



# **Special Category Feds: Retirement Rules and Exceptions**

**A NARFE Federal Benefits Institute Webinar**

*Presented by James Marshall*



## Special Category Employees – SCEs





## Special Category Employees – SCEs

- Law Enforcement Officers (LEO)
- Firefighters (FF)
- Air Traffic Controllers (ATC)



## **Special Category Employees – SCEs**

- **Customs & Border Protection Officers (CBPO)**
- **Border Patrol Agents (BPA)**
- **Diplomatic Security Special Agents**
- **Nuclear Materials Courier (NMC)**
- **Capitol Police**
- **Supreme Court Police**



## SCE Retirement Law

- **CSRS**
  - [5 U.S.C. 8336 \(c\)](#)
- **FERS**
  - [5 U.S.C. 8412 \(d\)](#)
- **Air Traffic Controllers**
  - [CSRS 5 U.S.C. 8336 \(e\)](#)
  - [FERS 5 U.S.C. 8412 \(e\)](#)



## SCE – OPM References

- **CSRS/FERS Handbook**
  - [Chapter 30 Employee Deductions & Agency Contributions](#)
  - [Chapter 46 Special Retirement Provisions](#)
  - [Chapter 54 Special Computation Formulas](#)



## SCE – OPM References

- **Benefits Administration Letter (BAL)**
  - [Enhanced Disability & Survivor Annuity Computations under CSRS & FERS](#)
    - Including agency requirements to certify service
  - [Sample Calculations](#)





## Employee and Agency Contributions: CSRS



CSRDF

Social  
Security

TSP







## Employee and Agency Contributions: CSRS-Offset



CSRDF

Social  
Security

TSP





## Employee and Agency Contributions: **FERS – FERS RAE – FERS FRAE**



1.3%

3.6%

4.9%



CSRDF

Social  
Security

TSP





## Basic Pay

- **Usually includes base & locality pay, plus applicable premium pay for:**
  - Law Enforcement Availability Pay (LEAP)
  - Administratively Uncontrollable Overtime (AUO)
  - Environmental Differential Pay
  - Standby time for firefighters

Not to exceed the [biweekly GS pay cap](#)



## Retirement Eligibility: Minimum Age & Service

Retirement Option		Age	Service
Immediate	FERS Disability	Any age	18 months
	FERS Special Provisions	50 Any age	20 25
FERS Deferred		MRA	20*
		62	5
	Reduced	MRA	10

Understand potential difference between a LEO SCD & a Retirement the SCD

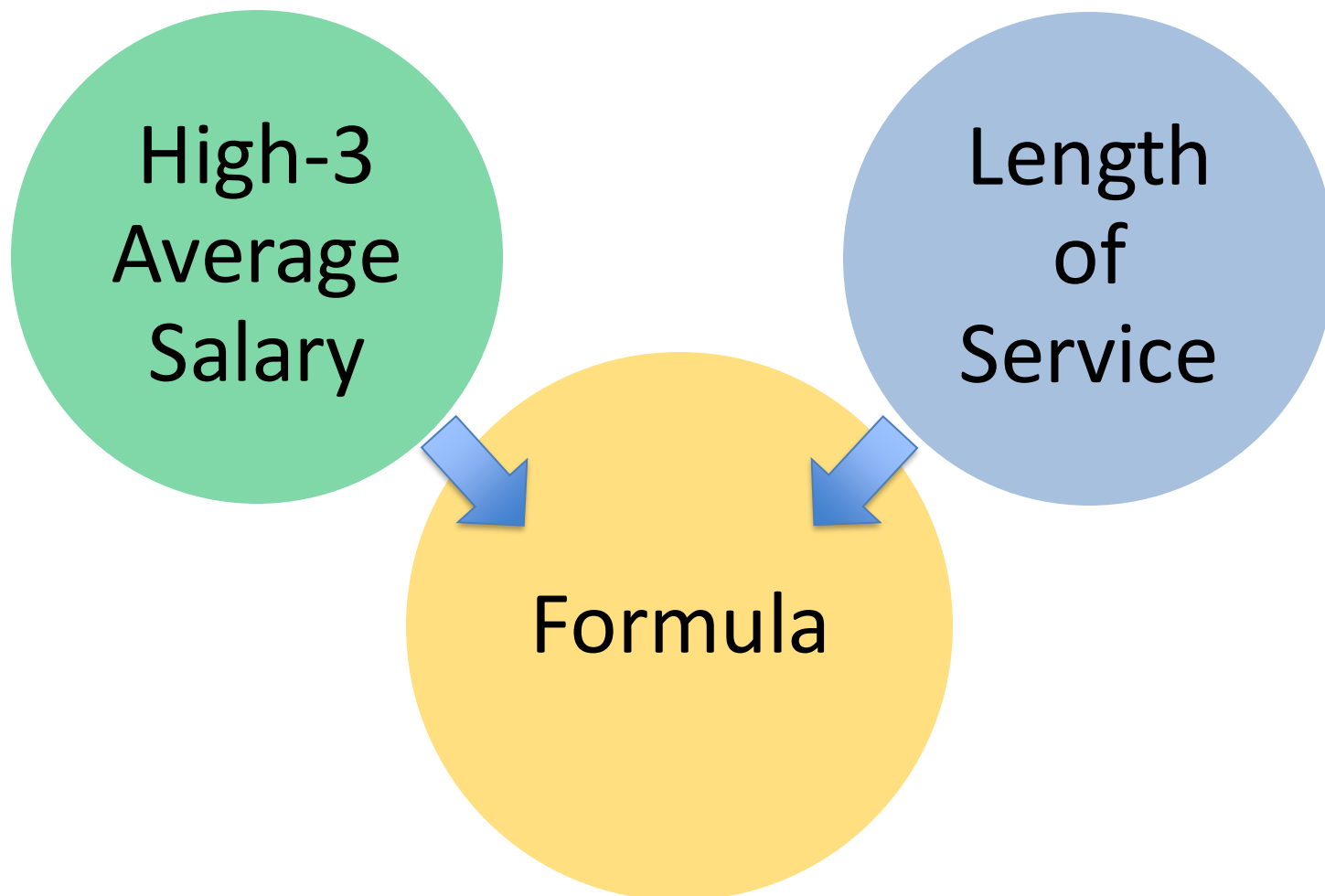
Mandatory Retirement Age for LEOs & FFs: 57 (if 20+ years of SCE service)

Mandatory Retirement Age for ATCs: 56 (if 20+ years of SCE service)

\*No reduction for early age – however, 1.7% factor does not apply



## Retirement Computation





# FERS Retirement Computation

1.7%	x	High 3	x	First 20 years of service*
1.00%	x	High 3	x	Remaining years and months of service**

\*Exception for ATCs with at least 5 years of “front line” ATC service

\*\*Including unused sick leave & any other non-SCE service



## Retirement Computation

1.7%	x	\$90,000	x	20	=	\$30,600
1.0%	x	\$90,000	x	5	=	\$4,500
Basic benefit					=	\$35,100





# Cost of Living Adjustments

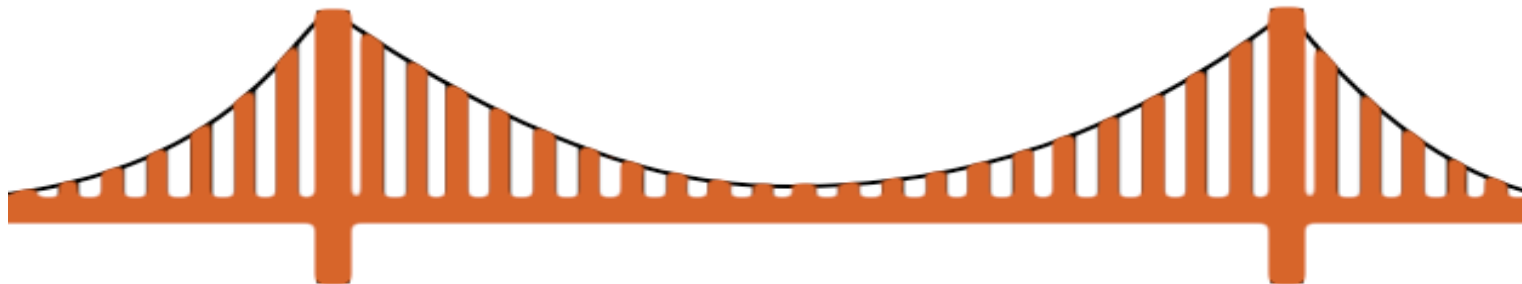
- Based on any applicable increase in CPI-W
- Regardless of where you choose to live
- Effective December 1 (payable January 1)
- First COLA is prorated
- FERS Diet COLAs
  - If increase in CPI is less than 2%: COLA = the increase in CPI
  - If increase in CPI is 2% to 3%: COLA = 2%
  - If increase in CPI is above 3%: COLA = 1% less than the increase in CPI



# **Retirement Annuity Supplement (RAS)**

**FERS  
Retirement**

**Social  
Security**





# Retirement Annuity Supplement (RAS)

- Automatic with Regular Immediate Retirement
- Paid by OPM - Does not affect Social Security
- No cost of living adjustments
- Not subject to an annual earnings limit until you reach your regular FERS minimum retirement age
- Automatically stops at age 62



# Retirement Annuity Supplement (RAS)

1. Estimate your SS benefit as if you were age 62	\$1,800
2. Calculate <u>civilian</u> service creditable under FERS	25 years
3. Divide the years of FERS service by 40	$25 \div 40 = .625$
4. Multiply the SS benefit in step 1 by the percentage from step 3	$\$1,800 \times .625 = \$1,125$



## Example: FERS Disability

- LEO, FF, NMC, Capitol Police, Supreme Court Police
- Age: 40 (higher of earned annuity or formula listed below)
- Years of service: 15 -- earned annuity =  $1.7\% \times 15$  (25.5%)
- High-3 salary: \$75,000
- Denied a SS disability benefit – No RAS

First 12 months	60%	x	\$75,000	=	\$45,000
Starting the 13 <sup>th</sup> month	40%	x	\$75,000	=	\$30,000
Starting at age 62	1.7% x 20 Years	x	\$75,000 COLAs?	=	\$25,500
	+ 1% x 17 Years		\$75,000 COLAs?	=	<u>\$12,750</u>
					<b>\$38,250</b>



## Example: FERS Disability

### Unique rules apply to Customs & Border Protection Officers

For employees serving in a CBPO position on December 26, 2007:

- If elected not to be covered under 5 U.S.C. 8412(d), no CBPO service can be applied to the 1.7% accrual rate (instead, the 1.1% factor could apply at 62)
- If elected to be covered under 5 U.S.C. 8412(d), then all CBPO service on or after July 6, 2008 will be subject to the 1.7% accrual rate (up to 20 maximum)



# FERS Disability & Regular Retirement

## Unique rules apply to Air Traffic Controllers

- For employees who have at least 5 years of “front line” ATC service...
  - All such service will be subject to the 1.7% factor with no 20 year limit
  - The 20 year limit only applies to other ATC service





# What If You Transfer to a non-SCE Position?

**If you aren't vested with 20+ years of SCE service:**

- you may not retire under the SCE provisions and
- you would not be entitled to a refund of the extra .5% that you paid into the retirement fund



# What If You Transfer to a Non-SCE Position?

- If you have 20+ years of SCE service, you would be allowed to continue federal service beyond your mandatory retirement age.
- Your high-3 average salary doesn't have to come from your last three years of service
- You could still separate later with an SCE retirement
  - At age 50 or later if you obtained 20 years of SCE service before the transfer, or
  - Any age if you obtained 25 years of SCE service before the transfer



# FERS Deferred Retirement Example 1

## 40 years old

- Resigns with 15 years of SCE service
  - If he returns to federal service after a break of more than 3 days, consider returning to a primary position instead of a secondary position initially
  - Otherwise, eligible for a regular permanently reduced annuity at FERS minimum retirement age, or
  - Regular unreduced annuity at 62
  - Annuity computed using:
    - 1% factor and the high-3 average salary upon separation
  - No FEHB – No FEGLI – No RAS – No sick leave credit



# FERS Deferred Retirement Example 2

## 45 years old

- Resigns with 20 years of SCE service
  - If he returns to federal service after a break of more than 3 days, consider returning to a primary position instead of a secondary position initially
  - Otherwise, eligible for an unreduced annuity at FERS minimum retirement age
  - Annuity computed using:
    - 1% factor and the high-3 average salary upon separation
  - No FEHB – No FEGLI – No RAS – No sick leave credit



## FERS Death in Service Example

### 40 years old

- with 15 years of SCE service
  - If married, spouse qualifies for 50% of earned annuity
  - Earned annuity =  $15 \times 1.7\%$
  - $25.5\% \times$  high-3 average salary
  - High-3 average salary = \$75,000
  - $25.5\% \times \$75,000 = \$19,125$
  - $\$19,125 \times 50\% = \$9,562/\text{year}$
  - Plus [FERS Basic Employee Death Benefit \(BEDB\)](#)



# Federal Employees Health Benefit Program

## Tax exclusion in retirement

- Since health insurance premiums are withheld from annuities on a post-tax basis, retired public safety officers can continue to exclude as much as \$3,000 from their taxable income each year to help offset the costs of their health insurance. More details can be found on page 18 of the current [IRS Publication 721](#).



## Important Tax Information About Payments From Your TSP Account

- Avoid a potential early withdrawal penalty tax
- Separate in the year of your 50<sup>th</sup> birthday or later

TSP-536

### Important Tax Information About Payments From Your TSP Account

Before making any decisions about withdrawing money from your Thrift Savings Plan (TSP) account, you should review the important information in this notice. Because tax rules are complex, you may also wish to speak with a tax advisor. The TSP can assist you with your withdrawal, but we cannot provide tax advice.

You can find more information on the tax treatment of payments from retirement plans like the TSP in IRS Publication 575, *Pension and Annuity Income*; IRS Publication 590, *Individual Retirement Arrangements (IRAs)*; and IRS Publication 721, *Tax Guide to U.S. Civil Service Retirement Benefits*. (See Section 6 of this notice for information on how to get these and other documents.)

#### 1. Definitions and Other Important Things to Understand

To understand the tax implications of getting money out of your TSP account, it's important to know what we mean by the following terms right from the beginning:

- **"Distribution," "payment," and "withdrawal"** all mean the same thing: money you receive from your TSP account.
- **"Earnings"** means the money that contributions (yours and your agency's or service's if applicable) have earned while in your TSP account. It's the difference between your total account balance and the amount of your total contributions.
- **"Eligible employer plan"** refers to various employer-sponsored retirement plans, including those qualified under section 401(a) of the Internal Revenue Code, such as 401(k) plans, profit-sharing plans, defined benefit plans, stock bonus plans, and money purchase plans; section 403(a) annuity plans; section 403(b) tax-sheltered annuities; and section 457(b) plans maintained by a governmental employer.
- **"Eligible rollover distribution"** simply means a type of distribution from the TSP that the IRS allows to be rolled over into another retirement plan or IRA. See the table at the end of this notice to see which payments fall into this category.
- **"Roth"** refers to contributions you've elected to make to your TSP account with pay that's already been taxed. You do not pay income tax on the portion of your

withdrawals that comes from your Roth contributions. **Note for those who receive automatic or matching contributions:** All contributions from your agency or service go into your traditional balance, even those that matched Roth contributions. The Roth balance of your account is divided between your contributions and the earnings on those contributions, which may receive a different tax treatment, upon distribution, than the contributions themselves, depending on whether the distribution is "qualified."

#### • Qualified Distribution Defined

If a distribution is "qualified," it means your Roth earnings are distributed tax-free. For a distribution to be qualified, BOTH of these statements must be true:

1. Five years have passed since January 1 of the first year you made Roth contributions to your TSP account.
2. You are 59½ years of age or older OR you have a permanent disability\* OR you have died. (In case of death, the 5-year requirement remains the same; your beneficiary does not have to wait an additional 5 years for a withdrawal to be considered qualified.)

If either requirement has not been met at the time of your withdrawal, then the distribution is not qualified. So the earnings portion of

\* The TSP cannot certify to the IRS that you meet the Internal Revenue Code's definition of a disability when your taxes are reported. Therefore, you must provide the justification to the IRS when you file your taxes.



## Tax Notice

TSP-536 (1/2018)  
Previous Editions Obsolete





## Recommendations

- Check out Dan Jamison's Retirement Benefits Guide for Special Category Employees and Annuitants
  - [www.fersguide.com](http://www.fersguide.com)
- Stay tuned for instructions to join us for the LIVE Q&A
- You can also send us questions at [fedbenefits@narfe.org](mailto:fedbenefits@narfe.org)

## Be ready for retirement.

GEHA is here to help you prepare for retirement. With free e-books *Countdown to Your Federal Retirement* and *Medicare + GEHA*, you won't be left guessing about timelines, FEHB and how your benefits work with Medicare.

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