# [CSRS Offset: An Explanation of the Basics](https://www.fedsmith.com/2019/04/02/csrs-offset-explanation-basics/%22%20%5Co%20%22Permanent%20Link%20to%20CSRS%20Offset%3A%20An%20Explanation%20of%20the%20Basics%22%20%5Ct%20%22_blank)

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The retirement coverage that would become CSRS Offset was created on January 1, 1984, when mandatory Social Security coverage for federal employees was implemented. Federal employees hired after that date usually have to be covered by Social Security.

As you can imagine, though, it’s impossible to have a clean break in massive programs like CSRS and Social Security; there were bound to be some overlaps and clashes between the two, and so CSRS Offset was born.

In most cases, employees end up in CSRS Offset coverage because they worked long enough to be “vested” in the old CSRS, but then had a break in their federal employment. (“Vested” means you’ve worked long enough to be entitled to a future pension from the system if your contributions remain there.)

If such “vested” individuals return to government service after 1/1/1984 and after a break in service of at least a year, they face the likelihood of being covered under Social Security. CSRS Offset provides a way for vested employees to retain the best features of the old CSRS system while also being covered under Social Security.

## The Pay-IN

When employees are covered under the CSRS Offset provisions, they pay into *both* CSRS and Social Security. The employee contribution to CSRS is reduced, though, from the standard 7% of salary to just .8% (or from 7.5% to just 1.3% for special category employees). This means the total “cost” of retirement coverage is the same – 7% or 7.5% of salary – for both CSRS and CSRS Offset. CSRS employees pay their entire contribution into CSRS; CSRS Offset employees pay only .8% or 1.3% into CSRS and the remaining 6.2% into Social Security.

If you are CSRS Offset and your salary exceeds the limit for Social Security taxation ($132,900 in 2019), you will stop paying into Social Security when you reach the limit. However, the 6.2% of salary that was going to Social Security will be diverted to CSRS for the remainder of the tax year.

## Getting to the Pay-Out

Despite the difference in employee contributions, retirement eligibility criteria are exactly the same for CSRS and CSRS Offset employees:

  At least age 55 with at least 30 years of creditable service

  At least age 60 with at least 20 years of creditable service

  At least age 62 with at least 5 years of creditable service

Creditable service is defined in exactly the same way for CSRS and CSRS Offset.

## The Pay-OUT

Annual pensions are initially calculated in exactly the same way for CSRS and CSRS Offset employees:

  1.5% of high-3 average salary multiplied by first 5 years of service, *plus*

  1.75% of high-3 average salary multiplied by next 5 years of service, *plus*

  2.0% of high-3 average salary multiplied by remaining years of service

Here’s an example with a $100,000 high-3 average salary and 30 years of service:

1.5% X $100,000 X 5 = $ 7,500, *plus*

1.75% X $100,000 X 5 =  8,750, *plus*

2.0% X $100,000 X 20 = 40,000

for a total annual CSRS pension of **$ 56,250**

**But this is where CSRS and CSRS Offset part ways.** CSRS retirees receive the full pension amount for the rest of their lives. CSRS Offset retirees receive the full amount only until they reach age 62, at which time the pension is offset (or reduced) if the individual is eligible for Social Security benefits at that time. The offset occurs *even if the retiree doesn’t apply for Social Security benefits*. If retirees are already 62 or older when they retire, the offset occurs immediately.

## The Offset

It makes sense for CSRS Offset retirees to eventually receive somewhat lower pensions than regular CSRS retirees; after all, they didn’t make the full employee contribution to CSRS throughout their careers.

It also makes sense for the full pension to be payable until Social Security is available, when the reduced pension can be supplemented by Social Security. But “making sense” in the larger scheme of things and being comfortable financially don’t necessarily go hand in hand… No one said life would always be comfortable.

So OPM will offset/reduce the CSRS pension by an amount that is roughly equal to the Social Security benefit that was earned during the years the employee was under the CSRS Offset provisions (and only those CSRS Offset years). The part of the pension that is based on years of regular, full CSRS contributions is not reduced.

The amount of the offset is *the lesser of:*

1.      The actual Social Security benefit earned during the years of CSRS Offset service, or

2.      The amount obtained by multiplying the following fraction by the Social Security benefit for which the individual is eligible at age 62 or when the pension begins, if later than 62:

(Total Years of Offset Service / 40)  x monthly SS benefit at age 62

The actual Social Security benefit earned during the CSRS Offset years is nearly impossible to calculate until your working life is over, so #2 is commonly used to estimate the offset amount. The result is the highest amount the offset could be.

Here’s an example of an offset estimate using the pension calculated above, but assuming that this individual is retiring at age 60 with 17 years under CSRS Offset during their 30-year career and an estimated monthly Social Security benefit at age 62 of $1,800:

(17 / 40) x $1,800 = $765 offset/reduction in monthly CSRS pension starting at age 62

Does this mean you **must** apply for your Social Security benefits at age 62? No. But if you can’t survive that reduction in your income, you may need to do something to make up the loss. Maybe this is when you start drawing on other retirement savings such as IRAs, investments or the TSP… or you apply for Social Security.