Earnings offsets

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The Special Annuity Supplement and Social Security are two key elements of the Federal Employees Retirement System (FERS). The Special Annuity Supplement is a temporary supplement payable to certain FERS annuitants up to age 62, at which time it ends. Social Security benefits are payable beginning at age 62.

Both the Special Annuity Supplement and Social Security have earnings offset provisions. This means that if you become employed or self-employed after you retire and have earnings, there may be a reduction of your Special Annuity Supplement or Social Security benefits. The reductions apply (or not) depending on certain factors, such as amount of earnings, time of earnings, sources of earnings and age.

The remainder of this column will focus on the Special Annuity Supplement earnings offset. A future column will address the Social Security earnings offset.

The Special Annuity Supplement is paid to FERS retirees who retire voluntarily on an immediate annuity—at minimum retirement age (MRA) plus 30 years of service, or at age 60 with 20 years of service. It may also be paid to retirees when they reach their MRA if they retired involuntarily or voluntarily because of a major reorganization or reduction in force. It is not paid to those retiring on disability, deferred retirement or an immediate MRA + 10 early retirement. The Special Annuity Supplement is not increased by cost-of-living adjustments (COLAs). The Special Annuity Supplement generally ends the last day of the month that the retiree becomes age 62.

A letter carrier who becomes employed after retiring may lose part or all of the Special Annuity Supplement if the amount he or she earns in a year exceeds the "exempt amount." The reduction applies only to the Special Annuity Supplement, not to the basic FERS annuity.

Earnings, for purposes of calculating the earnings reduction, consist of the sum of wages for services performed in the year, plus all net earnings from self-employment for the year, minus any net loss from self-employment for the year. Earnings do not include income from investments, pensions, TSP or IRA accounts, etc.

The exempt amount is the same as the amount established by the Social Security Administration for the purpose of calculating the earnings reduction for Social Security benefits. In 2013, the exempt amount was $15,120. In 2014, the exempt amount was $15,400. The exempt amount for 2015 is $15,720.

If a retiree's earnings in a calendar year exceed that year's exempt amount, the annual supplement will be reduced $1 for every $2 that is earned above that amount. Any earnings reduction during a year may not exceed the amount of the annuity supplement payable during that year.

A reduction in the Special Annuity Supplement in a given year is based on excess earnings in the previous year. The reduction is assessed beginning with the year immediately after the first year during which a retiree became entitled to the annuity supplement. In other words, a reduction to the Special Annuity Supplement takes place in the year after excess earnings occur. OPM asks each retiree for a statement of earnings each year he or she is eligible to receive the annuity supplement.

If no annuity supplement is payable in the year following a year in which the retiree's earnings exceeded the exempt amount (that is, the annuity supplement was terminated during the previous year due to attainment of age 62), there is no reduction for excess earnings since the reduction can only be applied to the Special Annuity Supplement.

Consider the following example: Ron retired in March 2007 at age 59 with 31 years of service. He began receiving the annuity supplement in April 2007. In 2007, the exempt amount was $12,960. Ron got another job and earned $24,960 in 2007, post-retirement. Ron's wages as a letter carrier in the early months of 2007 prior to retirement are not computed in determining whether there were earnings in excess of the exempt amount; only post-retirement earnings count. Since Ron earned $12,000 over the exempt amount in 2007, and the reduction was $1 for every $2 over the exempt amount, his retirement annuity supplement in 2008 was reduced by $6,000.

Letter carriers considering retirement have a compelling interest in making fully informed decisions. That means they need specific information about their own retirement credits and options, and specific information about the regulations and procedures pertaining to various elements of the retirement system. The Special Annuity Supplement is an important benefit, but it comes with complex regulations that can result in reductions. Retiring letter carriers who understand those regulations can make informed decisions.

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Toll-free number: 800-424-5186
Available Monday, Wednesday and Thursday
from 10 a.m. to noon and from 2 p.m. to 4 p.m. (Eastern time)