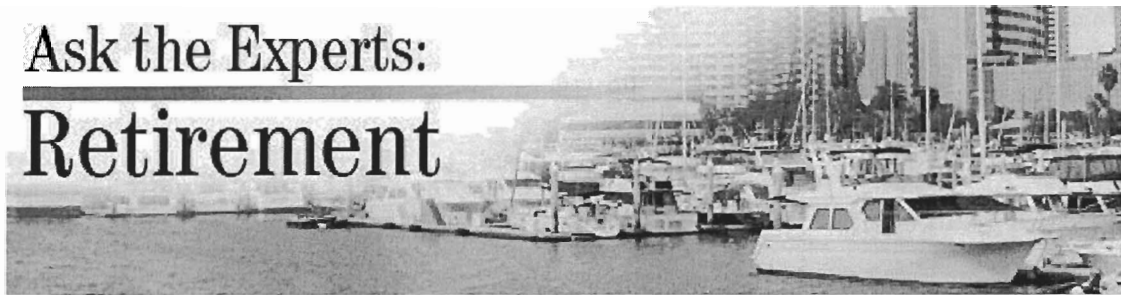


Ask the Experts:

# Retirement



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By Reg Jones

## An explanation of early outs and buyouts

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In these days of tight budgets and pinched staffing ceilings, employees at some agencies, including the U.S. Postal Service, are weighing whether to accept offers of early outs or buyouts. There are two flexibilities agencies can use to reduce the disruption of downsizing: the Voluntary Early Retirement Authority (VERA) and the Voluntary Separation Incentive Payment (VSIP). Most agencies have to get Office of Personnel Management approval to offer a VERA, the early-out authority. OPM will designate the geographic areas and occupations to be covered by a VERA. It also will set the time during which the early outs will be offered. If enough employees agree to retire before the end of that time, the agency can cancel the offer.

To qualify for early retirement, Civil Service Retirement System or Federal Employees Retirement System employees must be at least age 50 with 20 years of service or any age with 25 years of service. For both CSRS and FERS, the early-out annuity, like a regular annuity, will be based on a formula that includes your high-three, which is the average of your highest three consecutive years of salary, and your years and full months of creditable service.

The CSRS annuity is the sum of three factors: 1.5 percent of your high-three multiplied by your first five years of service; plus 1.75 percent of your high-three multiplied by your next five years of service; plus 2 percent of your high-three multiplied by all remaining years and full months of service. Your annuity will be reduced by 1/6 of 1 percent for each month you are under age 55. That's 2 percent per year. But you'll be eligible to receive annual cost-of-living-adjustments, regardless of the age at which you retire.

The FERS annuity is 1 percent of your high-three multiplied by all years and full months of service. The usual 5 percent-per-year penalty for retiring before age 62 (age 60 if you have 20 years of service) is waived. When you reach your minimum retirement age, which ranges from 55 to 57 depending on when you were born, you will be eligible for a special retirement supplement that approximates the Social Security benefit you earned while employed under FERS. COLAs are never applied to the special retirement supplement. Further, unlike CSRS retirees, FERS retirees aren't eligible to receive COLAs until they reach age 62.

The VSIP, or buyout authority, differs in two ways from the VERA. First, an agency can offer a separation payment only if it is necessary to eliminate a position. Second, a separation incentive can be offered to any employee, not just those who are eligible to retire.

VSIPs at most agencies can only be offered if approved by OPM and the Office of Management and Budget. The buyout amount is equal to the lesser of the employee's severance pay calculation and \$25,000, or an amount determined by the agency head that doesn't exceed \$25,000. Insurance coverage

Before you put in your retirement papers or resign, be sure that you will have adequate insurance coverage.

As a rule, you can keep your Federal Employees Health Benefits Program coverage in retirement only if you are currently enrolled and have been continuously enrolled for at least five years or from your earliest opportunity to enroll, or if you have been covered since the beginning date of either your agency's latest statutory buyout authority or an OPM-approved buyout or early retirement authority. If you aren't eligible to carry your FEHBP coverage into retirement, you will be given a 31-day extension of coverage at no cost to you. After that, you can drop your coverage entirely, convert to an individual contract, or request Temporary Continuation of Coverage, which allows you to keep your FEHBP coverage for up to 18 months. However, you will have to pay the full premium plus 2 percent to cover administrative costs. The Federal Employees' Group Life Insurance program has stricter rules. If you haven't been enrolled for five continuous years, you can't continue that coverage in retirement. If you can't, you'll receive the same 31-day extension of coverage as under FEHBP.

If you aren't eligible to continue your coverage, you can drop your coverage or convert all or part of your insurance to a private policy at your own expense.