Retirement and Insurance Service
Benefits Administration Letter

Number: 02-304   Date: February 6, 2002

Subject: CSRS Withholdings for CSRS-Offset Employees Who Are HB-PC Participants

We have received many inquiries from agency payroll officials regarding the withholding of retirement contributions for employees who are covered by CSRS-offset ("offset") and also participate in Health Benefits Premium Conversion (HB-PC). We understand that the guidance we provided to APOs may not have been comprehensive in this regard and believe that this letter clarifies our policy.

The law requires that the percentage of basic pay withheld each pay period for the CSRS plus the percentage of basic pay withheld for OASDI *must* equal the "full" CSRS withholding rate. The implementation of HB-PC does not alter this fundamental rule. Thus, for offset employees, a total of 7.0, 7.5 or 8.0 percent of basic pay (depending upon the category of coverage) *must* be withheld each pay period for CSRS plus OASDI.

Prior to the implementation of HB-PC, CSRS withholdings always reverted to the "full" rate when total *basic pay* for the calendar year reached the social security wage base (SSWB). For offset employees who participate in HB-PC, this is *not* the case. For these employees, CSRS withholdings must revert to the "full" rate when total *OASDI wages* for the calendar year reach the SSWB. Should CSRS withholding revert to the "full" rate when total *basic pay* for the calendar year reaches the SSWB, employees will experience combined CSRS/OASDI withholdings that exceed CSRS withholdings at the "full" rate for that pay period.

While OASDI wages remain below the SSWB, several agency payroll offices (APOs) are applying the "reduced" CSRS withholding rate only to either basic pay or to OASDI wages. If withholdings are processed in this manner, CSRS will be under-withheld and the employee will be overpaid for the pay period.

To meet the requirement that the percentage of basic pay withheld each pay period for the CSRS and OASDI equal the "full" CSRS withholding rate, therefore, APOs must adhere to the following rules for offset employees who participate in HB-PC:

Civil Service Retirement System	*Federal Employees' Group Life Insurance Program*	*Federal Employees Health Benefits Program*	*Federal Employees Retirement System*	*Federal Long Term Care Insurance Program*

1. As long as the employee's total OASDI wages for the calendar year have not exceeded the SSWB:
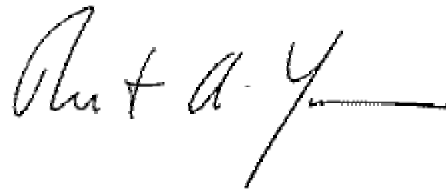
Apply:	To:
"Reduced" CSRS withholding rate	**Basic pay less pre-tax FEHB deduction**
"Full" CSRS withholding rate	**Basic pay equal to pre-tax FEHB deduction**

2. When total *OASDI wages* (not basic pay) for the calendar year reach the SSWB, the CSRS withholding rate must revert to the "full" rate.

We have concluded that as a result of the application of incorrect procedures at most agencies, OASDI withholdings are not impacted, the shortfall in CSRS withholdings is minor, and the affected population is not large. As a consequence, we will *not* require APOs to revise their withholding procedures prior to the beginning of tax year 2003 nor provide retroactive adjustments of CSRS remittances to OPM for tax years prior to 2003. Employees who do question the large combined CSRS/OASDI withholdings for the pay period during which their basic pay reaches the SSWB should be advised that it represents a "catch-up" for the under-withholding of CSRS deductions for prior pay periods and that their OASDI and other tax withholdings are unaffected.

We have attached a hypothetical illustration that demonstrates the correct (and incorrect) procedures for the withholding of CSRS contributions for an offset employee who participates in HB-PC.

If you have any questions about this letter, we would prefer that you email us at finance@opm.gov, so that we may have a record of them. You may also phone us on (202) 606-0606.

Bob Yuran, Chief
Financial Policy Staff
Retirement and Insurance Service

Attachment

Hypothetical Illustration of Correct and Incorrect Procedures for Withholding of CSRS Contributions for Offset Employees Participating in HB-PC

Mathew Dean is an offset employee who participates in HB-PC. He has basic pay of $4,000 per pay period and has a pre-tax deduction of $150 for FEHB premiums.

Procedure A in the following table demonstrates the correct CSRS withholding for a pay period where total OASDI wages for the calendar year have not exceeded the SSWB ($80,400 in 2001). Procedures B and C provide samples of incorrect procedures.

	Procedure A (Correct)	Procedure B (Incorrect)	Procedure C (Incorrect)
Basic pay	4,000.00	4,000.00	4,000.00
FEHB deduction	150.00	150.00	150.00
OASDI wages	3,850.00	3,850.00	3,850.00
CSRS @7.0%	10.50	0.00	0.00
CSRS @0.8%	30.80	32.00	30.80
OASDI withholdings	238.70	238.70	238.70
Total withholdings (CSRS plus OASDI)	280.00	270.70	269.50
Total withholdings (% of basic pay)	7.00	6.77	6.74

Procedure A is correct. The APO has applied the "full" (7.0%) withholding rate to Mathew's pre-tax FEHB deduction and the "reduced" (0.8%) withholding rate to his basic pay less his FEHB deduction. By so doing, Mathew's combined CSRS and OASDI withholdings are properly 7.0% of his basic pay.

Procedure B is *not* correct. The APO has applied only the "reduced" (0.8%) withholding rate to Mathew's basic pay. By so doing, Mathew's combined CSRS and OASDI withholdings are less than 7.0% of his basic pay. The APO has under-withheld for CSRS and overpaid Mathew.

Procedure C is also *not* correct. The APO has applied the 0.8% withholding rate to Mathew's OASDI wages. By so doing, Mathew's combined CSRS and OASDI withholdings are less than 7.0% of his basic pay. The APO has under-withheld for CSRS and overpaid Mathew.

The following two tables demonstrate correct and incorrect CSRS withholdings for the pay period during which total OASDI wages for the calendar year have reached the SSWB ($80,400 in 2001). The following table illustrates the *INCORRECT* procedure. Mathew's CSRS withholdings have reverted to 7.0% when his total *basic pay* for the calendar year reached the SSWB. By so doing, Mathew's combined CSRS and OASDI withholdings are 11.65% for the pay period.

INCORRECT	YTD (beginning of PP)	Basic pay reaches SSWB	OASDI wages reach SSWB	After SSWB	Total PP	YTD (end of PP)
Basic pay	80,000.00	400.00	3,150.00	450.00	4,000.00	84,000.00
FEHB deduction	3,000.00	150.00	0.00	0.00	150.00	3,150.00
OASDI wages	77,000.00	250.00	3,150.00	0.00	3,400.00	80,400.00
CSRS @7.0%	0.00	0.00	220.50	31.50	252.00	252.00
CSRS @0.8%	640.00	3.20	0.00	0.00	3.20	643.20
OASDI withholdings	4,774.00	15.50	195.30	0.00	210.80	4,984.80
Total W/H ($)	5,414.00	18.70	415.80	31.50	466.00	5,880.00
Total W/H (%)	6.77	4.68	13.2	7.0	11.65	7.00

The following table illustrates the CORRECT procedure. Mathew's CSRS withholdings have reverted to 7.0% when his total OASDI wages for the calendar year reached the SSWB. By so doing, Mathew's combined CSRS and OASDI withholdings are properly 7.0% of his basic pay for this pay period.

CORRECT	YTD (beginning of PP)	OASDI wages reach SSWB	After SSWB	Total PP	YTD (end of PP)
Basic pay	a 80,000.00	d 3,550.00	450.00	4,000.00	84,000.00
FEHB deduction	3,000.00	d 150.00	0.00	150.00	3,150.00
OASDI wages	b 77,000.00	c 3,400.00	0.00	3,400.00	80,400.00
CSRS @7.0%	210.00	e 10.50	g 31.50	42.00	252.00
CSRS @0.8%	616.00	f 27.20	0.00	27.20	643.20
OASDI withholdings	4,774.00	210.80	0.00	210.80	4,984.80
Total withholdings ($)	5,600.00	248.50	31.50	280.00	5,880.00
Total withholdings (%)	7.00	7.00	7.00	7.00	7.00

(a)   YTD basic pay subject to CSRS withholdings at the beginning of the pay period is $80,000.

(b)   The basic pay that has already been subject to OASDI is $77,000.

(c)   Another $3,400 will be subject to OASDI withholding before OASDI wages reach the SSWB.

(d)   To reach the $3,400 subject to OASDI, Mathew must earn $3,550 in basic pay, because $150 of that basic pay is exempt from OASDI taxation under HB-PC.

(e)   Of the $3,550, the $150 in HB-PC is subject to the full 7% CSRS withholding because it is not subject to OASDI withholding [$150 x .07 = $10.50].

(f)   The $3,400 is subject to the 0.8% CSRS withholding rate [$3,400 x .008 = $27.20].

(g)   This leaves $450 [$4,000 - $3,550] that is not subject to OASDI withholding because the SSWB has been reached, but is, nonetheless, basic pay. Therefore, it is subject to the full 7% CSRS withholding [$450 x .07 = $31.50].