

D) Computation of Retirement Annuity

The formula to compute an employee's basic retirement annuity is based on two factors, the employee's years and months of service credit and the employee's so-called "high-three average salary". The annuity of part-time employees is computed under a special formula.

"High-Three Average Salary" The salary figure in the "high-three average salary" refers to basic pay for the position. It includes locality pay (only if paid, for employees in CSRS/FERS) and administratively uncontrollable overtime for certain law enforcement officers. It does not include regular overtime, differentials, awards or bonuses, or information technology incentive pay.

FERS Retirement Annuity Benefits:

**The basic annuity of an employee covered by FERS is computed as follows:
1% of high three average salary for each year of service.**

If the employee retires at age 62, with at least 20 years or more of service, the annuity is computed at a slightly higher rate as follows: 1.1% of high three average salary for each year of service.

The CSRS component of a FERS annuity is reduced by 2% for each year the employee is under age 55 at the time of retirement. (This reduction only applies when the employee qualifies for an immediate annuity based on an involuntary separation.) If the employee receives a deferred annuity at age 55 with less than 30 years of service, the annuity is reduced by 5% for each year the employee is under age 62 as of the commencing date of annuity.

Since the FERS law requires payment of a deposit for service to be credited, there is no deposit reduction for a FERS benefit. However, if the employee switched from CSRS to FERS, the CSRS deposit reductions would apply

Under FERS, the survivor annuity is always 50%, or 25% of the employee's unreduced annuity. Unlike CSRS, survivor benefits under FERS can only be one of two benefits: (a) 50% of the annuity, or (b) 25% of the annuity. Thus, an employee with an annuity of \$20,000 under FERS, who elected the maximum benefit, would receive \$18,000 with a survivor annuity of \$10,000.00.

The reduction for the survivor annuity under FERS is required under the same terms and conditions as the survivor annuity under CSRS.

FERS Annuity Supplement

A FERS annuity (other than an MRA+10 annuity), is increased by a FERS annuity supplement of approximately \$35 a month for each full calendar year of civilian service under FERS. This annuity supplement stops at age 62, regardless of whether the employee is then eligible for social security. The annual annuity supplement is also reduced by \$1.00 for every \$2.00 in earned income during the calendar year above the social security earnings limitation (\$11,640 in 2004).

Ceiling on CSRS/FERS Annuity Benefits

Under the law, an annuity under CSRS cannot exceed 80% of the employee's "high-three average salary", except for the benefit attributable to unused sick leave. An employee reaches the maximum annuity benefit of 80% of salary after 41 years, 11 months of service. When that maximum benefit ceiling is reached, the employee's annuity benefit is frozen in terms of years of service credit, although the annuity can still be increased by the higher average salary and additional sick leave. Also the employee becomes entitled to a refund of all retirement deductions, plus interest, effective the first of the month after the one in which maximum annuity benefits are attained. This refund of excess retirement contributions is paid in a "lump sum" check by OPM.

Under FERS, there is no ceiling on the amount of annuity payable. However, when an employee switches to FERS after serving 41 years, 11 months or more under CSRS, the CSRS benefit is capped at 80%, and the refund of excess deductions is payable, as described above. The employee again starts earning additional service credit when the FERS coverage begins.