

OPM computes the interest at the rate of 4% through 1947 and 3% through the later of the date paid or the retirement annuity begins for:

- Deposits for CSRS service before October 1, 1982
- CSRS redeposits based on refund applications received before October 1, 1982

OPM computes the interest at the rate of 4% through 1947, 3% through 1984, and an annually variable interest rate beginning in 1985 through the date paid or the annuity begins, whichever is later, for:

- CSRS deposits for service on and after October 1, 1982
- FERS deposits for service before January 1, 1989
- CSRS redeposits based on refund applications received on and after October 1, 1982

The variable interest rates are listed below:

YEAR	RATE	YEAR	RATE
1985	13.0%	1994	6.25%
1986	11.125%	1995	7.0%
1987	9.0%	1996	6.875%
1988	8.374%	1997	6.875%
1989	9.125%	1998	6.75%
1990	8.75%	1999	5.75%
1991	8.625%	2000	5.875%
1992	8.125%	2001	6.375%
1993	7.125%	2002	5.5%

✓ Special Service Credit Provisions for Employees Erroneously Put in FERS

Employees who were erroneously put in FERS have an additional option regarding payment of a deposit or redeposit that is computed under CSRS rules.

The Federal Erroneous Retirement Coverage Correction Act allows OPM to give you credit for your CSRS deposit and redeposit service even if you do not pay the deposit or redeposit. If you don't pay the deposit or redeposit, OPM will permanently reduce your retirement annuity by an actuarial factor. The reduction is based on the amount of the deposit and/or redeposit and your age when you retire. If you began to pay the deposit or redeposit but did not complete it before OPM finalized your retirement claim, the actuarial reduction will be based on the amount you still owe and your age.

The actuarial reduction applies to deposits or redeposits computed under CSRS rules for civilian service performed before the date you were erroneously put in FERS. You can choose to receive

the actuarial reduction instead of paying the CSRS deposit and/or redeposit regardless of whether you decide to stay in FERS or move to CSRS Offset. The actuarial reduction does not apply to deposits that are computed under FERS rules or to deposit or redeposit service performed after the date you were erroneously put in FERS.

✓ FERS Service Credit

If you decide to stay in FERS, the treatment of prior service depends on how much civilian service you have that was not covered by CSRS Offset deductions. For simplicity, this past service is called non-Offset service.

When you become covered by FERS, if you have 5 or more years of non-offset civilian service that is creditable under CSRS, you will have a "CSRS component" to your FERS retirement annuity. If you have a CSRS component, all creditable civilian and military service before the date you were first covered by CSRS Offset is treated under CSRS rules. In addition, all nondeduction service and military service you have after you were covered by CSRS Offset but before you transferred to FERS is treated under CSRS rules. **All your CSRS Offset service will be treated under FERS rules.**

If you decide to stay in FERS and have less than 5 years of non-Offset service, you will not have a CSRS component to your FERS retirement annuity. All nondeduction service and military service will be treated under FERS rules.

Refer to the previous section for the rules on how deposits and redeposits are calculated under CSRS and FERS rules.

If you take a refund of retirement deductions after you become subject to FERS, you can never redeposit the money. Additionally, the period covered by the refund is never creditable toward eligibility to retire or to compute your retirement annuity.

Note: If you have a CSRS component and you request a refund, the CSRS contributions will also be refunded. CSRS redeposit rules apply to that part of the refund only. You also have the option of requesting that only CSRS funds be refunded.

IMPORTANT: If you decide to stay in FERS, any service subject to CSRS Offset deductions becomes subject to FERS rules. Generally, you may redeposit previously refunded CSRS Offset contributions. However, you cannot redeposit them if you take a refund after deciding to stay in FERS.

✓ Military Service

Honorable active military service is generally creditable under both CSRS Offset and FERS. However, most military retirees are barred from receiving credit toward a civilian annuity unless they waive their military retired pay. The military retired pay need not be waived if it is based on disability involving certain injuries incurred in wartime or if it is Chapter 1223 of title 10, United States Code (reservists') retired pay. If you are a military retiree, your retired pay center can tell you whether you fall under one of these exceptions.

Beginning in 1957, military service became subject to Social Security, and treatment of military service under retirement depends on whether or not it was performed after December 31, 1956. If you have military service that occurred before 1957, it is creditable under CSRS Offset and FERS without a deposit. Generally, you must pay a deposit to get credit for military service that was performed after December 31, 1956. Refer to the CSRS Offset and FERS sections below.

✓ Service in the National Guard

Service in the National Guard, except when ordered to active duty in the service of the United States, is generally not creditable. However, you may receive credit for National Guard service, followed by Federal civilian reemployment that occurs after August 1, 1990, when the service meets **all** of the following conditions:

- The service must interrupt civilian service creditable under CSRS, CSRS Offset or FERS and be followed by reemployment in accordance with the appropriate chapter of the laws concerning Veterans Benefits; and
- It must be full-time (and not inactive duty), and performed by a member of the U.S. Army National Guard, or U.S. Air National Guard; and
- It must be under a specified law and you must be entitled to pay from the U.S. (or have waived pay from the U.S.) for the service, and
- In addition, you must pay required deposits for this service.

CSRS Offset

A 1982 change in law distinguished between pre-October 1, 1982 hires and those employees who first became subject to CSRS on or after that date.

Employees first hired in positions subject to CSRS after September 30, 1982 can receive credit for military service after 1956 **only** if they pay a deposit covering this service. Employees hired in positions subject to CSRS before October 1, 1982 can receive credit for military service after 1956 without making the deposit. However, the law requires OPM to eliminate credit for this service from your annuity if you become eligible (or would become eligible upon proper application) for Social Security old-age benefits at age 62 if you haven't paid a deposit for the service before you retire.

You must pay the deposit to your agency. CSRS Offset employees generally pay 7% of the military basic pay for the period, plus interest. (As a result of the Balanced Budget Act of 1997, the rate is 7.25% if the military service was in 1999 and 7.4% if it was in 2000. In 2001, the rate changed back to 7%.)

Interest begins on October 1, 1985, or 2 years after the employee is first hired in a position subject to CSRS, whichever is later. However, because the method of computing the deposit calls for adding interest only at the end of the year after it begins, no interest is charged if the deposit was paid in full by September 30, 1986, or within 3 years after first becoming subject to CSRS, if later.

When creditable military service interrupts civilian service, the 2-year period begins after you return to civilian employment. The amount of the required deposit is limited to the amount that would have been deducted from your pay for retirement if you had remained in your civilian job if:

- your honorable active duty interrupts creditable civilian service, and
- you are reemployed on or after August 1, 1990 in accordance with chapter 43 of title 38, United States Code (as a general rule, you must return to your former agency).

FERS

Military service that is creditable under CSRS Offset is also creditable under FERS. However, under FERS, you must pay a deposit for all military service after 1956 to receive credit. Even if you were first hired before October 1, 1982, you cannot receive credit for military service after 1956 under FERS rules unless you pay the deposit.

You must pay the deposit directly to your agency before you leave Federal service. FERS employees generally pay 3% of the military basic pay for the period, plus interest. (As a result of the Balanced Budget Act of 1997, the rate is 3.25% if the military service was in 1999 and 3.4% if it was in 2000. In 2001, the rate changed back to 3%.)

Interest for military service that will be credited under FERS rules begins January 1, 1989 if you were first hired before January 1, 1987, or 2 years after the effective date of FERS coverage if you were first hired on or after January 1, 1987. If the military service interrupted your Federal civilian service, interest begins 2 years after you return to your Federal civilian position. As under CSRS Offset, however, you will not owe interest if you complete the deposit before the end of the year after interest begins. The variable interest rates also apply to military deposits (see table of variable interest rates previously in this section).

Whether CSRS rules or FERS rules apply to your past military service depends on how much non-Offset civilian service you have as of the effective date of your transfer to FERS. If your military service is part of your CSRS component, the CSRS military deposit rules apply. Refer to the above FERS section under "Civilian Service" to determine whether your military service will be subject to FERS rules or CSRS rules.

FERS rules also apply to all military service performed after you decide to stay in FERS.

Note: If (1) you decide to stay in FERS and your military service becomes subject to FERS rules, and (2) you already made a deposit under CSRS rules, you are due a refund. The refund equals the difference between the 7% deposit and the 3% deposit. If you qualify for this kind of refund, your employing agency can give you more information.

✓ **Special Service Credit Provisions for Employees Erroneously Put in FERS**

Employees who were erroneously put in FERS and owe a military deposit that is computed under CSRS rules have an additional option regarding payment of a deposit for military service.

The Federal Erroneous Retirement Coverage Correction Act allows OPM to give you credit for your post-1956 military service even if you do not pay before retiring. If you don't pay the deposit, OPM will permanently reduce your retirement annuity by an actuarial factor. The reduction is based on the amount of the deposit and your age when you retire. If you began to pay the deposit but did not complete it before OPM finalized your retirement claim, the actuarial reduction will be based on the amount you still owe and your age.