



National Federation of Federal Employees
Forest Service Council
International Association of Machinists and Aerospace Workers



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NFFE-FSC Guidance

Retirement Financial Considerations

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Retirement is one of your most important and biggest decisions you will make in your lifetime. Retirement should not be viewed as an ending point in your lifetime, but rather the start of a new adventure in your life. Your benefits will depend on how much time you have invested in planning your financial future as you get ready to retire.

There is never a bad time to begin planning for the future and often employees are not prepared to make decisions about retirement because they have not taken the time in advance to fully understand their retirement benefits. This is especially important in times when VERA opportunities are offered, when there is typically a short window of opportunity to make a decision to retire. The idea of retiring early may sound great but it may cause stress and anxiety if you are not prepared or have not taken the time to understand your overall benefits and you need to make a decision within a short time frame.

Retirement Benefits Basics

Do You Know What Your Total Retirement Benefits Package Will Be?

In addition to your federal pension annuity, you need to consider what is included in your total Retirement Package.

Federal Employees Retirement System (FERS)

- <https://www.opm.gov/retirement-center/fers-information/>

If you are FERS, your total benefit is comprised of your FERS annuity, a FERS supplemental annuity and your TSP. The FERS supplemental benefit is based on how much of a social security benefit you would receive at age 62 based on just your FERS service. You may have other social security service credits from other employment, but it will not be used in determining the amount of the social security benefit for the purpose of the FERS supplement. You will be eligible for the FERS supplement if at time of retirement you are at

your minimum retirement age (MRA) or if not, you will receive the supplement when you reach your MRA. The FERS supplement can be reduced by new employment. You can continue to work and receive the FERS supplement, however, it will be reduced by \$1.00 for every dollar over the annual Social Security limit (2011 annual limit is \$14,160).

Example – Reduction in FERS Supplement: *Joe has reached his MRA and is therefore eligible to receive the FERS supplement upon his retirement. His annual FERS supplement is \$8,500. Joe finds a job working part-time at a local business and will earn \$24,000 per year. Joe’s new earnings exceed the annual Social Security limit of \$14,160 by \$9,840. This means that Joe’s FERS supplement will be reduced by \$4,920.*

Your TSP Account – You are not required to make a withdrawal from your TSP simply because you retired. However, you may need to consider whether a one-time partial withdrawal is beneficial, for example, to pay off your mortgage or if you need to make an election to immediately supplement your monthly income. You may choose to make an election at a later point in your life, but you will be required to receive disbursements by the time you reach age 70½. In the meantime, you may reallocate your current funds within TSP if you want to try different options for making your money grow. Once you have retired, you will no longer be able to contribute to your TSP account. To find out more about your withdrawal options see the TSP Withdrawal Options Handbook at <http://www.tsp.gov>.

Civil Service Retirement System (CSRS)

- <http://www.opm.gov/retire/pre/csrs/index.asp>

If you are CSRS your total benefit is comprised of your CSRS annuity (pension) and your Thrift Savings Plan (TSP). Your CSRS annuity will be reduced if you are under age 55. (Note: If you continue to work in the private sector and/or if you have prior employment and have completed sufficient quarters to qualify for social security, you may be eligible for a social security benefit later on when you reach age 62. Keep in mind though that you will likely be subject to the “windfall elimination” under social security rules and your social security benefit may be reduced.)

If you are CSRS Offset your total benefit is comprised of your CSRS annuity, your TSP, and after you reach age 62 your social security benefit. Your CSRS annuity will be reduced if you are under age 55. Keep in mind that as a CSRS Offset employee, you will receive the regular CSRS annuity until you reach age 62. At age 62, your CSRS annuity will be reduced (or offset) by the amount or value of your social security benefit that is based on your CSRS Offset service.

Example – CSRS Offset: Joe is age 60 and is a CSRS Offset employee with 15 years of full CSRS service and 8 years of CSRS Offset service. He is eligible for retirement based on at least age 60 with 20 years of service. Joe’s monthly annuity is \$2,800 per month. When Joe reaches age 62, OPM will determine how much of a social security benefit Joe will receive. Joe has prior work under social security besides his CSRS Offset service. His social security benefit at age 62 based on all of his qualifying service is \$1,500 per month. However, OPM will figure how much of that benefit is based on just his CSRS Offset service. This amount comes out to \$650. This means that at age 62 OPM will reduce (offset) Joe’s CSRS annuity by \$650 since he is now eligible to receive this amount from social security. This offset will occur whether Joe chooses not to apply for social security and wants to wait until later to receive his full social security benefit.

You Will Be Living on a Reduced Income – Are You Financially Prepared?

Although your total retirement may be comprised of your annuity, TSP or perhaps the FERS supplement and social security, what will be your monthly income compared to before you retire?

Consider the following:

- Do you have a mortgage payment?
- Do you have a car payment?
- Do you have credit card bills?
- Do you know your total monthly expenses – utilities, phone/internet, insurance, etc?
- Will you need to withdraw your TSP and what type of election will you make?
- Are you planning to work in private industry later or do you already have another job lined up?

Are You Prepared to Receive Interim Annuity Payments From OPM?

Upon retirement, it may take up to 45 days or more to receive your first annuity payment from OPM. Your first payment is called an interim payment and is usually 75 to 80 percent of the estimated annuity your agency prepared. Once OPM conducts the final adjudication of your retirement, you will receive a retroactive adjustment. Due to the high volume of retirements being processed by OPM, you could expect to receive the interim payment for possibly up to 6 months or more. If you are a FERS employee, the FERS supplement is not included in the interim payments until OPM has calculated this amount. This will not be done until the final adjudication of your retirement.

Consider the following:

- What is your backup plan while receiving your interim payments?
- You will receive a lump sum payment for your annual leave – will this be sufficient to cover your needs while receiving interim payments?
- Federal Tax will be withheld from your interim payments; if you continue your health and life insurance coverage, their costs will not be deducted from your annuity while receiving interim payments. Upon the final adjudication, OPM will collect for these from the retroactive payment that will be due to you.

Has Your Service History Been Reviewed and Verified by Human Resources?

Having all of your service documented is critical because your eligibility for retirement and how your annuity is computed is dependent on proper documentation and certification. Not all service is creditable for retirement eligibility or in the computation of your annuity. Depending on whether you are CSRS or FERS, temporary service and active duty military service may be creditable dependent on whether you have made a deposit into the appropriate retirement system.

Consider the following:

- If you have had prior temporary employment, have you made a deposit to OPM for this service?
- If you first became covered by CSRS prior to October 1, 1982, your temporary service is creditable for retirement eligibility and in the computation of your annuity; however, if you did not make a deposit, your annuity will be reduced by 10% of the deposit amount due (the amount due will include interest).

- If you first became covered by CSRS after September 30, 1982, your temporary service is creditable for retirement eligibility; however, if you did not make a deposit the service will not be used in computing your annuity.
- If you are FERS and have temporary service prior to January 1, 1989, you must make a deposit in order to receive credit for retirement eligibility and in the computation of your annuity. Service beginning January 1, 1989, or later is not creditable for retirement and you cannot make a deposit.
- If you first became covered by CSRS prior to October 1, 1982, your active duty military service (non-retired) is creditable for eligibility and in the computation of your annuity; it may not be necessary to make a deposit unless you will become eligible for a social security benefit at age 62. If so, then you must make a deposit for the military service or at age 62 OPM will subtract your military service and re-compute your annuity minus this service. This is referred to as “catch 62.”
- If you first became covered by CSRS after September 30, 1982, you must make a deposit for your active duty military service (non-retired) in order to receive credit for eligibility and in the computation of your annuity.
- If you are under FERS you must make a deposit for military service in order to receive credit for eligibility and in the computation of your annuity.
- Military service deposits must be paid to the employing agency prior to retiring (or OPM must receive the agency record of payment prior to the final adjudication).

Discuss Your Plans With Your Spouse And Family

A retirement represents a major change in your way of life. Your spouse and family should be involved in this life-changing decision. Retirement means more free time at home, and often, lower earnings. Discuss these issues with your family and allow them to take an active role in your planning. The choice to leave your job will affect them as much as it affects you.

Consider Meeting With A Personal Financial Advisor

Because retirement means smaller paychecks, it may be useful to speak with a personal advisor or accountant. These individuals can help you figure out what tax advantages may be open to you, how much your income will be, what debts you can reduce, and what your standard of living would be like with your annuity. Keep in mind that when the Agency offers a VERA, you may not have much time to do this before you need to make a decision.

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