

Government Executive

Is It a Good Idea to Waive Military Benefits to Increase FERS Benefits?

GovExec recently addressed the question of whether it is a good idea for federal employees with active duty military experience to permanently waive their military benefits to have the military time counted under FERS. The article caught the attention of our National Military Veterans Emphasis Program (MVEP) Chair Marcus Brooks who himself had 26 years of active duty service before coming to the federal government as a civilian. And, he noted that just a few weeks ago he was talking with someone about this very topic. So, it's perfect timing to share the article with our members, many of whom might find themselves pondering this question. The full article is pasted in below.

The Wrong Retirement Choice Can Cost You Big Money

Make sure you have all the information you need before you make a decision that could make a significant difference in your income.

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Every once in a while, I meet a federal employee who is about to make a critical irrevocable decision that may not be in their best interest. It's usually because they're missing important pieces of information. Today's column is the tale of one such instance.

Here is what the employee told me he was about to do:

I am delaying my retirement because I need to pay my military deposit to be able to credit 23 years of active duty under the Federal Employees Retirement System. I had my FERS benefit computed and learned that my retirement would be greater by \$10,000/year if I combine my military retirement with my civilian service under FERS. My agency computed my deposit, which is around \$30,000, so the way I see it, I will have a return on my investment within three years of receiving the extra \$10,000 of retirement income.

OK, maybe this is true, but I wanted to know more. After all, \$30,000 is a lot of money, and this decision would involve the employee permanently waiving his military retirement benefit in order to count the military time under FERS. So I asked him some questions, and it turned out there are two important

additional details in this case that should be considered before he gives up a hard-earned and very valuable military retirement benefit.

First, at the time of retirement, the employee elected a survivor benefit for his wife on his military retirement benefit. Under provisions of the Defense Department's Survivor Benefit Plan, it will be paid up in a few years. This will increase his retired pay from his military service by 10% per year for the rest of his life, and provide his surviving spouse 55% of his retired pay for life.

Second, the military retirement benefit in his case is a little over \$40,000 a year, and \$9,000 of it is tax-free. According to the IRS, veteran's benefits, disability pay for certain military or government-related incidents and other forms of income related to military service are not subject to tax. That's the case with \$9,000 of this employee's benefit.

The rules for crediting military service and the procedures for waiving military retired pay are laid out in Chapter 22 of the CSRS and FERS Handbook. It is important to note that benefits from the Department of Veterans Affairs are not military retired pay and would not have to be waived in order to credit military service under FERS.

The employee in this case is over age 62 and he has over 20 years of civilian federal service, which makes him eligible for an immediate retirement based on his civilian service alone. His FERS retirement would be computed as:

Years and months of creditable service x 1.1% x high-three average salary.

In order for this employee to figure out whether to combine his military service with his civilian service, it is important to compute his FERS retirement benefit with and without the credit for his military service. If he chooses not to pay the military service deposit of approximately \$30,000, his FERS retirement would be computed only on his civilian federal employment. If he adds his military service to his civilian service, then he will have a combined benefit under FERS reflecting an additional 23 years of service based on 23 years on active duty in the military.

With a high-three average salary of approximately \$165,000 and military service of 23 years, his retirement would be computed as follows:

- 20 years of civilian service: $20 \times \$165,000 \times 1.1\% = \$36,300$
- 20 years of civilian service plus 23 years of military service: $43 \times \$165,000 \times 1.1\% = \$78,045$

The difference is \$41,745 per year. In addition, if he provides his wife with a survivor benefit under FERS equal to 50% of his benefit, his retirement will be reduced by 10%. This would reduce the amount of the increased benefit by \$4,174. Under this scenario, the difference between the FERS retirement with and without the military service added would be \$37,571 instead of \$41,745. Plus, in a few years, he no longer has to pay for the survivor benefit from his military retired pay, which would result in a 10% increase in his retired pay.

What does the employee have to give up in order to receive \$37,571 in additional FERS retirement income?

\$30,000 for a one-time military service deposit.

A permanent waiver of his retired pay from DOD (but not from the VA).

Full cost of living adjustments for his retired pay vs “diet COLAs” to his FERS retirement benefit. (For example, military retirees received a 5.9% COLA for 2021 while FERS benefits increased by only 4.9%.)

A permanent reduction in his FERS benefit of 10% to provide the survivors benefit. (His military survivor election will be paid up in a few years.)

The difference in the way his military retirement is taxed compared with FERS retirement on both the state and federal tax level.

A 50% FERS survivor benefit compared with 55% for the military retired pay survivor benefit.

Is this worth it? Only he can decide. But it seems like the benefit of combining his military service with his civilian service under FERS is a lot less than a \$10,000 a year gain in income.