



Retirement Facts 10

Voluntary Contributions Under the Civil Service Retirement System

This is a non-technical summary of the laws and regulations on the subject. It should not be relied upon as a sole source of information.



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Other titles in the Retirement Facts Series:

1. The Civil Service Retirement System
2. Military Service Credit Under the Civil Service Retirement System
3. Deposits and Redeposits Under the Civil Service Retirement System
4. Disability Retirement Under the Civil Service Retirement System
5. Survivor Benefits Under the Civil Service Retirement System
6. Early Retirement Under the Civil Service Retirement System
7. Computing Retirement Benefits Under the Civil Service Retirement System
8. Credit for Unused Sick Leave Under the Civil Service Retirement System
9. Refunds Under the Civil Service Retirement System
11. Information for Separating CSRS Employees Who Are Not Eligible for an Immediate Annuity
12. Information About Reemployment for CSRS Annuitants

If you want information on the Federal Employees Retirement System (FERS), ask your employing office for a copy of "FERS" (RI 90-1). If you are thinking about retirement within the next 5 years, ask your employing office for a copy of "Thinking About Retirement ?" (RI 83-11).

Eligibility

If you are an employee covered by the Civil Service Retirement System (CSRS) or the CSRS Offset provisions and you want to receive a larger annuity than would be payable based on your service and "high-3," you may make voluntary contributions to purchase additional annuity. However, if you owe a deposit or redeposit for civilian service, you will be eligible to make voluntary contributions only after the deposit or redeposit is paid. Also, if you previously made voluntary contributions, and received a refund of those contributions, you may not make voluntary contributions again, unless you had a break in service after receiving the refund.

Amount of Additional Annuity

At retirement, each \$100 in a voluntary contributions account (including interest earned) will provide an additional annuity of \$7 a year, plus 20 cents for each full year you are over age 55 at the time you retire. You may also choose to share the additional annuity by electing to provide a survivor annuity. However, your additional annuity would then be reduced by 10 to 40 percent depending on the difference between your age and the age of the person designated to receive the survivor annuity. Any person, related or unrelated to you, may be designated, and need not be the same person for whom regular survivor annuity benefits were elected.

Note: Voluntary contributions annuities are not increased by cost of living increases.

Interest

Voluntary contributions earn a variable interest rate determined by the Treasury Department each calendar year, based on the average yield of new investments purchased by the Retirement Fund during the previous fiscal year. The interest credited to each voluntary contributions account is compounded annually on December 31.

Interest accrues to the date of the refund calculation, separation, or transfer to a position not subject to CSRS, whichever is earliest. If you separate from Federal service with entitlement to a deferred annuity at age 62, interest continues to accrue to the beginning date of annuity or death, whichever is earlier. If you separate from Federal service with entitlement to a deferred annuity at age 62 and request a refund of the voluntary contribution account, interest will only be paid to the date of your separation regardless of whether you receive a deferred annuity.

Limitations on Voluntary Contributions

Voluntary contributions may be made only in amounts of \$25 or in multiples of \$25 (\$50, \$75, etc.). Total contributions may not exceed 10 percent of the total basic pay you received during all of your Federal service. The 10 percent limit test applies at each point of time that a deposit is made and is not based upon a projection of life-time earnings.

Refund of Voluntary Contributions

You may withdraw all voluntary contributions with interest at any time before receiving additional annuity based on those contributions. If you die while still in Federal service (or after leaving but before you begin to receive annuity benefits), the voluntary contributions account, plus interest, will be paid to your survivors as a lump-sum payment. Please see the information on expediting refunds of voluntary contributions below.

If you die after retirement, but before having received additional annuity payments equal to the voluntary contributions plus interest, the difference will be paid either as a lump sum or in additional survivor annuity payments, depending upon your election at retirement.

Federal Taxation of Voluntary Contributions

If you take a refund of voluntary contributions, any accrued interest is taxable in the tax year in which you receive it. In addition, if you receive the refund before you attain age 59 1/2, the interest portion of the refund is subject to an additional 10 percent early distribution tax.

Payments to survivors are not subject to the 10 percent tax. To determine whether the 10 percent tax applies, you should get IRS Form 5329 (and instructions) from your local Internal Revenue Service office. The interest portion of the refund is eligible for rollover treatment.

If you will receive an additional annuity as a result of your voluntary contributions, it will be taxed under the "General Rule." Please refer to IRS Publication 721--"Comprehensive Tax Guide to U.S. Civil Service Benefits" for further information.

Expediting Refunds of Voluntary Contributions

You can elect to roll over the interest to an Individual Retirement Account (IRA), or other qualified retirement plan, to defer income tax. To expedite payment, you may submit your rollover election with your refund request. You should submit your refund/rollover elections directly to OPM. Since interest generally stops at separation, if you are retiring you should submit your refund request to OPM at least 60 days before retirement. You should complete a Voluntary Contributions Election form, RI 38-124. Contact your agency personnel office to obtain this form, and the explanation form (RI 38-125).

Application Form and Payments

If you want to make voluntary contributions, you must file a Standard Form 2804 (Application to Make Voluntary Contributions) with your agency personnel office. After the application is forwarded to OPM by your agency and approved, OPM will assign you an account number, and send instructions for making contributions.

Do not send money with your application. Contributions will not be accepted until the application is approved. OPM will not approve an application from you if (1) you have not deposited amounts covering all civilian service, or (2) you have previously received a refund of voluntary contributions, unless you were separated for more than 3 calendar days, and were again employed under CSRS after the refund was paid.