

## FERS 101



**Dan Toth**

**I**t's important to understand the Federal Employees Retirement System (FERS) so that one understands how much money they need to save in addition (if any) to their FERS benefits in order to live their current or desired lifestyle in retirement. This column will focus on the basics of the FERS benefit.

FERS provides a defined benefit, which is precisely calculated, and one can predict their annuity given certain variables. This provides certainty over other benefits such as a defined contribution plan (e.g., the Thrift Savings Plan) so you are not dependent on your portfolio balance or variables outside of your control,

such as market fluctuations, interest rates or economic catastrophes, to name a few. The variables that have an impact on eligibility to retire and the calculation of the annuity are age, Minimum Retirement Age (MRA), high-3 average salary, and years of service.

To be eligible for an immediate voluntary retirement (aka a "regular" retirement), one must either be their MRA with 30 years of service, or age 60 with 20 years of service, or age 62 with five years of service. The MRA depends on one's year of birth and ranges from age 55 to 57. Those born in 1970 or after have an MRA of 57. Anyone with at least five years of service will be eligible to collect a FERS pension at 62, provided they don't request a refund of their FERS employee contributions after they leave service. It is important to note that an employee is technically eligible to retire at MRA and only 10 years of service (and the Postal Service will notify them that they are eligible), but unless they meet the criteria above for a regular annuity, they will face a severe and permanent reduction to their annuity.

Years of service also are important in the annuity calculation. Each additional month of service will result in an increased annuity at the time of retirement. Employees with military service and certain non-career federal service may be able to make a deposit for that time so that it counts as creditable service under FERS, thus increasing the annuity and possibly allowing one to be eligible for retirement at an earlier date. As of now, those with time as a city carrier assistant or a transitional employee (if performed after 1988) are not able to make a deposit for that time and receive credit toward retirement. The Federal Retirement Fairness Act could change that. This bill, awaiting introduction into

the House of Representatives, would provide a majority of our workforce with the opportunity to make a deposit for non-career service.

The high-3 average salary is what it sounds like, the highest three consecutive years of basic pay which excludes overtime, penalty time, night differential, etc. For letter carriers, this is typically the last three years prior to retirement.

The FERS basic benefit is calculated by multiplying years of service, the high-3 average salary, and a factor of either 1 percent, or 1.1 percent (0.01 or 0.011, respectively). One percent is the default factor, but those who retire at age 62 or later with at least 20 years of service would receive a factor of 1.1 percent, which amounts to a 10 percent increase in their basic benefit over the 1 percent factor.

Rather than calculating an estimate on your own, you can refer to *The Postal Record*, which frequently publishes Civil Service Retirement System and FERS annuity estimates — tables with years of service ranging from 20 to 40 years. As of the latest estimate, an employee with 30 years of service and a high-3 average salary of \$71,028 would gross \$1,776 per month (before a survivor benefit or other deductions) or \$21,312 per year (see pages 41-42). Employees can and should also request annuity estimates directly from the Postal Service as they approach retirement eligibility.

**The annuity is a lifetime benefit with inflation protection** through cost-of-living adjustments (generally starting after age 62) to retain its value over the years. Of course, the FERS benefit is just one component of any retirement. FERS was designed with the utilization of the Thrift Savings Plan and Social Security in mind and to work together for a healthy retirement.

The FERS Special Annuity Supplement is another important consideration that benefits those retiring prior to age 62. Generally, a retiree must be either their MRA with 30 years of service or age 60 with 20 years of service to be eligible. The supplement will stop at age 62, which coincides with Social Security retirement eligibility. One does not need to apply for the supplement; it will be automatically included in the annuity payment when entitled.

I recommend that every new employee grab a copy, either a hard copy from their branch or national business agent, or a digital copy on the NALC website of the booklet titled *Questions and Answers on FERS*. This booklet is a valuable resource, as it covers many common retirement questions, not just about FERS but also about Social Security, the Thrift Savings Plan, life and health insurance, survivor benefits and more.