FAQs
About Your
Federal Benefits

A NARFE White Paper

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The National Active and Retired Federal Employees Association (NARFE) sponsors and supports legislation to protect the benefits and general welfare of the federal community on issues such as health benefits and retirement. NARFE also helps its members gain a better understanding of their benefits by working in partnership with the Office of Personnel Management to answer questions related to their federal benefits. Every month, NARFE addresses questions from the federal community in our award-winning magazine and on our website: www.NARFE.org.

This FREE white paper provides answers to some of the more frequent questions about benefits that we receive from federal workers and retirees.

The following are real questions received by the NARFE Retirement Benefits Service Department and real answers, based on the members' personal circumstances. The answers are not universal and may include information that is relevant to the correspondent's particular situation. Members frequently contact NARFE for clarification and guidance on the sometimes confusing federal benefit rules, regulations and requirements.

Q **I am under the Civil Service Retirement System (CSRS) and have just learned about the voluntary contribution (VC) account. Can you explain this account to me?**

A VC accounts have been available for CSRS employees for many years. CSRS and CSRS Offset employees can contribute up to 10 percent of their lifetime federal salary to this account as long as they do not owe a deposit or redeposit for refunded CSRS retirement contributions. Those enrolled in 2011 earned 2.75 percent interest.

If you owe a deposit or redeposit, you would have to pay off the deposit or redeposit before you could contribute to the VC account. Federal Employees Retirement System (FERS) employees and CSRS retirees may not establish a VC account.

You can open a VC account by filling out form 2804, available through the Office of Personnel Management (OPM). Your contributions would go directly to OPM. You can place money in the account whenever you choose, as long as you send OPM a check for at least $25. You are allowed to earn interest on the account, and you are not responsible for paying taxes on the interest earned until you retire.

When you retire, you also can elect a lump-sum payment of these contributions or a supplemental annuity. The supplemental annuity would pay an additional $7 for each $100 of retirement contributions, plus 20 cents for each full year the retiree is over age 55 at the time the annuity begins.

You can withdraw the money in a lump-sum payment and only pay taxes on the interest earned because the amount you placed into this account would already have been taxed. Or you could roll over the money into an individual retirement account (IRA) or your Thrift Savings Plan account to avoid paying taxes on the money until you withdraw the money from the IRA.

You also can complete form 2804 and submit it with your retirement application. OPM will roll over the money into a Roth IRA as long as you do not accrue any interest on the VC account. You would use form RI 38-124 to make your withdrawal; the form explains your options.

Q **I understand that there are special benefits for public safety officers who are killed or injured in the line of duty. Would you provide information on these benefits?**

A The Public Safety Officers' Benefits (PSOB) Programs are administered by the Department of Justice (DOJ). The PSOB Programs provide death and education benefits to survivors of fallen law enforcement officers, firefighters and other first responders, and disability benefits to officers catastrophically injured in the line of duty. According to the DOJ website, the PSOB Programs consist of three parts:

1. A one-time, tax-free financial benefit to eligible survivors of public safety officers whose deaths are the direct and proximate result of a traumatic injury sustained in the line of duty. The death benefit payable for eligible survivors is $323,035.75 for eligible deaths occurring on or after October 1, 2011. The benefit is adjusted each year in October to reflect the percentage change in the Consumer Price Index.

2. Benefits to public safety officers who have been permanently and totally disabled by a catastrophic injury sustained in the line of duty if that injury permanently prevents the officer from performing all gainful work.

3. Educational assistance to the children and spouse survivors of federal, state and local public safety officers who were killed or permanently disabled in the line of duty. This benefit was authorized with the passage of the Police, Fire, and Emergency Officers Educational Assistance Act of 1998.

The benefits are not limited to employees serving in approved law enforcement officer or firefighter positions. For these benefits, a public safety officer is a person serving in a public agency in an official capacity, with or without compensation, as a law enforcement officer, firefighter or member of a public rescue or ambulance crew. Law enforcement officers include, but are not limited to, police, corrections, probation, parole and judicial officers.

The Hometown Heroes Survivors Benefits Act of 2003 expanded the circumstances under which public safety officers' deaths from heart attacks or strokes may be covered. It established a statutory presumption that public safety officers who died from heart attacks or strokes following a nonroutine stressful or strenuous physical safety activity or training died in the line of duty for benefit purposes.

For additional information, contact the Bureau of Justice Assistance, Public Safety Officers' Benefits Programs, 810 Seventh St. NW, Washington, DC 20531. You also can call 202-307-0635 (toll-free: 888-744-6513) or send an e-mail to AskPSOB@usdoj.gov. The website is www.psob.gov.

Q

I am age 66 and still working. I know that there is a 10 percent late-enrollment fee on top of the Medicare Part B premium for each year that you are not enrolled but could have been. But I heard that there is a special enrollment period without the penalty under certain circumstances. Please explain.

A

Those over age 65 and still working and who have employer-sponsored health insurance have a penalty-free Medicare Part B special enrollment period, which lasts for eight months after they retire. As long as you enroll in Medicare Part B during the eight-month special enrollment period, you would not be subject to the 10 percent penalty.

Q

I am a current federal employee covered under the Civil Service Retirement System (CSRS). The divorce decree did not give any CSRS retirement or survivor's benefits to my ex-wife. We both agreed to keep our own. I would now like to give my ex-wife a survivor's annuity when I die. I have talked to an attorney, and, in Washington state, it is difficult and expensive to amend the property settlement in a divorce decree. Is there an easier way to do this? Is it possible that, when I retire, I can elect a survivor's annuity for my ex-wife through the Office of Personnel Management (OPM), even though the divorce decree does not require one, or must the divorce decree be amended?

My second concern is to make sure that my ex-wife gets a survivor's annuity should I die prior to retirement. Is there a way I can elect a survivor's benefit for my ex-wife without amending the divorce decree?

A

At retirement, you may elect a survivor's benefit for a former spouse; however, if you are married at the time of retirement, your current wife must consent to the election. Only the court that approved the divorce can provide a survivor's annuity benefit for the former spouse.

An employee cannot elect to provide a survivor's benefit for a former spouse in the event that he or she might die before retirement. If you want to protect your ex-wife if you should die as an employee, you may have the divorce decree amended, if the court approves the amendment. OPM will only accept such an amendment if it is made to the divorce decree prior to the date of your retirement.

Q **What are the requirements for immediate retirement under the Federal Employees Retirement System? I just turned age 62 and have been employed by the federal government for only four years.**

A You would meet the age requirement for optional retirement at age 62, but you must have a minimum of five years of federal service in order to retire.

Q **What is NARFE's role in relation to the Thrift Savings Plan (TSP)?**

A NARFE has a seat on the Thrift Retirement Savings Board and participates in decisions governing the TSP. NARFE was instrumental in gaining passage of the Thrift Savings Plan Enhancement Act of 2008, which added a Roth option to the TSP and ensured that surviving spouses have the same rights over their inherited accounts as any other TSP participant. NARFE's seat on the Board is filled by the National Treasurer and assures that the interests of federal employees and retirees are being protected.

Q **The U.S. Postal Service (USPS) has proposed implementing a major change to its retirement and health benefits. How will this change affect USPS retirees, current employees who retire before the implementation and current employees who retire after implementation?**

A The USPS issued a statement outlining proposals it said would help with its financial difficulties. In the plan, the USPS would administer its own retirement and health insurance programs, and current USPS retirees and those employees close to retirement would not be affected. Any new health benefits program would affect both active and retired USPS employees. But at this time, these are proposals only, and no changes will be implemented unless Congress passes legislation.

Q **I am a law enforcement officer under the Federal Employees Retirement System (FERS). What are the advantages of working until my mandatory retirement age?**

A You become eligible for an annuity at age 50 with 20 years of covered service or at any age with 25 years of service. Your mandatory separation age is 57. Since you contribute 1.3 percent of your basic pay into the retirement fund, as opposed to 0.8 percent for regular FERS employees, your benefits are more generous. You receive 1.7 percent of your high-three average salary for the first 20 years of service and 1 percent of your high-three average salary for the remaining years. For example, if you work for 25 years, you would receive 39 percent of your high-three average salary. You also would receive an immediate cost-of-living adjustment (COLA), unlike regular FERS employees who do not receive a COLA until they turn age 62. If you retire before you reach your minimum retirement age and begin to receive an immediate FERS supplemental annuity, you may continue to work and not be subject to the earnings limitation test until you reach your minimum retirement age.

Q **I worked for the government under the Federal Employees Retirement System (FERS) from 1993 to 1997. I took a refund of my retirement contributions. I was told that I could not make a redeposit for my FERS service and would not receive credit for this service if I returned to the federal government. One of my co-workers told me that this rule had changed. Is this true?**

A Since the law changed in October 2009, FERS employees with previous FERS service who left federal service and withdrew their FERS contributions are now eligible, upon re-entering federal service, to redeposit their withdrawn FERS contributions. You must make a full redeposit, which includes the amount of your refund plus interest. You would receive credit toward your retirement eligibility and in the computation of your FERS annuity for your previous years of service covered by the redeposit.

Q **I am considering taking a buyout of $25,000. Would accepting a buyout affect any future federal service should I decide to return?**

A Those separating under a buyout are barred from taking other federal employment for five years unless they repay the entire amount of the buyout. There are a few exceptions to the rule, and some agencies will waive the requirement to repay the buyout. Waivers are very rare, however, and you would need to contact the agency you may be interested in to see if that agency makes an exception.

Q **Can I withdraw money from my Thrift Savings Plan (TSP) account immediately when I retire?**

A You can submit the paperwork, but don't expect to receive your TSP funds immediately. The TSP Service Office cannot process a withdrawal election until it receives an Employee Data Record from your payroll office indicating that you have separated. It normally takes agencies 60 days to get the data to the TSP. Then, it may take up to eight weeks to process a withdrawal after all withdrawal forms and separation data have been received by the TSP Service Office.

Q **I know that I must have health insurance for five years prior to retirement in order to carry it with me into retirement. After I retire, can I enroll in a family plan, or do I have to be enrolled in a family plan for the five years before I retire in order to continue it into retirement?**

A You may be enrolled in a self-only plan for the five years immediately preceding your retirement date. Then, you would be able to enroll in a family plan during Open Season or outside of Open Season if an event occurs that permits a change to the family option.

Q **How is an annual leave buyout calculated? Is it "accumulated hours x current hourly wage"? Is it considered unearned income? I also have heard that 40 percent is taken out in taxes for this.**

A Lump-sum annual leave payments are calculated using the hourly rate of basic pay you would have received had you remained on the agency's rolls. Therefore, if you were to retire before the annual pay adjustment becomes effective, any hours before that would be computed at the old rate and those after at the new rate. Any step increase that would have occurred after you retired would not be included.

For tax purposes, lump-sum payments are treated as earned income. Check with your agency to find out what other deductions may be withheld from your lump-sum annual leave payment.

Q **When I retire, will my Social Security benefit be reduced if my Federal Employees Retirement System annuity is more than the yearly limitation of $1,180 a month?**

A The Social Security earnings limit applies only to earnings from wages or self-employment — not what you receive in your annuity. In 2011, the earnings limit is $14,160 a year, or $1,180 a month, if you are under full retirement age.

Q **I will retire early in 2012 and will choose a lifetime annuity. I will not opt for a survivor's benefit for my husband. But can I still carry him under my Federal Employees Health Benefits Program (FEHBP) plan?**

A You can continue to include him under the family option of your FEHBP plan. But if you were to predecease your husband, he would lose that coverage unless he is a federal employee or retiree who would be eligible to continue that coverage in his own right.

Q **I am under the Federal Employees Retirement System (FERS) with the Department of Defense. I plan to retire in December 2016 at age 61. At that time, I will have 35 years of service. I will be age 62 in February 2017. I am trying to estimate my take-home pay from Social Security and FERS. Do I have to pay federal taxes on FERS and Social Security, as well as state taxes? What about Social Security taxes and Medicare?**

A Social Security deductions are taken only from earnings acquired through wages or self-employment — not annuities or other sources of income. Because you have already paid for Medicare Part A coverage through payroll deductions, there won't be any further payments required unless you have earnings from wages or self-employment. If you elect to be covered by Medicare Part B, you would have to pay the premiums for it.To find out what the taxes will be on your FERS annuity, see IRS Publication 721, *Tax Guide to U.S. Civil Service Retirement Benefits*, available at www.irs.gov/pub/irs-pdf/p721.pdf.

For tax treatment of Social Security Benefits, the Social Security Administration has a fact sheet titled *Taxes and Your Social Security Benefits* at www.ssa.gov/planners/taxes.htm.

Q **When should I start planning for retirement?**

A It is never too early to start planning for retirement. The five-year period before retirement is important because you must have insurance coverage for five years immediately before retirement in order to keep it after retirement. You also may need some preliminary information to make decisions about when you can afford to retire and whether to make any necessary payments to receive credit for military or noncontributory service or repay any retirement contribution refunds. You also should consider attending a pre-retirement seminar as soon as possible.

Q **I will be retiring at the end of the year. I have had health insurance since I started working for the government and know that I meet the requirement to carry the insurance into retirement. Will the government continue to pay the same portion of my premiums, or will my premiums increase?**

A You will be charged at the same rate as an active federal employee, and the government will continue to pay about 70 percent of your premium.

You need to be aware that they will be deducted monthly instead of biweekly. Recognize that health insurance premiums normally increase for everyone in January, following Open Season, and your coverage may change.

Q **I am currently a federal employee but would like to change to an agency where there is more promotion potential. How do I do this?**

A We can give you some general information that may be helpful in your job search. There must be a job opportunity announcement in order to apply for a federal job. A federal application consists of submitting a résumé and usually completing an assessment and providing additional information, as requested, such as transcripts, SF-50s and/or a DD-214 (military discharge paper).

The Office of Personnel Management (OPM) has an excellent online tool (USAJOBS) to help you to locate jobs. There is a section called "Special Hiring Events." Go to www.usajobs.gov. It is very important that you carefully review the "Qualifications and Evaluations" section of the job opportunity announcement to see if you qualify for the job. Also review the "How to Apply" section of the job opportunity announcement. When applicants do not follow the instructions provided in the "How to Apply" section, the application may be considered incomplete, and applicants will not be considered for the job.

When you apply for a position, we recommend that you print out the job opportunity announcement so that you will have the information to refer to when checking on your status after the job announcement's closing date. OPM removes job opportunity announcements from its system when the jobs close.

Q **I am receiving military retired pay. Will I be able to use any of my military service in the computation of my civil service annuity?**

A You cannot receive credit for military service in your Civil Service Retirement System (CSRS) or Federal Employees Retirement System (FERS) retirement computation if you are receiving military retired pay, unless you were awarded the retired pay:

• Due to a service-connected disability either incurred in combat with an enemy of the United States or caused by an instrumentality of war and incurred in the line of duty during a period of war; or

• Under the provisions of Chapter 67, Title 10, U.S.C. (pertaining to retirement from a reserve component of the Armed Forces).

However, you can elect to waive the retired pay and have the military service added to your civilian service in computing your CSRS or FERS annuity. You should have your human resources office provide you with an annuity estimate both with and without your military service so that you can determine if it would benefit you to combine your service.

National Active and Retired Federal Employees Association

NARFE does not provide legal advice or assistance, does not provide financial planning advice or assistance, and does not provide tax advice or assistance. For legal, financial planning or tax advice/assistance, NARFE recommends members contact an attorney, financial planner or certified public accountant/tax adviser.

Information provided by NARFE – The National Active and Retired Federal Employees Association. NARFE, one of America's oldest and largest membership associations, was founded in 1921 with the mission of protecting the earned rights and benefits of America's active and retired federal workers. With more than 300,000 members, NARFE is the largest federal employee/retiree organization, representing the retirement interests of nearly five million current and future federal annuitants, spouses, and survivors.

To learn more, go to **www.NARFE.org** or call **800-627-3394.**

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