Retirement Estimates
(Annuity Computations)

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References

- 5 U.S.C. 8339 (CSRS)
- 5 U.S.C. 8415 (FERS)
- 5 C.F.R. 831, Section G
- 5 C.F.R. 842.403; 5 C.F.R. 842.405
- CSRS and FERS Handbook (Computations)
  - Chapter 46, 50, 54, 55 & 61
- Retirement Facts
- Benefits Administration Letters (BAL’s)
Objectives

- Identify the general formulas for CSRS and FERS annuities
- Manually compute CSRS and FERS annuities
- Identify basic pay
- Counsel an employee on the offset of a CSRS Offset annuity
Annuity Computations

- Regulatory Authority
- Administrative Authority
- Agency Authority
Annuity Computations Factors

High 3 Salary

\[ \times \]

Years of creditable service

\[ \times \]

CSRS or FERS General Formula

= Retirement Annuity
High-3 Average Salary

The average of basic pay during any
**consecutive 3 year period** when
*Basic Pay* rates were the highest.
Each rate is time weighted.

**BASIC PAY INCLUDES:**
- Locality Pay
- Night Differential for Wage Grade
- Premium Pay (Firefighters, Physicians)

**BASIC PAY EXCLUDES:**
- Bonuses
- Overtime
- Allowances
Basic Pay

- When rates were highest

Consecutive Period

- Consecutive 3-year period of creditable civilian service
Length of Service

FEDERAL CIVILIAN SERVICE + MILITARY SERVICE

+ UNUSED SICK LEAVE

= NUMBER OF YEARS OF CREDITABLE SERVICE
## Determining Length of Period of Service

<table>
<thead>
<tr>
<th>Type of Service</th>
<th>Years</th>
<th>Months</th>
<th>Days</th>
</tr>
</thead>
<tbody>
<tr>
<td>Civilian</td>
<td>26</td>
<td>10</td>
<td>24</td>
</tr>
<tr>
<td>Military</td>
<td>4</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Unused Sick Leave</td>
<td>7</td>
<td>13</td>
<td>30</td>
</tr>
<tr>
<td></td>
<td>30</td>
<td>17</td>
<td>37</td>
</tr>
<tr>
<td></td>
<td>30</td>
<td>18</td>
<td>7</td>
</tr>
<tr>
<td></td>
<td>+1</td>
<td>-12</td>
<td></td>
</tr>
<tr>
<td></td>
<td>31</td>
<td>6</td>
<td></td>
</tr>
</tbody>
</table>

30 days = 1 month

12 months = 1 year

30 days = 1 month
Computing Total Length of Service

Add all Periods of Service

Determine total length of Service

Remember:
30 days = 1 month
12 months = 1 year
Creditable Service

- Significant differences between CSRS and FERS
- CSRS and FERS Components
- Creditable Service Rules for CSRS and FERS
- Military Service
CSRS General Formula

A. 1.5% X high - 3 x first 5 years

B. 1.75 X high - 3 x next 5 years

C. 2.0% x high - 3 X all service over 10 years

A + B + C = Basic Annuity
CSRS Disability Annuity Formula

Disability Annuitant receives the higher of:

- Annuity earned at onset of disability
- Guaranteed Minimum

OR

Note:
CSRS Disability Guaranteed Minimum

a) 40 percent of high-3 average salary,

or

b) The annuity projected to age 60 (using the same high-3 average salary)

Note: Full COLAs are received
CSRS Disability Formula Example

Employee is 53 years of age; 20 years of service; high-3 average salary of $86,000:

Earned Basic Annuity (.362500) = $31,175

or

The lesser of:

a) 40% of high-3 = $34,400
b) The annuity projected to age 60
   60 - 53 = 7 additional years of service
   7 + 20 years of service = 27
   27 years = .502500 = $43,215
CSRS Disability Computation Summary

Employee is 53 years of age; 20 years of service; high-3 average salary of $86,000:

The disability annuity will be based on 40% of the high-3 average salary ($34,400).

Note: 40% of high-3 formula cannot be used if military retired pay is not waived
Special Retirement Provisions

**Firefighters & Law Enforcement Officers**

2.5% x High-3 x 20 years (FF/LEO service)

**PLUS**

2% x High-3 x all service **over** 20 years

**Air Traffic Controllers**

- CSRS General Formula applies
- Guaranteed the higher of: 50% of high-3 average salary or earned basic annuity

**Congressional Service and Members of Congress**

Modified formula 5 yrs = 2.5% of average pay
CSRS Maximum Annuity

- CSRS annuities may not exceed 80% of high-3

- Unused sick leave is credited which may exceed the 80% limit
Example of Maximum Annuity
Plus Unused Sick Leave

An employee with 41 years and 11 months of service has 2087 hours of unused sick leave.

\[
\begin{align*}
41 \text{ years} & \quad 11 \text{ months} \quad = \quad 80\% \text{ of high-3} \\
+ \quad 2087 \text{ Sick Leave} & \quad = \quad 2\% \text{ of high-3} \\
\text{Employee receives} & \quad = \quad 82\% \text{ of high-3}
\end{align*}
\]
Note: Annuity reduced (Offset) when employee (or survivor) eligible for Social Security
CSRS Offset

Before Eligible for Social Security

Employee retires at age 55 with $80,000 high-3
31 years, 6 months total service (8 years of Offset)

Full CSRS annuity for 7 years (until 62)
$80,000 \times 0.592500 = $47,400 per year

$3,950 per month

*look at job aid 360 day chart
Amount of Offset

The offset to the CSRS annuity will be the lesser of:

1. Amount of Social Security benefit attributable to CSRS Interim or CSRS Offset service
   (full SSA benefit minus offset service)
   OR
2. Amount obtained by multiplying the full Social Security benefit by

   **Total Years of Offset Service**
   40
CSRS Offset

**Eligible for Social Security**

Computation equals lesser of 1 or 2:

1. Total SS eligible at age 62 **minus**
   Full SS benefit less offset service period:
   - $368 p/m
   - $300 p/m
   $68.00

2. Total SS eligible at 62:
   Total Years of Offset service:
   - $368 p/m
   - 8 years

   \[
   8 \div 40 = 20\% \times 368 = 74
   \]
CSRS Offset
Eligible for Social Security

**Step 1:**
Full SSA Benefit $368.00
minus SSA Benefit Earnings *(without CSRS Offset/Interim service of 8 Years)* -$300.00
Attributable offset amount $68.00

**Step 2:**
Years of Offset/Interim service 8
Divided by 40 ÷ 40
Offset factor = .20
Multiplied by Full SS Benefit $368 Offset amount $74.00

**Step 3:**
Lesser of step 1 and step 2 $68.00
Retiree Not SS Eligible (before age 62):
$3,950 Full CSRS Monthly Annuity

Retiree SS Eligible (after age 62):
$3,882 CSRS Monthly Annuity ($68 Offset) plus
$  368 Total Social Security Monthly Benefit
$4,250 Combined Monthly Benefit
CSRS Offset – Survivor

Survivor NOT SSA Eligible (before age 60):
$2,172 Full CSRS Monthly Survivor Annuity
(55% of $3,950 Full CSRS Annuity)

Survivor SSA Eligibility (at age 60):
$368 Social Security Monthly benefit, plus
$2,135 CSRS Monthly Survivor Annuity (Offset)*
$2,503 Combined Survivor Benefits

*55% of $3,882 CSRS Annuity (Offset)
Creditable Service Rules for FERS

FERS with or without a CSRS Component

What is it?  Who has one?
A Components Occurs When

- Elected FERS voluntary
- 5 Years CSRS and FICA service only
- FERS annuity based CSRS formula
Component Example

<table>
<thead>
<tr>
<th>FERS Computation</th>
<th>CSRS Computation</th>
<th>Total Annuity</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.0% X 85,000 X 5</td>
<td>1.5% X 85,000 X 5</td>
<td></td>
</tr>
<tr>
<td></td>
<td>1.75% X 85,000 X 5</td>
<td></td>
</tr>
<tr>
<td></td>
<td>2.0% X 85,000 X 15</td>
<td></td>
</tr>
<tr>
<td>$4,250</td>
<td>$39,312</td>
<td>$43,562</td>
</tr>
</tbody>
</table>

FERS employee age 60; High-3 Average Salary $85,000; 25 years of CSRS Service & 5 years of FERS Service
## Component Exercise

Is there a CSRS Component?

If so, what Component does the service fall under?

<table>
<thead>
<tr>
<th>Date Range</th>
<th>Component</th>
</tr>
</thead>
<tbody>
<tr>
<td>01/01/1973 to 06/30/1983</td>
<td>CSRS</td>
</tr>
<tr>
<td>06/01/1985 to 12/31/1986</td>
<td>CSRS Interim</td>
</tr>
<tr>
<td>01/01/1987 to 05/31/1987</td>
<td>CSRS Offset</td>
</tr>
<tr>
<td>01/01/1989 to 12/31/1989</td>
<td>FICA</td>
</tr>
<tr>
<td>01/01/1990 to 12/31/1990</td>
<td>FICA</td>
</tr>
<tr>
<td>06/01/1994 to 06/30/1994</td>
<td>CSRS Offset</td>
</tr>
<tr>
<td>07/01/1994 to 07/31/2003</td>
<td>FERS (elected)</td>
</tr>
</tbody>
</table>
Component Exercise

Determine the length of service (CSRS Component)

CSRS
1983 – 06 – 31
- 1973 – 01 – 01
10 – 05 – 30
10 – 06 – 00

FICA
1990 – 12 – 31
- 1989 – 01 – 01
01 – 11 – 30
02 – 00 – 00

Convert to Years, Months, and Days

Both periods of service
equals

12 years 6 months
Component Exercise

Determine the length of service (FERS Component)

<table>
<thead>
<tr>
<th>CSRS Interim/CSRS Offset</th>
<th>CSRS Offset</th>
<th>FERS</th>
</tr>
</thead>
<tbody>
<tr>
<td>01 – 11 – 30</td>
<td>00 – 00 – 30</td>
<td>09 – 00 – 30</td>
</tr>
<tr>
<td>02 – 00 – 00</td>
<td>00 – 01 – 00</td>
<td>09 – 01 – 00</td>
</tr>
</tbody>
</table>

Convert to Years, Months, and Days

All periods of service equals

11 years 2 months
## COMPONENT EXERCISE

Rules to remember: Refer to the CSRS and FERS Component Table provided. Determine for each section of service history which component that service is allotted to CSRS or FERS section.

| Is there a CSRS and FERS Component if so place all service under the correct Component |
|---|---|
| **CSRS** | **FERS** |
| CSRS 01/01/1973 to 06/30/1983 | CSRS Interim 06/01/1985 to 12/31/1986 |
| FICA 01/01/1989 to 12/31/1989 | CSRS Offset 01/01/1987 to 05/31/1987 |
| FICA 01/01/1990 to 12/31/1990 | CSRS Offset 06/01/1994 to 06/30/1994 |
| | FERS 07/01/1994 to 07/31/2003 |

Once service history is divided, determine the correct amount of time in each service period.

<table>
<thead>
<tr>
<th>CSRS</th>
<th>FICA</th>
<th>CSRS Interim</th>
<th>CSRS Offset</th>
<th>FERS</th>
</tr>
</thead>
<tbody>
<tr>
<td>1983-06-30</td>
<td>1980-12-31</td>
<td>1986-12-31</td>
<td>1st</td>
<td>3rd</td>
</tr>
<tr>
<td>10Y 5M 30D</td>
<td>1M 11M 30D</td>
<td>1 Y 6M 30D</td>
<td>0Y 4M 30D</td>
<td>9Y 0M 30D</td>
</tr>
<tr>
<td>10Y 6M 0D</td>
<td>2Y 0M 0D</td>
<td>1Y 7M 0D</td>
<td>0Y 5M 0D</td>
<td>9Y 1M 0D</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Total Service in CSRS Component</th>
<th>Total Service in FERS Component</th>
</tr>
</thead>
<tbody>
<tr>
<td>10Y 6M 0D</td>
<td>1Y 7M 0D</td>
</tr>
<tr>
<td>2Y 0M 0D</td>
<td>0Y 5M 0D</td>
</tr>
<tr>
<td>0Y 1M 0D</td>
<td>9Y 1M 0D</td>
</tr>
<tr>
<td>10Y 14M 0D</td>
<td>11Y 2M 0D</td>
</tr>
</tbody>
</table>

Total Service time under CSRS and FERS Components

| CSRS 12Y 6M 0D |
| FERS 11Y 2M 0D |
| 23Y 8M 0D |

FERS Transferee will be processed under a FERS Retirement with a CSRS Component.
Component Answer

Which period of service has a Component?

- 01/01/1973 to 06/30/1983: CSRS
- 06/01/1985 to 12/31/1986: CSRS Interim (FERS)
- 01/01/1988 to 05/31/1988: CSRS Offset (FERS)
- 01/01/1989 to 12/31/1989: FICA
- 01/01/1990 to 12/31/1990: FICA
- 06/01/1994 to 06/30/1994: CSRS Offset (FERS)
- 07/01/1994 to 07/31/2003: FERS (elected)
FERS General Formula

1% \times \text{high-3} \times \text{Length of Service}

or

1.1% \times \text{high-3} \times \text{Length of Service}^* 

*age 62 with 20 years of service

\[
\begin{align*}
\text{Retirement Age} &= 60 \\
\text{Length of Service} &= 31 \text{ years} \\
\text{Average Salary} &= $80,000 \\
\end{align*}
\]

Basic Annuity = 1% \times $80,000 \times 31 = $24,800
FERS Disability Computation

- First 12 months of eligibility: 60% of the High-3 average MINUS 100% of any Social Security Benefit

- After first 12 months of eligibility: 40% of the High-3 average salary MINUS 60% of any Social Security Benefit

- Recomputation at age 62
Special Retirement Provisions

Firefighters & Law Enforcement Officers and Air Traffic Controllers

1.7% x High-3 x 20 years (FF/LEO/ATC* service)

PLUS

1% x High-3 x all service over 20 years

*Frontline ATC service after 5 years receives 1.7% for each year

Congressional Service and Members of Congress
Modified formula 5 years = 1.7% of average pay
FERS Formula with OWCP Service Example

FERS employee age 56; 32 years, 6 months, 14 days of service; 3 years, 10 months, 3 days of qualifying OWCP service; High-3 = $50,000:

32 years 6 months (32.500000) x 1% x $50,000 = $16,250.00

PLUS

3 years 10 months (3.833333) x 1% x $50,000 = $1,916.67
FERS Enhanced Benefit with OWCP time: $18,166.67
FERS Retiree Annuity Supplement

- Benefit paid by OPM until age 62
- Social Security similar payment
- Eligible for Retirees with Immediate Annuity
- Subject to Social Security Earnings Test
OPM Computation of the FERS Retiree Annuity Supplement

OPM uses four steps to compute the supplement:

1. Creates a full career earnings history using the employee’s basic pay during civilian service that is creditable under FERS and deemed wages for years after the employee turned 21 and before the first full year of FERS service (includes CSRS Interim/Offset)

2. Updates the earnings history for inflation (known as Indexing)
3. Computes the supplement, using the same formula that would be used by SSA to compute a SS benefit as if the employee is age 62

4. Multiplies the result of the third step by a fraction (total civilian service creditable under FERS divided by 40) to approximate the proportion of a full career SS benefit earned under FERS
$1,000 Estimated (Constructed) SSA Benefit

20 years of FERS service

20 divided by 40 = 50%

$1,000 x 50% = $500 Retiree Annuity Supplement

Note: The FERS Annuity Supplement is subject to SSA Earnings Test: Workers under 65 lose $1 for every $2 earned over $15,120 (2013 rate) (example: $35,000 in earnings excess earnings of $19,880/2.00 = $9,940 of the FERS Supplement is lost).
Reductions to Annuities

- Reductions to Annuities
- Withholdings from Annuities
- CSRS Cost of Living Adjustments (COLA’s)
- FERS COLA’s & Components
- Taxation of Annuities
Taxation of CSRS/FERS Annuities

Federal Tax:
IRS PUBLICATION 721
1-800-TAX-FORM
www.irs.gov

Contact State office of Taxation:
Many states do not tax retirement payments
QUESTIONS
Take A Break!
Annuity Computation Exercise

Step 1

• Compute age at separation to determine eligibility for retirement and whether a reduction for age must be applied to the annuity:

Date of Retirement: 12/31/2017
Date of Birth: 01/01/1955
Step 2

- Compute CSRS service for computation purposes. Enter each period of service by following the steps below:

  - Enter the first appointment date of creditable service (01/17/1979) in column A.
  - Enter the last appointment date of creditable service (04/08/1985) in column B.
  - Determine whether the period of service is:
    - Covered – retirement deductions withheld
    - Non-deduction – retirement deductions were not withheld
    - Refunded – retirement deductions were withheld and refunded
    - Military – Military service that is creditable for retirement purposes (See CSRS/FERS Handbook Chapter 22)
    - Part-time: See CSRS/FERS Handbook Chapter 55
Annuity Computation Exercise

• Subtract column B from column A to determine the total service during that period.

• Follow steps A through D for subsequent periods of CSRS service through the day before the date of transfer to FERS (05/22/1988)
Annuity Computation Exercise

Step 3

• Total the civilian and military periods of service in column D.
Annuity Computation Exercise

Step 4

• Determine how much credit allowed for unused sick leave by using the 2087 Sick Leave Chart (Job Aids Chart#2, pg 185)

860 hours = 4 months, 29 days

**Note:** If the final balance is greater than the frozen balance, subtract the frozen balance from the final balance and credit the frozen balance in the CSRS Component and the difference between the final balance and the frozen balance in the FERS component.
Step 5

- Compute the total CSRS creditable service by adding the unused sick leave (4 months, 29 days) to the total civilian and military service. (7 years, 6 months, 53 days)
Step 6

- Enter the total CSRS service for computational purposes (7 years, 7 months) by using whole years and months and dropping any extra days.
Annuity Computation Exercise

Step 7

• Compute the FERS service for computational purposes.

A. Enter periods of creditable service beginning with the date of transfer (05/22/1988).

B. Determine whether the period of service is:
   • Covered – retirement deductions withheld
   • Non-deduction – retirement deductions were not withheld
   • Refunded – retirement deductions were withheld and refunded
   • Military – Military service that is creditable for retirement purposes (See CSRS/FERS Handbook Chapter 22)
   • Part-time: See CSRS/FERS Handbook Chapter 55

C. Total the civilian and military periods of service in column D (7 years, 6 months, 34 days). No credit for unused sick leave is applied to the FERS component.

D. Enter the total service for computational purposes (7 years, 7 months) by using whole years and months and dropping any extra days.
Step 8

• Compute the CSRS basic annuity benefit.

A. Enter the high-three average salary:

B. Enter the years and months of CSRS service from step 6 above:

C. Use the CSRS General Formula Computation Chart (Job Aids Chart #4, pg 181) to obtain the retirement factor for 7 years, 7 months.

D. Multiply the high-three average salary by the retirement Factor to obtain the CSRS earned annuity:
Annuity Computation Exercise

Step 9

• Compute the FERS basic annuity benefit

A. Enter the high-3 average salary

B. Enter the years and months of FERS service from step 7

C. Use the FERS 1% Accrual Factor Chart (Job Aids Chart# 6) to obtain retirement factor for 7 years, 2 months of service:

D. Multiply the retirement factor by the High-3 average salary to obtain the FERS earned annuity benefit:
Annuity Computation Exercise

Step 10
Compute the combined total basic annuity payable

A. Add the FERS basic annuity from step 9 to the CSRS basic annuity from step 8 to obtain the **Total unreduced basic annuity**:

B. Enter the base selected by the retiree for the survivor annuity:

C. Multiply the base selected by 10%/ or 5% to obtain the total survivor reduction:

D. Subtract the total survivor reduction from the total unreduced basic annuity to obtain the basic annual annuity:

E. Divide the basic annual annuity by 12 and round to the next **lower** dollar to arrive at the monthly annuity rate:

**NOTE:** The employee may use all, or one-half, of his or her annuity as the base for the survivor benefit. In calculating the base for the survivor benefit, use the annuity after it has been reduced for age, but before any alternative annuity reduction or the unreduced basic annuity. The reduction is 10% (full survivor benefit) or 5% (partial survivor benefit) of the base selected. (CSRS/FERS Handbook: 50B3.1-3 D4)
Step 11

• Compute the survivor annuity

A. Multiply the amount designated as the survivor base by 25% to obtain the annual survivor rate.

B. Divide the annual survivor rate by 12 and round to the next lower dollar to obtain the monthly survivor annuity rate.
QUESTIONS
Providing Professional Growth and Development to the HR Benefits Community