<u>Information for Prospective Retirees</u>

This handout is appropriate for employees contemplating retirement.

It applies to employees covered under
Civil Service Retirement System (CSRS),
CSRS - Offset
And
Federal Employees Retirement System (FERS)

COMMENCEMENT DATE OF ANNUITY: If you retire voluntarily under CSRS, you can set your retirement date for the first, second, or third day of the month, and your annuity begins the following day. If you retire voluntarily on the fourth day or after, you will not begin to accrue an annuity until the following month. For example, assuming you retire on April 3rd, your retirement will be effective April 4th and the check received May 1st is payment for the annuity that accrued from April 4th to April 30th. If you retire on April 4th or later, your retirement is effective May 1st and the check received June 1st is payment for the annuity accrued from May 1st to May 30th.

If you voluntarily retire under the FERS your annuity will begin the first day of the following month that you retired.

If you separate with a CSRS or FERS discontinued service or disability retirement, your annuity will be effective the day following your date of separation.

PAYMENT SCHEDULE/INTERIM PAY: You should receive your last paycheck on the normal schedule. After the Office of Personnel Management (OPM) has received your retirement package, you should receive an interim payment equal to approximately 75% to 80% of your full annuity. This process should take about 8 weeks following your retirement date. During the interim pay period, no deductions will be taken for Federal Employee's Health Benefits (FEHB), Federal Employee's Group Life Insurance (FEGLI) or taxes. The interim payment schedule will continue until all records have been verified by OPM. At that time, you will receive a full annuity check including any additional back pay lost during the interim pay cycle minus FEHB, FEGLI, taxes and any other appropriate deductions. Your annuity check will be coming from Chicago, IL, not Washington, D. C.

ANNUAL LEAVE CARRY-OVER: You will want to plan your retirement date and annual leave use if you expect to have "use or lose" leave to your credit. The maximum carry-over is normally 240 hours. Excess annual leave is lost at the beginning of a new leave year. When you retire, you will be paid for <u>all</u> of you accumulated annual leave (including that which is above your maximum carry-over).

LEAVE ACCRUALS: Leave can only be earned during complete pay periods. Retiring on any day of a pay period other than the last day of the pay period will prevent you from earning leave for that pay period. Thus, your lump-sum payment could be less than you had anticipated. For example, if you retire of the last day of the pay period, you should earn the full amount of sick and annual leave. If you retire on any other day of the pay period, your sick and annual leave will be prorated.

TAXATION OF LUMP-SUM PAYMENT: Some consideration should be taken if you will, upon retirement, be receiving a large lump-sum payment for annual leave. Taxes are applied to lump-sum payments in the year in which you receive the money. Example: An employee retiring September 30th could incur a larger tax burden by collecting almost a full year's salary plus a large lump-sum payment for unused annual leave.

CREDIT FOR SICK LEAVE: Under CSRS, the total creditable civilian and military service (Title 10 service only) combined with credit for sick leave, is used in computing the annuity payments. The total is then rounded down to include full years and months (excluding the days). For example, an employee with 21 years, 6 months, 25 days of civilian service, 9 years of military (Title 10) service and 516 hours (2 months, 29 days) of sick leave. The combined service is 30 years, 9 months, 24 days (30 days equals one month). The total service for retirement would be 30 years, 9 months (you would lose the 24 days). You can increase the total service to 30 years, 10 months by delaying the retirement date by six days. However, we advise that you consider all aspects closely, keeping in mind that OPM computes your official length of service. In most cases, one month of service increases your annuity by one-sixth of one percent of the high-three average salary.

Under FERS, unused sick leave is not counted for length of service for annuity purposes. For those employees who were vested in the CSRS system and later switched to FERS, the lesser of (1) the amount of sick leave at the time of retirement or (2) the amount of sick leave when FERS was elected, is included in the CSRS portion of the annuity computation.

COST-OF-LIVING ADJUSTMENT (COLA): For CSRS retirees, the first cost-of-living adjustment is prorated by the using the following formula:

$$\frac{\text{COLA}}{12} \times \text{Number of months on annuity roll} = \text{Prorated COLA}$$

FERS retirees do not receive a COLA until age 62. The first cost-of-living adjustment will not be prorated. The increase is normally 1% less than the increase in the consumer price index as determined by law.

THRIFT SAVINGS PLAN (TSP): If you are enrolled (or enrolled at one time) and vested in TSP when you retire, you will be given information about the options available. Your options include withdrawing all of your money in a lump-sum, elect equal payments, elect an annuity, roll the money over into an Individual Retirement Account (IRA), or leaving the money in your TSP account. Upon your retirement, forms will be given to you which should be completed to indicate your decision. These forms are sent along with your copy of the retirement package. TSP does require that there are at least 30 days of inactivity on your TSP account before they will allow you to withdraw the money. If you decide to leave your money in the account, you can no longer make contributions, but your account will continue to draw interest and you will be allowed to make inter-fund transfers. However, you will need to make a withdrawal election by February 1st of the year following the year in which the later of these events occurs: (1) you turn age 65 or (2) you reach the tenth anniversary of the first contribution to your TSP account. At that time, you can choose an immediate withdrawal or an option with a specific future payment date, as long as it is not later than March of the year following the year you become 70 ½. Ensure that the TSP Service Office always has your current address. You will still receive Participant Statements which will provide account information and fund performance.

PERMANENT ADDRESS: Many people move after retirement. When completing the retirement application, use your permanent address. The address listed on your retirement application is the only one that OPM will use to contact you, including sending your interim annuity payments.

DIRECT DEPOSIT: When your records are transferred to OPM, current allotments and direct deposits will stop. Public Law 103-356 now requires that annuity payments beginning on or after January 1, 1995, be paid through electronic funds transfer. A Direct Deposit Sign-Up Form (SF 1199A) must be completed and sent to OPM with your retirement papers.

LIFE INSURANCE:

Basic Insurance: Life insurance coverage can be transferred into retirement if you have had coverage since the first opportunity to enroll or for five continuous years immediately preceding the date of your retirement. You must continue your Basic Life insurance in order to keep any of the Optional coverage. Unless you choose otherwise, your Basic Life will begin to reduce at the end of the month after the month that you reach age 65 (or when you retire, if later). As a retiree, you will have three option:

(1) 75 % Reduction: Cost before age 65 = $0.3358 per $1,000 of Basic Insurance Amount (BIA); after age 65 = $0. The amount of your insurance reduces 2% per month after age 65 to minimum 25% of your BIA.

(2) 50% Reduction: Cost before age 65 = $0.9358 per $1,000 of BIA; after age 65 = $.60 per $1,000. The amount of your insurance reduces 1% per month after age 65 to a minimum of 50% of your BIA.

(3) No Reduction: Cost before age 65 = $2.1658 per $1,000 of BIA; after age 65 = $1.83 per $1,000. The amount of your insurance will equal 100% of your BIA and is retained after age 65.

Optional Insurance: You will pay the full cost to continue any of the following Optional insurance.

(A) Standard: Effective at the end of the month after the month that you become age 65, this option will reduce by 2% of the pre-retirement amount per month until it reaches 25% of the pre-retirement amount. After age 65, no withholdings are required.

(B) Additional: You will have two options: No Reduction or Full Reduction. If you choose No Reduction, you will continue to pay the same premium as regular active employees (based on age) for Option B before and after age 65.

However, if you elect Full Reduction, effective at the end of the month after the month that you become age 65, this option will reduce by 2% of the pre-retirement amount per month for 50 months. Coverage will end at this time. After age 65, no withholdings are required.

(C) Family: You will have two options: No Reduction or Full Reduction. If you choose No Reduction, you will continue to pay the same premium as regular active employees (based on age) for Option C before and after age 65.

However, if you elect Full Reduction, effective at the end of the month after the month that you become age 65, this option will reduce by 2% of the pre-retirement amount per month for 50 months. Coverage will end at this time. After age 65, no withholdings are required.

HEALTH INSURANCE: Health insurance continues if you have been enrolled since first eligible or for five continuous years immediately prior to the date of your retirement. The cost will remain the same as if you were a current employee (instead of paying bi-weekly, you will be paying monthly). You will still be entitled to the same privileges as a current employee in making changes during open season and other changes that occur. OPM will notify you of the open season periods. If you are not in receipt of cash benefits from Social Security, at age 65 you must register for Medicare by contacting your local Social Security office. During retirement, Medicare becomes the primary payer at age 65 and FEHB is secondary. Even thought Medicare becomes primary, it may be to your benefit to keep your FEHB coverage. Your spouse is eligible to continue FEHB coverage after your death only if you have self and family coverage and you elect to provide a survivor annuity at the time of retirement. If eligible to continue FEHB coverage into retirement, your health benefits continue without interruption even though premiums are not collected until your retirement case has been adjudicated. Premiums for the period from retirement to case completion will be deducted from the first payment after your retirement case is adjudicated at OPM.

TAX WITHHOLDINGS: Information about federal taxation of your annuity is explained in IRS Publication 721 which may be obtained free of charge by calling 1-800-TAX-FORM or on the Internet at http://www.irs.gov. Federal income tax will be withheld unless you elect not to have withholding apply. The OPM will provide you a W4-P-A form to make your election after they receive your retirement package (if there is no W4-P-A included in your package). If you choose not to complete and return this form to OPM, your deductions will be withheld as though you are married with three withholding allowances.

The OPM has agreements with some states to allow the withholdings of state income taxes from annuity payments. After you receive the adjusted annuity payment statement from OPM, you can call OPM's Annuitant Express at 1-888-767-6738 to sign up to have state income tax withheld from your annuity or to change your current state income tax withholdings.

PROCESSING YOUR RETIREMENT APPLICATION: You will be required to complete a retirement application and possibly submit other forms and documents. Your servicing personnel office will review your application, verify your service record, and forward the package to the servicing payroll office. Documents reflecting your pay and retirement history are added to the package and forwarded to OPM. The OPM Retirement Operations Center at Boyers, PA, reviews the application package and assembles the information into a retirement file. If your entitlement to an annuity is clear, OPM will normally authorize recurring interim annuity payments to provide you with income until your claim is completed. Interim payments are generally authorized within 8 to 10 days after OPM receives the retirement package. Check with your personnel office retirement counselor to find out how long it typically takes for your retirement package to reach OPM. You should receive your first interim payment within 2 to 3 weeks after OPM has received the retirement package.

You will be assigned a Civil Service Annuity (CSA) number by OPM. You must use this number when corresponding with or calling OPM. Once you receive your CSA number, you may contact OPM at (202) 606-0500 from 7:30 a. m. to 6:00 p. m. (Eastern Time), to report a change of address, non-receipt of payment, health benefits changes, verification of income, or changes in electronic funds transfer account. Also, once you have received your CSA number, notify your retirement counselor of the CSA number at (405) 228-5527 or 5537. By notifying your retirement counselor of your CSA number, the counselor can then aid you with your communications with OPM.