

Military deposit after 41 years and 11 months of CSRS service



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When I first wrote this article in December of 2019, there were approximately 4,500 Civil Service Retirement System (CSRS) letter carriers employed with the United States Postal Service. Though that number has been declining for years, I felt it was important to circulate this article again to inform active CSRS employees about the benefits of making a deposit for their military service prior to retirement.

CSRS employees should consider making a deposit for their military service even if they have, or will have, exceeded the maximum annuity of 80 percent.

The maximum is achieved after 41 years and 11 months of service.

Any time you consider making a deposit for military time, it is important to understand both the cost of the deposit and the benefit received. Compare the cost of the deposit to the annual increase in your annuity that the service would provide, and determine the number of years necessary to break even. If the payback time is within your life expectancy, then it may be a wise financial decision to make the deposit. Typically, a deposit for military service will break even in just a few years, and the decision to make a deposit is clear. You should make this comparison for yourself and decide if the deposit is in your (or your spouse's) best interest.

By law, CSRS employees have a maximum annuity of 80 percent, not including any unused sick leave at retirement. Generally, this maximum is achieved after 41 years and 11 months of service. When CSRS employees have exceeded, or plan to exceed, 41 years and 11 months of service, they may assume that there is no reason to make a deposit for their military service. This is because they correctly think that their annuity will not exceed the 80 percent maximum (except for unused sick leave), so the deposit is paid for no additional annuity. However, there still is a possible benefit for those considering a deposit for military service beyond 41 years and 11 months of total federal service.

When CSRS employees reach 41 years and 11 months of service, they continue making the same employee contributions they have made their whole career. But after retirement, the Office of Personnel

Management (OPM) will refund the retirement contributions made during those excess years. Interest is paid on the refund payment at the rate of 3 percent per year, compounded annually.

When CSRS employees with more than 41 years and 11 months of service make a deposit for their military service, they are effectively changing the date they have reached the maximum 80 percent benefit, and thus have increased the number of excess years. In exchange for making a deposit for military service prior to your career, you receive excess contributions at the end of your postal career.

Because the cost of a deposit for military service is based on pay earned, and because for most CSRS employees this military service will have been more than 30 years ago, the base pay will be relatively small compared to a present-day top step letter carrier. CSRS employees contribute 7 percent of their base pay toward retirement. Currently, Step 0 (top step) letter carriers receive a base pay of approximately \$65,000 per year, resulting in employee contributions of \$4,550 per year.

Using the same method earlier to determine the financial impact of a military deposit, one should weigh the cost of the deposit versus the approximate amount of excess contributions that would be received after retirement. This, again, would be a separate calculation for each carrier depending on the earned base pay and on when the military service was performed (which affects the compounding interest). In many situations I have seen, the cost of the military deposit is outweighed by the refund of excess contributions.

If you are one of the few remaining CSRS employees and have not made a deposit for your military service, you should consider taking the first step by starting the process to see how much the deposit will cost. This is the only way for you to make an informed decision.

Federal Employees Retirement System (FERS) carriers are not faced with the same situation, as there is no maximum FERS annuity. All FERS carriers should consider making a deposit for military service by comparing the cost to the benefit, as mentioned earlier.

To receive credit for military service, the deposit must be completed prior to separation. To begin the process, contact the Human Resources Shared Service Center (HRSSC) at 877-477-3273, option 5, or TTD/TTY866-260-7507.