

## Solving the phased retirement puzzle

By Tammy Flanagan

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For almost a decade, federal employees have had the option of [entering phased retirement](#), a status in which they work half time and receive half of their annuity. But only a relatively small number of experienced feds take advantage of the opportunity.

According to the Office of Personnel Management, 294 employees covered by the Civil Service Retirement System are currently in phased retirement status, along with 761 Federal Employees Retirement System workers. That adds up to only 1,055 employees. Another 839 former employees are in composite retirement status, meaning they are fully retired after a period of phased retirement.

Part of the reason for the low participation rate may be a lack of knowledge of just how much a phased retiree receives in compensation. So let's look at some hypothetical examples.

### CSRS

Suppose Pat, a 60-year-old CSRS employee with 40 years of service and a salary of \$100,000, wants to shift to half-time employment. If Pat retired completely, her annuity would be approximately \$74,000, or 76.25% of her high-three average salary. Under phased retirement, if Pat went to half-time service, her annuity would be computed as if she were fully retiring. However, she would be paid half of it, or \$37,000 per year, plus \$50,000 per year in salary, for a total income of \$87,000.

Let's assume Pat found this a desirable arrangement and continued it for two years before deciding to fully retire. During this time, suppose Pat's annuity increased through cost of living allowances to \$39,000 per year, and her salary went up to \$108,000.

Pat would then have a composite annuity computed based on her retirement if she had been working full time for the two years of phased retirement. That would yield a benefit of approximately \$84,000 (80% of her high-three plus credit for unused sick leave). However, at that time Pat would be paid half of that amount (\$42,000), plus the original annuity (increased by COLAs) of \$39,000, for a total of \$81,000 per year.

### FERS (Under 62)

Suppose John, a 60-year-old FERS employee with 40 years of service and a salary of \$100,000, wanted to take the phased retirement option and go to half-time employment. If he retired completely, his annuity would be \$38,800 (40 x 1% of his high-three average salary) and he would be entitled to a FERS supplement of

about \$24,000 (approximately the same as his estimated Social Security benefit at age 62). That adds up to \$62,800.

If John were fully retired, he could also make withdrawals from his Thrift Savings Plan account (which includes agency matching contributions) to provide a total retirement income comparable to Pat's CSRS benefit. However, if John enters phased retirement, his salary would be \$50,000 and his retirement would be 50% of his FERS basic retirement benefit, or \$19,400. That makes a total income of \$69,400. During phased retirement, he would not receive the FERS special retirement supplement. Since John is over age 59 ½ when he enters phased retirement, he would be old enough for an in-service age-based TSP withdrawal if he needs to supplement his income.

Let's assume John still found this acceptable and continued the arrangement for two years before fully retiring. Since he was under age 62 during his period of phased retirement, his annuity did not receive any cost-of-living adjustments, but his salary went up to \$108,000. John's annuity would be computed as though he had been working full time during the two years and would add up to \$48,400 (42 x 1.1% of his high-three average salary). He would be paid half of that amount, \$24,200, plus the original annuity \$19,400, for a total of \$43,600.

Since John is now age 62, he can apply for his Social Security retirement benefit. If he were still under 62, he would be able to receive a FERS annuity supplement when the composite annuity begins. Now that he is 62 and fully retired, his entire composite annuity will begin receiving COLAs every year. John will add to his income the amount of his Social Security retirement and whatever distributions he takes from his TSP account.

### **FERS (Over 62)**

Let's say Jim is 66 and still loving his federal job. He has 30 years of service and a salary of \$100,000. His high-three average salary is \$97,000 when he begins phased retirement. His retirement would be computed as 1.1% x 30 years of service x \$97,000, or \$32,010 per year (before any reductions for survivor benefits). Under phased retirement, Jim can collect half of his salary (\$50,000) and half of his FERS retirement (\$16,005) for a total income of \$66,005. Plus, he has the option to file for Social Security benefits when he reaches his [full retirement age](#).

Here are factors Jim should consider as he weighs phased retirement:

- **COLA:** Jim is over 62 when he enters phased retirement, so his phased retirement will be increased by annual COLAs, along with annual adjustments to his salary.
- **Social Security:** Because Jim is (or soon will be) over the full retirement age for Social Security and is no longer subject to the earnings limit, he could begin to draw benefits (let's say \$24,000 a year). That would increase his total phased retirement income to around \$90,000. But he also could choose to delay his application for Social Security until he turns 70, when it would increase by 8% for every year he delays. Either way, his Social Security benefit will be adjusted if the earnings Jim had during phased retirement increase his average lifetime earnings and result in a higher benefit.
- **TSP:** Jim can continue to contribute to his TSP account and will continue to receive matching agency contributions based on his salary. Of course, if he continued to work full time, his matching would be based on his full time pay rate.

If Jim applies for his Social Security retirement benefit, he will more easily be able to afford to live in phased retirement.

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