

Can your client work themselves right out of the Special Retirement Supplement?

SUMMARY:

The age old question, “Should I retire from federal service when I’m eligible and just go get another job that I enjoy?” As for job satisfaction, that may not be a bad move for your client. However, there are some important things to know about how another job after federal service can affect benefits such as the Special Retirement Supplement (SRS).

CHALLENGE:

Most financial professionals are acutely aware of the Social Security Earnings Test that applies to those who draw Social Security benefits before they’ve reached the deemed “Full Retirement Age” as outlined by Social Security. But did you know that the same earnings test applies to the SRS?

FACTS & FIGURES:

If your client intends to take another job after retirement (and plans on making at least \$14,160 per year), you’ll need to do some calculations to determine how much their SRS will be reduced because of earned income they make after they’ve already retired from federal service.

Step #1: Figure the full SRS benefit (without any reductions).

Let’s say that you have a client who is in the following situation:

- Regular FERS employee (not Law Enforcement, Firefighter or Air Traffic Controller)
- Eligible to retire this year at age 56 (their Minimum Retirement Age) with 30 years of service
- No military service is included in the 30 years
- Social Security Benefit at age 62 is \$1,200 per month
- Plans on working at the local country club part-time and earn about \$1,500 per month (or \$18,000 per year)

SRS formula: SS benefit at age 62 x (# of FERS years ÷ 40)

SRS calculation: \$1,200 x (30 ÷ 40) = \$900

Step #2: Figure the reduced SRS benefit (with reductions because of the SS Earnings Test).

The SRS is subject to the SS Earnings Test which states that for every \$2 over the annual limit (which for 2009 is \$14,160), they lose \$1 of the SRS benefit. Since your client will be making about \$18,000 per year, his SRS will be reduced based on the following calculations.

[Case Study 105]

First, $\$18,000 - \$14,160 = \$3,840$ (to get the amount over the limit)

Then, $\$3,840 \div 2 = \$1,920$ per year or $\$160$ per month (to determine the reduction to the SRS benefit)

So the SRS benefit will be reduced from $\$900$ per month to $\$740$ per month.

Step #3: Know the impact that this benefit has on your client and when exceptions are applied.

Some important conditions:

- The SRS affects Social Security in no way.
- Those who retire prior to age 62 may receive a SRS, but no COLAs are given to the SRS. The only exceptions are for Law Enforcement Officers, Firefighters and Air Traffic Controllers who begin receiving SRS COLAs immediately.
- Some retirees who choose to continue to work (either in another career, or something slower paced like a part-time job) may work themselves out of the Special Retirement Supplement benefit all together because of the earnings test applied. Those earning $\$42,480$ will not be eligible for any SRS.
- The Earnings Test does not apply for Law Enforcement Officers, Firefighters and Air Traffic Controllers until they reach their Minimum Retirement Age.

TAKE-AWAYS & DECISION POINTS:

Rarely does the government allow you to have the best of both worlds. Those who desire to continue to work for pay after they've retired from the federal government may do so, but at a price. And since this SRS benefit is at no cost to the employee, losing it might not hurt so badly. But most don't want to pass up the opportunity to get something for nothing. Recognizing this benefit for what it is can take the surprise out of the equation and may sway your client to work a little longer before retiring from federal service.