Director of Retired Members

How work affects the Special Annuity Supplement

Ron Watson

The Special Annuity Supplement and Social Security are two important elements of the Federal Employees Retirement System (FERS). The Special Annuity Supplement is a temporary supplement paid by the Office of Personnel Management (OPM) to certain FERS retirees up to age 62. It is a temporary supplement to the FERS annuity. The Special Annuity Supplement ends at age 62. 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 a retiree becomes employed or self-employed after retirement and has earnings, there may be a reduction applied to the Special Annuity Supplement or to 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 focuses 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 reaches 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 withdrawals, etc.

The exempt amount for the Special Annuity Supplement is the same as the amount established by the Social Security Administration for the purpose of calculating the earnings reduction for Social Security benefits. Social Security adjusts the amount each year depending on inflation rates. The exempt amount for 2017 is $16,920.

If a retiree's earnings in a calendar year exceed that year's exempt amount, the supplement will be reduced the following year by $1 for every $2 that was earned above the exempt amount the previous year. 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: A letter carrier retires in 2016 at age 58 with more than 30 years under FERS. OPM computes her FERS annuity at $19,000 annually and her Special Annuity Supplement at $12,000 annually. She begins volunteering at the local food bank. In 2017, the food bank offers her a paid position at $32,000 annually. She accepts the job and earns $32,000 in 2017. The exempt amount for 2017 is $16,920. Her 2017 earnings thus exceed the exempt amount by $15,080. The reduction is $1 for every $2 in excess of the exempt amount. Her Special Annuity Supplement in 2018 will be reduced by $7,540 (one half of $15,080). In 2018, she will continue to receive her full FERS annuity ($19,000), but will receive a reduced Special Annuity Supplement of $4,460 ($12,000 minus $7,540). Her 2019 Special Annuity Supplement will be determined by her earnings (if any) in 2018.

Letter carriers considering retirement, and those already retired, have a compelling interest in making fully informed decisions. That requires 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.