Government Executive

Spared from Pension Hikes

By Tammy Flanagan

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I've recently conducted several webinars, and each included a question-and-answer period at the end. But there were many more questions than I had time to answer. So I thought I'd address some of them here.

In the current fiscal environment and pressures of sequestration, how likely is it that changes will be made to the federal retirement rules and benefits in the next year or two?

I don't like to be the one to say "I told you so," but I did. I keep my optimism that Congress won't make too many changes to the retirement benefits of federal employees since this group represents such a large voting population and federal employees are well-represented in in the political system by a variety of labor unions and associations.

This week, House and Senate budget leaders spared current federal employees from cuts in retirement benefits in the deal they announced. That means feds' highest three years of salary will still be used to determine benefits, the method of calculating the cost of living allowance for retirees remains unchanged and the FERS supplement lives on. And the budget talks actually resulted in a proposal for an enhancement to federal benefits -- a self-plus-one coverage option under the Federal Employees Health Benefits Program.

Federal employees hired in 2014 will pay more towards the FERS basic benefit -- 4.4 percent of salary, instead of 0.8 percent for employees hired before 2013 and 3.1 percent for employees hired during 2013. This will no doubt create confusion for payroll offices about how much to withhold from an employee's biweekly salary based on their hire date.

Can you start retirement without spousal coverage and include it at a later date?

At the time of retirement, you will choose the type of benefit you'd prefer under CSRS or FERS. These are indicated on the CSRS application and the FERS application for retirement.

After you retire, you have very limited ability to make changes to that initial selection. Here are a summary of the available options:

- You can change your election within 30 days after the date of your first regular monthly payment.
- You can change your decision not to provide a survivor annuity for your spouse at retirement or you may increase the survivor annuity for your spouse if you request the change no later than 18 months after the start of your retirement. (But there's a penalty for exercising this option).
- The reduction in your annuity to provide a survivor annuity for your current spouse stops if your marriage ends by death, divorce or annulment.
- The reduction in your annuity to provide a survivor annuity for a former spouse ends when the former spouse dies or remarries before the age of 55. This reduction also might end if it is specified in a divorce agreement. There's an exception if you were married for 30 years or longer.
- You can choose a survivor annuity for a spouse that you marry after retirement as long as you make the election within two years of the date of your marriage.

The reduction in your annuity to provide an "insurable interest" survivor annuity ends if the person you named dies or when you marry that person and they become entitled as your spouse. You may also cancel this election if you marry after retirement someone other than the person you named as your insurable interest.

I'm in FERS. If I retire when I turn 56, are my monthly annuity and monthly FERS supplement both frozen at those amounts until I turn 62?

Under FERS, for most retirees, there is no cost of living adjustment added to your FERS retirement or the FERS supplement until after your 62nd birthday. At age 62, the FERS supplement goes away and the retiree then must decide when is the best time to apply for Social Security (which receives an annual COLA). Exceptions to this include special groups such as law enforcement officers, firefighters and air traffic controllers, as well as disability retirees and survivor annuitants.

Do you know what most people do with funds in voluntary contributions?

The big attraction of voluntary contributions is the ability to take a large amount of cash (up to 10 percent of your lifetime salary) and transfer it from the VC program to an individual retirement account -- specifically a Roth IRA, where the money can grow tax-free. So, if you have some cash laying around that you would love to invest in a Roth IRA, then read more about the VC program here.

Would you please talk about CSRS Offset and how that system works?

I've written two columns on this subject: Understanding CSRS Offset and Best of Both Worlds.

I am 64 years old with 33 years of service, and I am retired military. Would it benefit me to stay until I am 65?

There is nothing special about age 65 other than it's the age you qualify for Medicare. If you retire before 65, you can continue to use FEHBP and/or TRICARE (military health insurance) to cover your medical expenses. Once you turn 65, TRICARE will require that you enroll in Medicare parts A and B to continue in TRICARE for Life. If you choose to do that, you will be permitted to suspend FEHBP and use the combination of TRICARE for Life and Medicare, which make an excellent pair.

Is it better to keep your health insurance or go on Medicare?

Once you're retired and age 65, you can choose to have Medicare coverage (parts A and B), along with maintaining your FEHBP coverage. This combination will provide more comprehensive coverage than having just FEHBP or Medicare alone. I've written many columns on this subject, since it causes a lot of confusion and concern for federal employees and retirees as they approach age 65:

FEHB and Medicare (Oct. 25, 2012)
Medicare Choices (Dec. 9, 2011)
Medicare Wrap-Up (Dec. 3, 2010)
Medicare Questions (Nov. 12, 2010)
Don't Forget Medicare (Nov. 5, 2010)
Part B, Part Three (Dec. 11, 2008)
Medicare, Part B (Dec. 4, 2008)
Medicare Mysteries (Nov. 21, 2008)
Part B, or Not Part B? (Sept. 28, 2007)
More on Medicare (April 28, 2006)

Medicare ABCs (April 21, 2006)

I heard that Detroit may get out of its pension obligations through bankruptcy. Could this ever happen to Social Security?

Social Security is expensive, but it's also a vital part of life in the United States. Here's an update on the financial status of Social Security and Medicare from a trustees' report on the programs. It states:

Neither Medicare nor Social Security can sustain projected long-run programs in full under currently scheduled financing, and legislative changes are necessary to avoid disruptive consequences for beneficiaries and taxpayers. If lawmakers take action sooner rather than later, more options and more time will be available to phase in changes so that the public has adequate time to prepare. Earlier action will also help elected officials minimize adverse impacts on vulnerable populations, including lower-income workers and people already dependent on program benefits. While the combined OASDI program fails the long-range test of close actuarial balance, it does satisfy the test for short-range (ten-year) financial adequacy.

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