Computation of your special annuity supplement

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This month's article will focus on how your Special Annuity Supplement (SAS) is computed for FERS employees. Letter carriers often ask about the discrepancies between the estimate provided by the Postal Service and the actual calculation by the Office of Personnel Management (OPM) after you retire. I don't ever want anyone to be surprised that the estimate was not as accurate as they expected.

An easy way to estimate the supplement is with the following formula (and/or request an estimate from the Postal Service):

1. Determine your Social Security projected estimate at age 62 (ssa.gov or if you receive a yearly update in the mail).
2. Multiply by years of FERS coverage rounded to nearest whole number (do not use banked sick leave, military leave, etc.).
3. Divide by 40.

The formula that OPM uses to perform the actual calculation is much more complicated. This formula can be found in Chapter 51 of the *CSRS-FERS Handbook*, in which most of the 46 pages are used to describe the calculation.

The formula used to compute the supplement is quite different from the formulas used to compute other benefits paid by OPM, because it is an adaptation of the Social Security benefits formula. Key differences between Social Security rules and the annuity computation formulas generally used by OPM are that Social Security uses earnings during a worker's full career, updates these earnings for inflation, and applies a very different computation formula that uses these updated earnings from a full career.

OPM describes the process as follows: Consequently, to compute an annuity supplement, you must go through the following steps. First, create 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. Second, update the earnings history for inflation. Third, compute the supplement, using the same formula that would be used by the Social Security Administration to compute a Social Security benefit, including the maximum reduction for early retirement under Social Security. Fourth, multiply the result of the third step by a fraction to approximate the proportion of a full career Social Security benefit earned under FERS.

The actual calculation has many moving parts, such as deemed pay, actual pay, earnings in year of separation, indexed earnings, selection of benefit computation years, averaged indexed monthly earnings, determination of the primary insurance amount and finally determination of the final amount of the supplement based on the total FERS credit. You can start to see why using the simple estimate is useful.

But it's important to understand that the estimate will get you in the ballpark, but not to your seat. Routinely, the estimate is higher than the SAS that you will receive from OPM. This is of course because the estimate is a simplified version of the real calculation, but also because the actual formula uses only base pay. So any overtime you've worked during your career will be reflected in your Social Security age 62 estimate, but will not come through in your supplement.

The takeaway? The estimate is just a tool to help you plan and prepare for retirement. You won't find out your exact supplement until after you've retired and OPM performs the complex calculation.

The supplement, like Social Security benefits, may be reduced if a retiree has excess outside income. OPM must reduce the amount paid when outside earnings exceed the maximum permissible amount. The 2020 earnings limit is $18,240. And remember that the supplement is unique to FERS—there is no comparable provision for CSRS employees.

Snake oil salesman, continued

As I was writing this article, I received a call from a retired member of my branch sharing his horror story involving a financial planner. According to this retiree, approximately five years ago a financial planner was granted access to the workroom floor to sell a retirement plan. It appears that the financial planner was a family friend of the supervisor.

Approximately 25 employees attended this presentation. The financial planner was selling lies to this group of unsuspecting federal employees. His first lie was telling the group that if they left their money in the TSP upon their death the balance of the TSP would be forfeited. The second lie involved the G-Fund. According to the retiree, the financial planner stated that the G-Fund is run by the government and, at any time, the government can withdraw your funds without your permission.

It gets worse. The cost of this plan was 1.7 percent compared to TSP administrative costs of 0.042 percent. That means for every $100,000 dollars in your account the financial planner's administrative cost would be $1,700 and TSP would be $42.

This horror story doesn`t end there. This retiree has been fighting the past two months to close this account and invest what is left with a more reputable firm. All he gets is the runaround in his attempts to rid himself of this snake oil salesman and his lies.

It can be advantageous to hire somebody to take care of your money if you would rather spend your time and energy on other endeavors. But always be sure to do your homework so another unfortunate situation doesn't wind up in my next column.