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## FERS

On June 6, 1986, a new retirement system for federal employees was created, the Federal Employees Retirement System "FERS." The intent of creating a new system was two-fold:

1. To help shore up Social Security by including more employees paying into the system, and
2. To create a fully funded system that doesn't require the Treasury to include a budget line item for federal pensions (this one is the most important to federal employees today).

## Retirement Contributions<sup>1</sup>

FERS employees hired prior to January 1, 2014, contribute 7% to the retirement system each pay period. 6.2% of that is directed into Social Security and the other .8% goes directly into the Civil Service Retirement and Disability Fund "CSRDF."

Due to Congressional legislation passed in 2012 and 2013, two hybrid versions of FERS were implemented<sup>1</sup>.

FERS employees hired between January 1, 2013 and December 31, 2013 are in the FERS-RAE system and pay 9.3% into the retirement system each pay period. 6.2% is directed into Social Security and the other 3.1% goes directly into the CSRDF.

FERS employees hired after January 1, 2014 are in the FERS-FRAE system and pay 10.6% into the retirement system each pay period. 6.2% is direct into Social Security and the other 4.4% goes directly into the CSRDF.

## Eligibility<sup>2</sup>

Age	Years of Service
MRA	30
60	20
62	5

### Minimum Retirement Age is based on the year you were born<sup>4</sup>

If you were born:	Your FERS MRA is:
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
1970 or after	57

## Pension Calculation<sup>3</sup>

At retirement, you will receive credit at the rate of 1% for each year of creditable service, plus unused sick leave, and service that was purchased, such as military time.

If you work until age 62 and have at least 20 years of service, you will receive credit at the rate of 1.1% for each year of creditable service, plus unused sick leave, and service that was purchased, such as military time.

### Here's an example:

FERS with 30 years of service at age 57 would receive 30% of their High 3 (e.g., \$100,000).

$\$100,000 \times .30 = \$30,000/\text{year gross before taxes, insurance and cost of survivor benefits}$

FERS with 30 years of service at age 62 would receive 33% of their High 3 (e.g., \$100,000).

$\$100,000 \times .33 = \$33,000/\text{year gross before taxes, insurance and cost of survivor benefits}$

*This is a hypothetical example for illustrative purposes only.*

Continued on back page

## Survivor Benefits

Married FERS retirees can elect to provide their spouse with a portion of their pension as a survivor benefit in case the retiree passes away first.

You MUST elect at least the minimum survivor benefit if you want your surviving spouse to be able to continue on your Federal Employees Health Benefits "FEHB". They must be covered under the FEHB on the date you pass away.

### There are two options:

**25% survivor benefit**, aka partial survivor benefit which costs 5% of the gross pension

**50% survivor benefit**, aka full survivor benefit which costs 10% of the gross pension

*The cost of the survivor benefit is taken before taxes.*

### Example continued from previous page:

Gross pension is \$30,000/year or \$2,500/month. Full survivor cost of \$250 would be deducted from \$2,500 to cover a 50% benefit for surviving spouse. Surviving spouse would receive \$1,250/month (1/2 of the \$2,500 gross amount) if the retiree passes away first and could continue on FEHB as long as they were covered on the date of the retiree's death. If the spouse passes away first, the retiree no longer has to pay the \$250 for the survivor benefit.

## Cost of living adjustments in retirement "COLA"<sup>5</sup>

FERS retirees receive a COLA on their pension once they reach the age of 62. Each year after age 62, a COLA is applied to the pension based on the Consumer Price Index for Urban and Clerical Wage Earners (CPI-W). If the CPI-W is:

**0 - 2%** the retiree receives the entire amount

**2 - 3%** the retiree receives 2%

**3% +** the retiree receives the CPI-W - 1%

## FERS Supplement

Because Social Security is an important component of a FERS retirement, but you are not eligible to receive Social Security benefits prior to age 62, a Special Retirement Supplement "SRS", representing a portion of your age 62 Social Security benefit, is calculated and paid by OPM. There is an earnings limit declared by Social Security each year, that impacts your SRS benefit. For 2020, that earnings limit is \$18,240. For every \$2 you earn over \$18,240, you'll give up \$1 of your SRS.

*The SRS is calculated as follows:*

$$\frac{\text{Years of federal service}}{40} \times \text{Social Security benefit @ age 62}$$

Example: 25 years of service divided by 40 = .625% X \$1,200 (estimated benefit at 62) = \$750

Once the SRS is calculated, it is not recalculated annually or adjusted for COLAs.

## Thrift Savings Plan "TSP"

As long as you contribute at least 5% of your salary to the TSP, you will receive a 5% match on your contributions.

If you retire or separate from federal service in the year you turn age 55 or later, you may take withdrawals directly from TSP and avoid the IRS 10% early withdrawal penalty. You will be responsible for income taxes on the traditional portion of withdrawals from the TSP.

Although you may access your TSP without penalty after age 55, the restrictions on the Roth portion of your TSP still apply, so if you withdraw from the Roth TSP before age 59 1/2, the 10% early withdrawal penalty will apply on your earnings (not on your contributions).

<sup>1</sup> <https://www.commerce.gov/hr/employees/benefits/retirement/federal-employee-system>

<sup>2</sup> <https://www.opm.gov/retirement-services/fers-information/eligibility/>

<sup>3</sup> <https://www.opm.gov/retirement-services/fers-information/computation/>

<sup>4</sup> <https://www.opm.gov/retirement-services/fers-information/eligibility/>

<sup>5</sup> <https://fas.org/sgp/crs/misc/94-834.pdf>