Retirement Facts 7

Computing Retirement Benefits Under the Civil Service Retirement System

This is a non-technical summary of the laws and regulations on the subject. It should not be relied upon as a sole source of information.

Retirement and
Insurance
Service

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- ***Retirement Facts #2* -** Military Service Credit Under CSRS (RI 83-2)
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- Temporary Continuation of Coverage (TCC) Under FEHBP* (RI 79-27)
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* Federal Employees Health Benefits Program
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Computing Retirement Benefits

The amount of the basic annuity payable upon your retirement under the Civil Service Retirement System (CSRS) is directly related to your length of service and your highest 3 years' average salary. Once the basic annuity is computed, based on length of service and your earnings, it may be reduced for any service for which you did not make retirement contributions ("deposit service"). The basic annuity may also be reduced to provide survivor benefits for your spouse or former spouse after your death or because you are retiring before age 55. Service for which you have received a refund of retirement contributions ("redeposit service") will be used to determine your eligibility for retirement but cannot be considered when computing your basic annuity, unless you have paid the entire redeposit due or are eligible for, and elect, the Alternative Form of Annuity (except, as we'll explain, when the refund covered service that ended before October 1, 1990).

Several other Retirement Facts pamphlets provide general information on the reductions in your annuity for unpaid deposits or redeposits and the effect of early retirement on the amount of your annuity. In this pamphlet, we will outline the computation of the most frequent form of retirement— optional retirement of an employee who is at least 55 with at least 30 years of service.

How are annuities computed under the General Formula?

Annuities are expressed as a percentage of your "high 3" average salary. Your "high 3" average salary is the highest 3 years of base pay or salary you earned in any consecutive 3-year period (usually your last 3 years). Your "high 3" percentage is determined by a three-part formula based on your length of creditable service. You earn:

1.50% per year for the first 5 years or 7.50% plus
1.75% per year for the next 5 years or 8.75% plus
16.25% plus
2.00% per year for service over 10 years.

Thus, after 10 years of service you have earned 16.25% of your "high three" and after 30 years you have earned 56.25% (16.25% + 2% x 20 = 56.25%). By law, the percentage is limited to 80% (reached after 41 years and 11 months of service); however, unused sick leave can be used in the formula to produce a greater result. Your unused sick leave is converted into months and days and added to your other service. Credit is given for whole months only (30 days). However, the time representing days of unused sick leave is not counted toward your "high 3" years average salary or for establishing eligibility for retirement. The sample illustration on pages 4 and 5 shows how you can compute the precise "high-3" average salary for a given period.

For example, using the average salary of $20,000 and assuming that you have worked for the Government for 33½ years, are age 55, and have the equivalent of 6 months of unused sick leave, the computation (before any applicable reductions) would be:

1.5% x 5 years =	7.50%
1.75% x 5 years =	8.75%
2.0% x 24* years =	48.00%
(Total Basic annuity)	64.25%

64.25% x 20,000 = $12,850 annual annuity

(includes 6 months of unused sick leave)

A quick way to ***estimate*** your basic annuity is to determine your total length of service (34 years) and subtract two (32 years). Multiply that by two (32 x 2 = 64) and use that as a percentage (64 percent) of 90 percent of your ***final*** salary. If, for example, your final salary was $22,340 per year, then 90 percent of $22,340 would equal $20,106. Therefore, $20,106 x .64 = $12,867 for a basic annuity. This quick formula is not precise but will allow you an approximation.

"Calculating "High-3" Salary"

Basic Salary in Effect From	**Basic**
	Year
July 1, 1985, through October 11, 1985	0
October 12, 1985, through October 9, 1986	0
October 10, 1986, through October 8, 1987	0
October 9, 1987, through June 30, 1988	0
	3

"High-3" years' average salary = $60,001 ÷ 3
= $20,000

Period Salary was in Effect*		Annual Salary	Gross Pay for this Period
Months	***Days***		
3	11	@ $17,541	$ 4,921.23
11	28	@ 18,779	18,674.67
11	29	@ 20,203	20,146.88
8	22	@ 22,340	16,258.56
33	90		$ 60,001.00
36 months			

*For purposes of calculating average salary,
1 month = 30 days, and 1 year = 360 days.

Annuity Reductions

✓ ***Reduction for Deposit Service.*** In the example of a voluntary separation we're using, the first reduction would be for any unpaid deposit service.

Let's say that the first year you worked for the Government was under a temporary appointment during which you were not eligible to pay into the CSRS. This would represent a period of deposit service. We will assume that the amount you would have paid in as a permanent employee, plus interest to the date of your retirement, equals $900. Your basic annuity will be reduced by one-tenth of that amount—$90. Therefore, your basic annuity of $12,850 would be reduced to $12,760 per year. For periods of deposit service performed on or after October 1, 1982, a deposit must be made (unless you are eligible for and elect an Alternative Form of Annuity) or the time cannot be used in computing your annuity. The time will be used to determine your eligibility to retire whether or not you make the deposit payment.

✓ ***Reduction for Survivor Benefits.*** If you are married, your annuity will be reduced automatically to provide the maximum survivor annuity for your spouse, unless you and your spouse jointly agree to provide a lesser amount or none at all. Your spouse's survivor annuity would be 55 percent of your basic annuity or any lesser amount you and your spouse agree to. Your annuity would be reduced by 2½ percent of the first $3,600 in basic annuity and 10 percent of the remainder of your basic annuity. In our example, we have used the entire basic annuity, already reduced to $12,760 per year for unpaid deposit service, in the following:

Cost of Survivor Benefit

2.5% of the 1st	$3,600 elected =	$ 90.00
10.0% of remainder	$9,160 elected =	916.00
Total base	$12,760 Total Cost =	1,006.00

Survivor benefit
(55% of $12,760 base) = $7,018

Annuity reduced for survivor benefit
$12,760 - 1,006 = $11,754

Your basic annuity of $11,754 would be $979 per month and provide a survivor annuity after your death of $584 per month. In computing the monthly annuity rate payable either to the retiring employee or the survivor annuitant, the annuity rate is rounded down to the next lower dollar, not to the nearest dollar.

Note that in this example, the survivor benefit came out to 59.7% of the retiring employee's annuity. This relationship will be maintained throughout the employee's retirement since both the employee and survivor benefit are subject to the same cost of living adjustments.

✓ ***Reduction for Age.*** If you retire before reaching age 55 due to an involuntary separation, such as in a reduction-in-force situation, your basic annuity of $ 12,850 per year would be reduced by one-sixth of 1 percent for each full month (2% per year) you were under 55.

✓ ***Reduction for Alternative Annuity Election.*** Your basic annuity will be further reduced if you are eligible for, and elect, an Alternative Form of Annuity (AFA). Under this option, you receive an actuarially-reduced monthly benefit, plus a lump-sum payment equal to all of your contributions into the retirement fund. You may not elect the AFA unless you have a life-threatening medical condition. Also, you cannot choose the AFA if you are retiring for disability or if you have a former spouse who is entitled to court-ordered benefits based on your service. To determine the monthly amount of reduction in your annuity if you are eligible, and do elect the AFA, you divide the amount of contributions to your credit in the retirement fund by the appropriate "present value" factor for your age at the time of retirement. They may be changed in the future to conform to changes in the economic assumptions on which they are based. For example, assuming you retire at age 55, and your retirement contributions are $40,000, your monthly annuity of $979 would be reduced by $189 ($40,000 divided by 212.16) to provide you an annuity of $790 per month if you elect the AFA. The survivor annuity of your spouse would not be affected by the election.

Present Value Factors			
Age at Retirement	***Factor***	***Age at Retirement***	***Factor***
40	294.4	66	156.0
41	290.0	67	150.7
42	285.5	68	145.4
43	280.8	69	140.2
44	276.2	70	134.7
45	270.4	71	129.4
46	264.7	72	124.0
47	259.2	73	118.8
48	253.5	74	113.6
49	247.2	75	108.5
50	240.4	76	103.5
51	235.0	77	98.7
52	229.8	78	93.9
53	224.4	79	89.4
54	218.6	80	84.9
55	212.6	81	80.5
56	207.5	82	76.3
57	202.4	83	72.3
58	197.0	84	68.4
59	192.3	85	64.7
60	188.3	86	61.2
61	182.9	87	57.9
62	177.0	88	54.7
63	171.9	89	51.8
64	166.5	90	48.9
65	161.1		

✓ ***Reduction Because of Unpaid Redeposit for Certain Refunded Service.*** If, when you retire, you owe a redeposit for a refund of retirement contributions covering a period of service that ended before October 1, 1990, you will not have to pay the redeposit in order to receive credit for the service (unless you retire for disability). Instead, full credit for the refunded service will be allowed in computing your annuity, but the annuity will be actuarially reduced based on your age and the amount of redeposit you owe at the time you retire.

To calculate the monthly amount of the reduction, you divide the deposit you owe at the time of retirement, including interest, by the appropriate "present value" factor, using the table shown on the previous page. The procedure is the same as that used to compute the AFA reduction. Remember this alternative to payment of a redeposit does not apply to any refund you receive for service that ends on or after October 1, 1990. Of course, you may elect to pay the redeposit, plus interest, and avoid the actuarial reduction.

✓ ***Reduction Because of CSRS Offset.*** If you are a "CSRS Offset" employee (one of the relatively few employees covered by CSRS and Social Security at the same time), your annuity will be reduced when you become eligible for Social Security benefits (usually at age 62). The amount of the reduction will be the amount of the Social Security benefit attributable to your service after 1983 that was covered by both CSRS and Social Security. If you are not eligible for a Social Security benefit, there will be no reduction in your annuity.

Deductions From Gross Monthly Annuity

The annuity of $790 per month in this example would be further reduced for any applicable health benefits and life insurance premiums and Federal and State income tax withholding.

Commencing Date

If you retire voluntarily during the first 3 days of the month, your annuity will commence the following day. Otherwise, your annuity begins on the first day of the month following the month in which you retire. This "first-of-the-month after" provision does not apply to survivor annuities, disability annuities or discontinued service annuities. These annuities commence on the day after separation, death, or last day of pay, as appropriate.