

Obtaining retirement credit for military service—FERS employees



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Almost 25 percent of the members of the NALC are veterans of the U.S. Armed Forces. That percentage is consistent with overall Postal Service employment of veterans, including the fact that the Postal Service is the second largest employer of veterans in the nation. Active NALC members who are military veterans should carefully consider whether it is in their interest to obtain retirement credit for their time served in the military.

Since years of service is one of the two main factors that determine the dollar amount of a postal employee's retirement annuity and years of service can be increased by obtaining credit for military service,

the financial benefits of obtaining credit for military service can be significant. Most veterans will want to weigh the costs of obtaining credit for their military service against the benefits they will receive as a result of paying the costs. The process for paying the costs of obtaining credit is called "making deposit for" or "buying back" your military time.

The costs, the resulting benefits, and the procedures and regulations for making deposit for military time are very different depending on your retirement system (the Civil Service Retirement System or the Federal Employees Retirement System). This column will address making deposit for military time for employees covered by the FERS. A later column will be published for employees covered by the CSRS.

The following information applies only to employees covered by the FERS.

The cost of making deposit for military time is 3 percent of the basic pay earned during the period of military service, plus interest (depending on when you pay the deposit).

The financial benefit of buying back military time is either 1 percent or 1.1 percent* of high-3 average annual salary times years of service. In addition to the financial benefit, military time that is bought back also counts toward *eligibility* to retire.

Most veterans will find the financial benefits of making deposit far outweigh the costs. This is so for a number of reasons. The 3 percent *cost* is calculated only on the pay earned during the years in the military (plus interest in some cases), but the 1 percent (or 1.1 percent) *benefit* is applied to all the creditable years of federal service. In addition, for most veterans, the pay received in the military will have been considerably less than end-of-career pay in

the Postal Service, so the 3 percent cost is applied to the lower military pay while the 1 percent (or 1.1 percent) benefit is applied to the higher Postal Service pay. Finally, the 3 percent cost (plus interest in some cases) is a one-time payment, while the 1 percent (or 1.1 percent) benefit will be an ongoing benefit for the lifetime of the retiree (and the lifetime of his or her spouse if survivor benefits are elected at retirement).

There are important basic rules for making deposit for military time:

1. Military service performed prior to Jan. 1, 1957, is creditable for retirement without payment. No deposit is required for this service to be creditable. Military service performed after Dec. 31, 1956, is creditable only when a deposit is made.
2. Full payment of the required deposit must be made prior to separation from the Postal Service.
3. The deposit must be paid directly to the Postal Service.
4. There is a grace period of two years. No interest is charged if the deposit is *completed* prior to three years from the date the employee first became covered under FERS.
5. Interest is charged at a rate determined by the Secretary of the Treasury for each calendar year.
6. Receipt of military retired pay bars the crediting of military service toward a FERS annuity, unless 1) the veteran waives the military retired pay and makes deposit for the years of military service, 2) the military retired pay was awarded for a service-connected disability 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 3) the military retired pay was based on certain non-regular service pertaining to retirement from a reserve component of the Armed Forces (see 10 USC 67 and 10 USC 1223).

To begin the process of making deposit for military time, call the USPS Shared Services Center at 877-477-3273, Option 5. The Postal Service will then contact the appropriate military branch, obtain documentation of your military pay records, calculate the 3 percent deposit (with the annual interest rates if applicable) and advise you of the dollar amount required. If you decide to make the deposit, you can pay it in a lump sum (necessarily if you are close to retirement) or installments by deductions from your pay over time.

* The formula for calculating the FERS annuity benefit is 1 percent times years of service times high-3 average annual salary. However, if an employee retires at or after age 62 with at least 20 years of service, the calculation is 1.1 percent times years of service times high-3 average annual salary.