

The FEDERAL EDGE

Question of the Week:

What are the differences between CSRS and CSRS offset?

Answer:

At the moment of this writing there are five total retirement systems for Federal Employees. It can be quite confusing trying to remember them all. Today we are going to focus on the CSRS Offset and see how they differ from the regular CSRS employee...

... Read more below

Topic of the Week: CSRS Offset



How do they differ from CSRS employees?

How does someone become a CSRS Offset?

Federal employees who separate from service for at least one year are automatically covered by SS after they resume employment with the federal government after 1983. If the former span of employment as a CSRS lasted more than 5 years, that employee has the ability to be reclassified as a CSRS instead of a FERS. The problem is that normally CSRS employees don't have SS deductions taken out of their pay. So Congress had to create a new hybrid class of employee to deal with these CSRS who were now paying into the SS system. Congress did not want them to qualify for full CSRS and full SS benefits so they made it so that CSRS Offset employees would have their CSRS annuity reduced when they became eligible for SS. This is really the only difference between CSRS and

CSRS Offset employees.

Calculating the Offset

The beginning value used to compute the Offset annuity is calculated the same way as a typical CSRS annuity. As a reminder:

- 1) $1.5\% \times \text{high-3} \times \text{years 1-5}$
- +
- 2) $1.75\% \times \text{high-3} \times \text{years 6-10}$
- +
- 3) $2\% \times \text{high-3} \times \text{remaining years}$

That number is then reduced by the offset value. The offset is the lesser of either:

- 1) The difference between the monthly SS benefit with and without the CSRS Offset service (not the 1st CSRS service time)

or

- 2) $\text{SS Benefit} \times \frac{\text{Yrs of Offset Service}}{40}$

The first equation is confusing, I know. Think of it as trying to determine how much of their SS benefit is based on the CSRS

Offset portion of employment and how much is based on employment from the private sector. The distinction is important because Congress didn't want to penalize them for their work outside of federal employment, only prevent an over-inflated CSRS annuity. So someone who never worked in the private sector and only contributed to SS during their Offset employment would have a SS value 100% based on this period of employment. So based on the 1st equation the offset would be their entire SS benefit. (But most likely the 2nd equation would give a lesser value than the 1st). The bad thing for you as an advisor is that there is no way to calculate the 1st equation on your own. You have to get it from the SS administration.

When does this happen?

The CSRS annuity is automatically reduced when an Offset retiree turns 62. Therefore they should always take SS at 62!