FERS credit for unused sick leave

Beginning Jan. 1, 2014, employees retiring under the Federal Employees Retirement System (FERS) will receive full credit for unused sick leave toward annuity computation. This is due to a law passed in 2009 that began the credit in 2010 but phased it in at 50 percent through the end of 2013 with full credit beginning in 2014. Essentially, 174 hours of saved sick leave will convert to one month of additional service, beginning in 2014.

The credit applies toward computation of annuity. It increases the amount of the annuity. It does not count toward determination of eligibility for annuity. This is an important distinction, because FERS rules provide for unreduced retirement benefits at certain age/years-of-service combinations, or for reduced retirement benefits at minimum retirement age (MRA) plus 10 years of service. Employees unaware of this distinction could end up with unexpected and unpleasant reductions in their annuity.

The following example illustrates the potential problem. A 57-year-old FERS employee retires with a creditable sick leave balance of 870 hours and slightly less than 30 years’ service:

- Actual service: 29 years, 10 months
- Sick leave credit: 0 years, 5 months
- Total credit: 30 years, 3 months

This employee’s annuity computation will be based on 30 years, three months. However, the employee will not be eligible for an immediate unreduced annuity. Instead, the employee will be eligible for an “MRA + 10” reduced annuity. Why? Because eligibility for an immediate unreduced annuity requires one of the following age/years-of-service combinations:

- MRA with 30 years of service;
- 60 years old with 20 years of service; or
- 62 years old with 5 years of service.

Since the employee in the example does not meet any of the age/years-of-service combinations, he is not eligible for an immediate unreduced annuity, even though for computation purposes he has more than 30 years. The employee is, however, eligible for an immediate, reduced annuity.

FERS employees are eligible for immediate reduced annuity at the MRA (55 to 57, depending on year of birth) plus 10 years of service. MRA + 10 annuities are reduced by 5 percent for each year under age 62. In the example above, the 57-year-old employee with 29 years and 10 months of service could take an immediate retirement, but it would be permanently reduced by 25 percent (5 percent per year times the five years under age 62).

That reduction, however, is not the only loss. FERS employees who qualify for immediate unreduced annuity based on MRA/30 or 60/20 are entitled to a FERS annuity supplement until age 62. This supplement is calculated based on an estimate by OPM of an employee’s full career Social Security benefit multiplied by years of FERS coverage divided by 40.

FERS employees who retire with a reduced MRA + 10, however, do not qualify for the FERS annuity supplement.

Now apply the above facts to the example illustrated above, with the added assumptions of a high-three average salary of $50,000 and an estimated age 62 projected Social Security benefit of $12,000/year.

Immediate retirement at age 57 with 29 years, 10 months service plus five months’ sick leave credit (MRA + 10) results in the following calculation:

30 ¼ years times 1 percent per year times $50,000 minus 25 percent = $11,343/year (without any FERS annuity supplement).

If the same employee works an addition two months, a very different calculation results with an immediate unreduced retirement (MRA/30 years service):

30 5/12 years times 1 percent per year times $50,000 = $15,208/year plus FERS annuity supplement: $12,000 times 30 divided by 40 = $9,000/year until age 62.

The history of the right of retiring federal employees to credit for unused sick leave is storied. The Civil Service Retirement System (CSRS) was enacted in 1920. Prior to 1969, CSRS employees forfeited any unused sick leave at the time of retirement. Reports in the late 1960s by the Civil Service Commission and the House Post Office Committee estimated that half of all retiring federal employees had zero sick leave balances, and on average, employees used 40 days of sick leave in the year prior to retirement. In 1969, Congress enacted legislation permitting CSRS employees to receive service credit for unused sick leave in their retirement annuity computation. In 1986, the General Accounting Office (now known as the Government Accountability Office) authored a study showing that CSRS retirees in 1984 and 1985 had significantly higher sick leave balances than those retiring in 1968, the year prior to enactment of the change in the law.

Despite that known history, when Congress enacted FERS in 1987, it made no provision for credit of unused sick leave at retirement. As a result, FERS employees forfeited any unused sick leave at the time of retirement. It is not difficult to imagine what happened. In 2009, 22 years later, Congress fixed the FERS problem by phasing in credit for unused sick leave between 2010 and 2014.