

Federal Employees and Social Security

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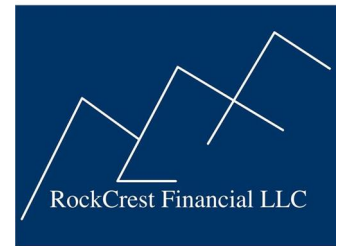
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–Elaine Floyd, CFP®

If you have ever worked for the federal government, you know there can be confusion about CSRS, FERS, and something called “CSRS offset.” Let’s see how these federal retirement plans interact with Social Security.

CSRS or FERS?

The Civil Service Retirement System (CSRS) was enacted in 1920 to give federal employees pension benefits at retirement. When the Social Security Act was passed in 1935, federal workers were excluded because they were already covered by CSRS. Then in 1983, as part of the sweeping Social Security amendments, a new pension system was designed to bring federal employees into the Social Security system. Instead of contributing 7% of pay to CSRS, workers covered under the new Federal Employees Retirement System (FERS) would pay 6.2% to Social Security and .8% to FERS. At retirement they would be eligible for full Social Security benefits, plus an annuity from FERS. They could also contribute to a Thrift Savings Plan (TSP), a 401(k)-like system for federal employees, and become eligible for those benefits when they retire. The FERS plan became effective on January 1, 1987.

WEP or GPO for CSRS

Workers hired before January 1, 1984, had the option to stay on CSRS or switch to FERS. Workers hired after

January 1, 1984, are covered by FERS. If you have been wholly covered by either CSRS or FERS, figuring out the Social Security is easy. If you stayed with CSRS, you are not eligible for Social Security based on your CSRS-covered earnings. If you also worked in a job that paid into Social Security, your Social Security benefit may be subject to the Windfall Elimination Provision (WEP) due to the receipt of the CSRS pension (depending on how many years of substantial earnings you had in Social Security-covered employment). Any spousal or survivor benefits you may be entitled to will be reduced by two-thirds of that pension amount under the Government Pension Offset (GPO). You are eligible for premium-free Part A Medicare, however, since federal employees covered by CSRS have been paying into Medicare since 1983.

Full Social Security for FERS

If you’ve been wholly covered by FERS, you are eligible for full Social Security benefits with no reduction for the WEP or GPO. In addition to a retirement benefit based on age, salary, and years of service, FERS provides a temporary supplement for workers who retire before

age 62. This “FERS supplement” is paid to workers who retire at the age of 55 or older with at least 30 years of service or at the age of 60 with at least 20 years of service. It is also paid to law enforcement officers, firefighters, and air traffic controllers who retire at the age of 50 or later with 20 or more years of service. The supplement is equal to the estimated Social Security benefit that the individual earned while employed by the federal government. It is paid only until the age of 62, regardless of whether the retiree chooses to apply for Social Security retired worker benefits at 62.

If you were employed on January 1, 1984 and elected to transfer to FERS with more than five years of service, you will, upon retirement, receive benefits from both CSRS and FERS. The CSRS pension will cause your Social Security benefits to be reduced for the WEP unless you had 30 or more years of substantial earnings covered by Social Security, either through your federal FERS-covered job or an outside job. Spousal and survivor benefits will be reduced in the usual way, by two-thirds of the pension amount under the GPO.

CSRS offset

If you are among a small group of people considered “CSRS offset,” your pension is made up of both Social Security and your CSRS annuity. When you turn 62, your CSRS annuity will drop by the amount of your Social Security benefit—whether or not you apply for Social Security benefits. This system is designed to keep income continuing in the same amount, but now with less coming from CSRS and more coming from Social Security. However, you still have a choice about when to apply for Social Security. If you have other sources of income, you could delay the start of your Social Security benefit to age 70 in order to receive a higher amount.

Elaine Floyd, CFP®, is the Director of Retirement and Life Planning, Horseshmouth, LLC., where she focuses on helping people understand the practical and technical aspects of retirement income planning.

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