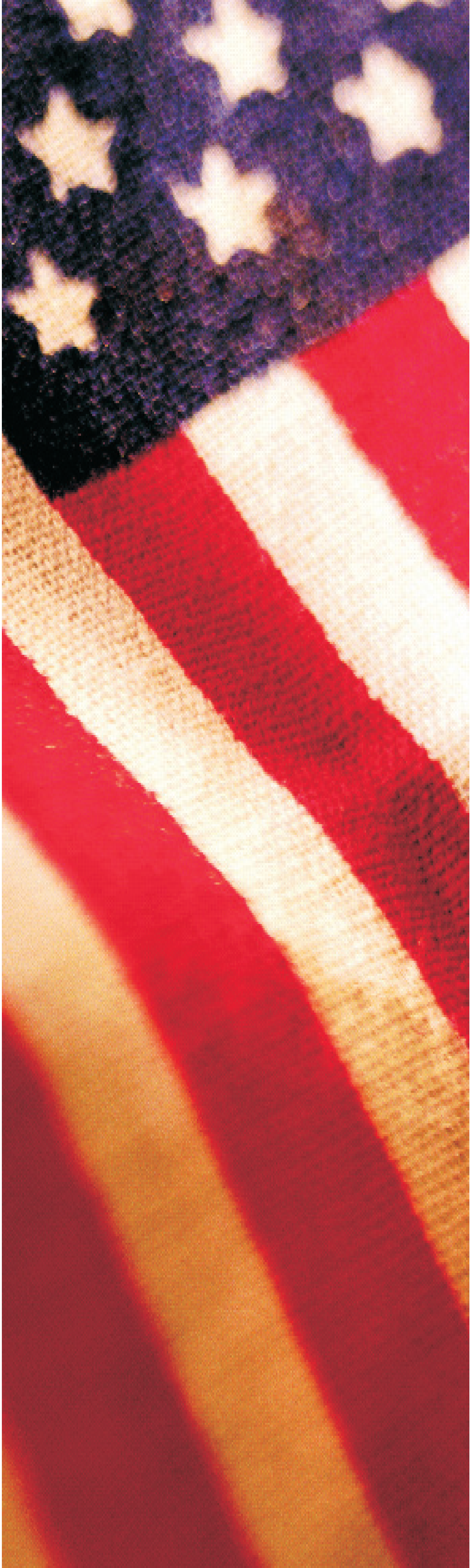

FERS

Federal Employees Retirement System

Transfer Handbook

A Guide to Making Your Decision

U.S. Office of Personnel Management

RI 90-3
Revised December 2008
Previous edition is not usable.

Table of Contents

Making Your Decision. 25

Disability Benefits Under CSRS and FERS 33

Survivor Benefits Under CSRS and FERS 35

Involuntary Retirement and “Early-Out” Retirement 39

Brief Description of the Social Security Program 41

Introduction

You have an opportunity few workers have — the chance to choose your retirement plan. You can keep the retirement coverage you now have, or you can choose to be covered by the Federal Employees Retirement System (FERS). This is a very important decision. Depending on what the future holds for you, your decision can make a difference to you in how early you can retire from the Federal government and how much retirement income you will have.

FERS was created by Congress in 1986, and it became effective on January 1, 1987. Since that time, new Federal civilian employees who have retirement coverage are covered by FERS.

However, when the Congress created FERS, one of the rules it established was that people who already had enough Federal civilian service to potentially be eligible for a benefit some day under the old Civil Service Retirement System (CSRS) would have a choice whether or not to be covered by FERS. Your agency has identified you, based on your current appointment and employment history, as someone who meets this criterion. As a result, you have a choice whether to keep the retirement coverage you now have or to transfer to FERS.

Depending on your current appointment and employment history, you currently may have CSRS coverage, CSRS Offset coverage, or only Social Security coverage. CSRS Offset coverage normally applies to employees who are going to a job with retirement coverage after a break in both service and CSRS coverage of more than 1 year, and who also had at least 5 years of civilian service as of the break in service.

If you have a term or indefinite appointment, you are not eligible for CSRS coverage, but you can elect FERS coverage.

This handbook is written primarily for employees who have a choice between CSRS or CSRS Offset coverage and FERS coverage. The Standard Form 50 (or equivalent personnel form) that shows your current appointment will say whether you currently have CSRS coverage, CSRS Offset coverage, or only Social Security coverage. If you have any questions about what your current retirement status is or should be, contact your servicing personnel office. Be sure that they have accurate records of **all** your Federal service. Even a few days can make a difference.

If you are already covered under FERS, you do not need to read this handbook. The U.S. Office of Personnel Management (OPM) booklet called *The Federal Employees Retirement System*, (RI 90-1) describes your benefits. If you are a Member of Congress or a congressional staff person, you should see your servicing personnel office.

The information in this handbook is based on the law in effect as of the printing date.

Your Chance to Choose

You have a personal election opportunity for 6 months from the date of your reemployment or your conversion to an appointment that offers FERS coverage. If you choose FERS, you can't change your mind later, so you want to choose the plan that fits best with your future plans.

Both CSRS/CSRS Offset and FERS are good retirement plans. Each plan has advantages and disadvantages. Neither plan is best for all Federal employees. That's why you are being given a choice.

In general, CSRS may be better if you think that you will retire from the Federal Government after a long career — 20 or 30 years and before age 62. But what if you're not sure what the future holds? Maybe you're not planning to spend the remainder of your career with the Federal Government, or you may want to retire before you have 20 or 30 years of Federal service. In either case, FERS may be the retirement plan you want.

Simplifying Your Decision

If you are like many people, your initial reaction may be that this will be a complicated decision. For some people who have complex situations, it may be.

However, for most people, it becomes a fairly simple decision when they think about the choices in terms of their own situations. You need to consider factors such as your work history, when you want to retire, and whether or not you plan to stay in Federal service until then. To help you organize your thoughts about what is important to you, we have included a checklist at the end of this section. It contains a list of factors that are important to many people in making their decisions. Some of them will be important to you, too.

The same transfer considerations apply, whether you are working full time or on a part-time basis. If you are married, we encourage you to discuss your choice with your spouse.

This handbook takes you through important considerations and shows you why they're different in CSRS/CSRS Offset and FERS. Many people reach a decision without reading very much of this handbook, but we encourage you to at least review the first 23 pages because there are some special circumstances that may change your mind. You should look at the table of contents to identify topics that may be of interest to you. When you finish reading, you should be prepared to make a choice based on the plan overviews, comparisons and examples. In most cases, you shouldn't have to do any calculations to decide which retirement plan is better for you.

Making Your Own Decision

Remember, the decision whether to choose FERS is yours to make. This handbook contains the information you need to consider, but it won't tell you what to do. You must decide based on what you know about yourself, your past, and your expectations for the future. You shouldn't decide based on what someone else did. There may be one key factor in that person's situation that would make his or her choice inappropriate for you.

We have tried to keep this handbook as simple as possible, but if you have questions, your agency should have personnel who can help answer your questions. So, if there is a part of the handbook that's important to your situation and that you don't understand, you should ask for help. However, while your agency should help answer your questions about the handbook, they will not tell you what to do.

Finally, remember that you are choosing between two very different retirement systems. The handbook stresses the differences. If you try to understand the differences between the systems in terms of what's important to you, your choice will be easier. If you try to master exactly how each system works, your decision will take more time and effort on your part. Of course, this handbook in no way replaces the many pages of regulations that govern benefits under CSRS, FERS basic benefits, the Thrift Savings Plan, and Social Security, but it should contain all of the information you need to make your decision.

What Happens If I Do Nothing?

If you do nothing, your current coverage (CSRS, CSRS Offset, or Social Security) will stay the same. Most people will not have another chance to choose FERS coverage unless they leave Federal service for more than 3 days.

How This Handbook is Organized

This handbook begins with a review of the important features of CSRS and FERS, so you can understand how each plan works.

Next there's a section called "Making Your Decision" that explains how to determine which plan better meets your needs. It also discusses some important cautions to consider when making your decision.

The next section provides a brief description of the Social Security Program.

Another section contains examples using several hypothetical employees that portray typical employee situations. Looking at them may help you make your decision.

This handbook also has an appendix that contains a handy reference chart for comparing the basic elements of CSRS and FERS as well as the special rules for employees who transfer.

As you go through the handbook, you'll see a table of contents for each section. This should make it easy for you to find the information you need.

Also, you'll come across some words that are printed in bold type. These words are important to know. They're explained in the text, and are also included in the Glossary Section in the back of the book.

What Things Do You Need To Make Your Choice?

For many employees, this handbook will give you enough information to decide which retirement plan you like better. You will need only a pen to fill out the retirement plan election form.

If you have already earned some Social Security credits, but are not sure how many, you may want to request this information from the Social Security Administration. You can request a statement online on Social Security's Web site at http://www.ssa.gov, or you can use form SSA-7004, *Request for Earnings and Benefit Estimate Statement* to request a statement. You can download the form from Social Security's Web site at http://www.ssa.gov, or your personnel office may have the form. You also can request it by calling 1-800-SSA-1213.

Some employees may want to do calculations before deciding. For you, there is a computer program which allows employees to enter data about work history and future career expectations to compare CSRS and FERS benefits. To use this program, you may want to have your Social Security earnings history and the amount of your Thrift Savings Plan balance available.

This program is a projection into the future that requires making assumptions that may or may not turn out to be accurate, so you should not use the numbers it produces as estimates of the future benefits. Instead, the results allow employees to evaluate the relative benefits of the two retirement systems as they apply to the data provided.

The program is available for downloading on OPM's Internet site at http://www.opm.gov/retire/pre/botdg/index.asp. It also should be available through your agency.

Finally, you need some time to read at least the beginning of this handbook. Choosing your retirement coverage is an important decision, so set aside some time to read the parts of this handbook that are important to you, and to fill out your retirement plan election form.

Making Your Election

Whether you switch to FERS or decide to keep the retirement coverage you have, you should complete an election form, SF 3109, Election of Coverage, and return it to your servicing personnel office. An election to transfer to FERS is effective at the beginning of the next pay period after your agency receives the completed form. An election to transfer to FERS is irrevocable once it has become effective. If you transfer to FERS, you then have a personal 30-day period to enroll in the Thrift Savings Plan or to change your enrollment.

Your spouse does not need to consent to a decision to change retirement plans. However, if 1) you have a former spouse who is entitled, by court order, to a portion of your CSRS annuity or CSRS survivor benefits, 2) the court order is on file at OPM, 3) the former spouse has not remarried before reaching age 55, and 4) the former spouse is still living, you **cannot** transfer to FERS without that former spouse's consent. Your former spouse needs to complete *SF 3110, Former Spouse's Consent to FERS Election* in order for you to be able to transfer.

OPM can waive this requirement only in very limited circumstances. If you don't know whether OPM has a qualifying court order on file, or want to request a waiver of the consent requirement, ask your servicing personnel office for Standard Form 3111, *Request for Waiver, Extension, or Search.*

Finally you may want to file a new designation of beneficiary form, SF 3102, *Designation of Beneficiary, Federal Employees's Retirement System*, since CSRS designations are cancelled upon a transfer to FERS.

All of these forms are available from OPM's Web site at http://www.opm.gov/forms/index.asp.

Points to Consider

The following is a list of points that experience has shown are important to many people in making a decision to keep their existing retirement coverage or switch to FERS. If you review the list and check off the points that are important to you, it should help organize your thoughts before you start reading about the features of the retirement plans. There are some blank lines so you can add additional points that aren't on the list. Remember, we are all different, so what is important to someone else may not be important to you.

- ✔ I plan to retire from my Federal job in the not too distant future.
- ✔ I want to keep my options open because I expect (or want) to leave my Federal job before I am eligible to retire.
- ✔ I want to be eligible to retire earlier than I can under CSRS rules.
- ✔ I am participating in the Thrift Savings Plan and want to get matching contributions.
- ✔ I can save at least 3% of my pay in the Thrift Savings Plan.
- ✔ I don't expect to be able to save very much extra money for my retirement for a long time.
- ✔ I don't have any (or very many) Social Security credits and don't expect to work long enough to earn a benefit.
- ✔ I would like to earn a Social Security benefit.
- ✔ I would like to increase the Social Security benefit I already have earned.
- ✔ I would like the portability that Social Security gives in case I change jobs.
- ✔ After I retire, I plan to work somewhere else or have my own business.
- ✔ I don't expect to have my own Social Security benefit, but want to be able to receive one based on my spouse's (or former spouse's) work.
- ✔ My health is a concern to me.
- ✔ I want to provide maximum survivor benefits to my spouse.
- ✔ I am a long-service employee who is at or near maximum CSRS benefits, so I would like a way to continue to increase my retirement benefit.
- ✔ I already have a substantial number of years under CSRS Offset coverage and don't want to lose the CSRS benefit I already have.
- ✔ I would like a tax break on my savings.
- ✔ I am concerned about having as much of my retirement income protected from inflation as is possible.
- ✔ I want more control over planning for my retirement and the amount of my retirement income.

- ✔ ____
- ✔ ____
- ✔ ____
- ✔ ____
- ✔ ____
- ✔ ____
- ✔ ____
- ✔ ____

CSRS and FERS: How Do They Work?

This section of the handbook will help you understand how both retirement plans work. It reviews the key features of FERS, then it describes CSRS. Here's what will be covered for each plan:

- ✔ An overview,
- ✔ When you can receive retirement benefits,
- ✔ How much you will receive,
- ✔ How your benefits can increase after retirement,
- ✔ How much it costs you now,
- ✔ Savings options that are available, and
- ✔ Some important conclusions.

This section describes how the plans work for the majority of Federal employees. Other topics, such as information on special employee groups (law enforcement officers, firefighters, air traffic controllers, and military reserve technicians), are covered in a later section of the handbook. Early retirement, disability and death benefits are covered in a later section of the handbook. Early retirement, disability and death benefits are covered in more detail in the section titled "Making Your Decision."

Overview

FERS is a retirement plan that provides benefits from three different sources: a Basic Benefit Plan, Social Security, and the Thrift Savings Plan. Two of the three parts of FERS (Social Security and the Thrift Savings Plan) are portable should you leave the Federal Government before retirement. FERS gives you more control over the retirement benefits you receive.

The Basic Benefit and Social Security parts of FERS require you to make contributions each pay period. The cost of the Basic Benefit and Social Security are withheld from your pay as payroll deductions. The Government makes contributions too. Then, after you retire, you receive benefit checks each month for the rest of your life. This is what is called an annuity. The Thrift Savings Plan part of FERS is an account that is automatically set up for you. Each pay period your employing agency deposits into your account an amount equal to 1% of the basic pay you earn for the pay period. You can also make your own contributions to your TSP account and your agency will contribute even more.

Although FERS is a single retirement plan, the three benefit sources have different rules. The Basic Benefit and Social Security portions will be discussed together first. The Thrift Savings Plan will be explained separately beginning on page 11.

Information about Social Security appears throughout this section on FERS. A brief overview of the Social Security program prepared by the Social Security Administration begins on page 41.

There also are some special rules for employees who transfer from CSRS/CSRS Offset to FERS. Be sure to read about them in the section that begins on page 21.

When You Can Receive Retirement Benefits

Basic Benefit Plan

If You Stay Until Retirement Age

With FERS, you can retire with a Basic Benefit as soon as you reach the Minimum Retirement Age (MRA) and have just 10 years of service. The MRA is the first year in which you can receive benefits. It varies according to the year you were born. For anyone born before 1948, the MRA is age 55. It increases gradually to age 56 for those born before 1965 and goes up to 57 for those born in 1970 and after.

The following chart will help you determine what your MRA is.

Minimum Retirement Age	
If you were born...	Your MRA is...
Before 1948	55
In 1948	55 and 2 months
In 1949	55 and 4 months
In 1950	55 and 6 months
In 1951	55 and 8 months
In 1952	55 and 10 months
In 1953 -1964	56
In 1965	56 and 2 months
In 1966	56 and 4 months
In 1967	56 and 6 months
In 1968	56 and 8 months
In 1969	56 and 10 months
In 1970 and after	57

Under FERS, you can retire when your age and years of Federal service match any of the retirement combinations shown below. These are all immediate annuity benefits that also allow you to keep your Federal Employees Health Benefits (FEHB) and Federal Employees' Group Life Insurance (FEGLI) coverages as a retiree if you have been enrolled for enough time (usually the 5 years immediately preceding your retirement) before you retire.

Retiring Under FERS	
If you leave with this much service	You get Basic Benefits at this age
At least 5 years	62 years
At least 10 years	Your Minimum Retirement Age, with reduced annuity
At least 20 years	60 years*
At least 30 years	Your Minimum Retirement Age*
*With these combinations, your Basic Benefit includes the Special Retirement Supplement if you have at least 1 full calendar year of FERS coverage. See page 9 for more information about the supplement.	

Postponing Your Benefits

If you retire at...

- your Minimum Retirement Age with at least 10, but less than 30 years of service or
- age 60 with at least 10, but less than 20 years of service

you can wait until age 62 for full benefits and get a postponed annuity. You can begin receiving reduced benefits any time before age 62. Your monthly benefits will be reduced 5/12 of 1% for each month (up to 5% per year) you are younger than age 62 when you start receiving benefits. For example, if you retire at age 56 with 10 years of service, you are 6 years away from age 62. Your retirement benefit checks will be reduced by 30%.

If You Leave Before Retirement Age

One real advantage to FERS is that you do not have to stay with the Federal Government until retirement to receive good value from your retirement plan. This value comes from the fact you get an Agency Automatic Contribution to your Thrift Savings Plan (TSP) account equal to 1% of your salary. Plus, if you contribute to the TSP, you can get up to 4% more. In addition, you will probably earn more Social Security credits wherever you work next. If you leave the Government long before retirement, with little service, FERS will always be best.

Let's say that you leave before you have the right combination of age and service to retire. Once you reach the age shown in the chart on the previous page, you may elect to begin receiving benefits. If you don't have 30 years of service, you may also choose to put off receiving benefits until as late as age 62. This will allow you to receive a bigger benefit by avoiding part or all of the 5% per year reduction, and you can collect on your Social Security and your TSP benefits.

If you don't want to wait until retirement age, you can withdraw all of the money you have contributed toward the FERS Basic Benefit Plan. It will be paid to you with a market rate of interest; that is, the same rate of interest earned by the U.S. Treasury securities purchased by the Retirement Fund (the account that contains all employee and employer contributions to CSRS and FERS). However, you give up your right to your Basic Benefit after retirement. If you take your money out, you cannot put it back in if you return to work with the Federal Government later. It's usually better to leave your money in FERS so that you can receive monthly benefits when you retire. This is because you pay very little compared to the benefits you will eventually receive from the Basic Benefit.

Social Security

For almost all American workers, Social Security is the basic retirement plan to which other benefits are added. To qualify for Social Security retirement benefits, you must have paid Social Security taxes for at least 10 years (or 40 credits or “quarters”) over the course of your lifetime. (This 40-credit rule applies if you were born after 1928. If you were born before 1929, you need fewer credits to qualify). The Social Security credits you earn as a Federal employee are added to those you have earned in other employment throughout your career.

You can receive unreduced Social Security benefits if you wait until age 65. Starting in the year 2000, this age will gradually increase to 67. Or, you can retire at age 62 and receive reduced benefits. Your monthly Social Security checks will be reduced about 20% from the full benefit amount you'd receive if you waited until age 65. (This gradually increases to a 30% reduction for those born in 1960 or later.) Leaving the Federal Government before you retire has no effect on the Social Security benefits you receive later. All of your FERS Social

Security credits (years of covered employment) still count. You may continue to add more Social Security credits as long as you work under Social Security. You can still receive reduced Social Security benefits at age 62 or full benefits at age 65 (or later as the Social Security retirement age goes up to 67).

How Much You Will Receive After Retirement

Basic Benefit Plan

The amount of your FERS Basic Benefit annuity — the monthly checks you receive after retirement — depends on two things: your pay and your length of service.

As in most other retirement plans, an annuity formula is used to determine your benefits. The Government averages your highest 3 consecutive years of basic pay in your Federal career. This "high-3" average pay, together with your length of service, are used in the annuity formula. Your length of service is the total number of years and months you were covered under FERS.

Here is how the annuity formula is calculated:

FERS Annuity Formula
One Percent of your high-3 average pay for every year of service. (*Exception:* If you are age 62 or older and have at least 20 years of service when you retire, you will receive 1.1% of your high-3 pay for every year of service.)

According to this formula, if you retire at age 55 with 30 years of service, you will be eligible for an annual annuity that is 30% of your high-3 pay. If you retire at age 62 with 30 years of service, you would get 33% of your high-3 pay.

In addition, if you have at least 1 calendar year (January 1 to December 31) of FERS service, you will be eligible for the Special Retirement Supplement. The Special Retirement Supplement (also known as the FERS Annuity Supplement) is a special benefit for those who have at least 1 full calendar year of FERS coverage, and who retire

(1) after 30 years of service at their MRA,

(2) after 20 years of service at age 60, or

(3) under the discontinued service or early voluntary retirement provisions. (These employees do not begin to receive the Special Retirement Supplement until they reach the MRA.)

The Supplement represents the amount you would receive from the Social Security Administration for your FERS service as if you were 62 on the day you retire. This benefit substitutes for the Social Security part of your total FERS benefit until age 62, when most people become eligible for Social Security. Like Social Security benefits, the Supplement is subject to an earnings test, which means your benefits are reduced if your income from earnings or self-employment is higher than an allowable amount.

If you take advantage of the FERS early retirement option (retiring at your MRA after leaving the Government), your annuity will be calculated according to the FERS annuity formula shown at the beginning of this section. Then, if you have less than 30 years of service, it will be reduced 5% for each year you are away from age 62 when you retire or elect to receive benefits. If you are 60 with 20 years of service, there's no reduction.

Remember, the Basic Benefit is just one of the three sources of benefits you'll receive. You may also get Social Security and Thrift Savings Plan benefits.

Social Security

It's difficult to predict exactly how much you will receive from Social Security.

A number of factors can affect your Social Security benefits, such as your complete pay history, whether or not you plan to work after retirement, and whether your spouse has been covered by Social Security.

Social Security benefits are determined by a three-part formula that is applied to your lifetime earnings under Social Security. Those who postpone receiving Social Security benefits until the full retirement age get higher benefits from the system.

Whether you start receiving Social Security benefits at age 62 or at the full retirement age, you should be aware that continuing to work may result in what is called an earnings offset under the Social Security Earnings Test. If you work at any job after you start receiving Social Security payments, your benefits will be reduced if you earn over the allowable amount. If you are under your full retirement age, for every $2.00 you earn over the amount, you'll give up $1.00 in Social Security benefits. The same rules apply to the Special Retirement Supplement. (See Special Notes on the Social Security Earnings Test on page 43 for more information on this topic.)

More information about Social Security is presented on page 41 and in the Overview section.

Cost-of-Living Adjustments (COLA's)

Basic Benefit Plan

Cost-of-living adjustments, or COLA's under the FERS Basic Benefit Plan begin when you reach age 62.

FERS cost-of-living adjustments match the rate of inflation when the increase in the Consumer Price Index (CPI) is up to 2%. (The CPI is a monthly survey that measures changes in consumer prices.) If the increase in the CPI is between 2 and 3%, the cost-of-living adjustments will be 2%. If the CPI increases 3% or more, the cost-of-living adjustments will be the rate of increase in the CPI minus 1%. This means that FERS cost-of-living adjustments are sometimes less than the rate of inflation.

For example, if the increase in the CPI is 2%, FERS basic benefit payments will increase by 2%. If the increase in the CPI is 5%, FERS retirement checks will increase by 4%.

The Special Retirement Supplement paid through age 62 is not increased by cost-of-living adjustments.

Social Security

Social Security gives cost-of-living adjustments that match the rate of inflation.

Cost to Participate

Basic Benefit Plan

FERS Basic Benefits, including the Special Retirement Supplement, are financed by very small contributions from you and much larger contributions from the Government. Your contributions are automatically deducted from your paychecks. The Basic Benefit deduction is .80% of the total **basic pay** (basic pay, not including such things as overtime, bonuses, etc.) you earn in a pay period. However, in contrast, your agency pays 11.5% of your pay each pay period for your Basic Benefit.

If you leave the Federal Government before retirement, you can take out all of your Basic Benefit Plan contributions, and you will receive market rate interest, but you lose any right to a future Basic Benefit based on that service. This means that the service covered by the refund will not count toward eligibility to retire if you become a Federal employee again. However, taking a refund does not affect creditability of the service for non-retirement purposes such as reduction in force credit or leave.

Social Security

Your contributions to Social Security are actually a tax. This means that there are no refunds — even if you never gain enough years of Social Security credit to qualify for benefits.

Social Security taxes are a percentage of your pay, including overtime and bonuses. They are limited to earnings below the maximum taxable wage base, which in 2008 is $102,000. This amount increases each year based on the annual average increase in earnings of the American work force as a whole. (You do not pay Social Security taxes on any earnings above the maximum taxable wage base. However, these excess earnings are not used in calculating your Social Security benefits, either.) The Social Security tax rate, not counting Medicare, is 6.2% of salary up to the maximum taxable wage base. Your agency also pays the same amount.

Total Cost to Participate

The total cost to you of the FERS Basic Benefit contribution and Social Security is 7%. This 7% is made up of .80% of pay for the Basic Benefit and 6.2% for Social Security. However, FERS will cost you less than 7% if you earn more than the $102,000 maximum taxable wage base because the Social Security tax stops when your earnings reach this amount. You only pay .80% of pay for the Basic Benefit until January 1 of the next year, when you start paying Social Security taxes for a new year. For example, suppose that Jill's pay reaches $102,000 on November 15. From November 16 thru December 31, she pays only .80% of basic pay for her FERS basic benefit. On January 1, Social Security taxes start again for the new year.

Thrift Savings Plan for FERS

The Thrift Savings Plan is an important part of the total FERS retirement package. It gives you a way to save extra money for the future and to get a tax break today.

When you join FERS, your agency sets up a Thrift Savings Plan account in your name. Every pay period, your agency automatically puts in an amount equal to 1% of your basic pay. This money is called your Agency Automatic (1%) Contribution. It is not a deduction from your basic pay. It is an amount your agency contributes for you based on your basic pay per pay period.

In addition, you can contribute up to 10% of your basic pay per pay period to your Thrift Savings Plan account. If you contribute to your Thrift Savings Plan account, you will also receive Agency Matching Contributions as follows:

- The first 3% you save each pay period will be matched dollar for dollar, and
- The next 2% you save each pay period will be matched 50 cents on the dollar.

Your own contributions and your Agency Matching Contributions as well as the earnings attributed to these contributions belong to you right away. There is no waiting (vesting) period. You are vested in the Agency Automatic (1%) Contributions and attributable earnings after you have completed 3 years of Federal (generally, civilian) service (2 years for some noncareer participants).

The following chart shows how your agency matches your contributions:

Percent of Basic Pay Contributed to Your Account (FERS Participants Only)			
If you Put In	Then Your Agency Puts In:		And the Total Contribution Is:
0%	1%	0%	1%
1%	1%	1%	3%
2%	1%	2%	5%
3%	1%	3%	7%
4%	1%	3.5%	8.5%
5%	1%	4%	10%
6-10%	1%	4%	5% Plus the percentage you contribute

The money in your Thrift Savings Plan account can be invested in any of the six investment funds: the Government Securities Investment (G) Fund, the Common Stock Index Investment (C) Fund, the Fixed Income Investment (F) Fund, the International Stock Index Investment (I) Fund, the Lifecycle (L) Fund, and the Small Capitalization Stock Index Investment (S) Fund. The C, F, S, and I Funds are riskier than the G Fund. To find out past performances of each Fund go to www.tsp.gov.

Twice each year there is a Thrift Savings Plan open season. During the open season, you can start, stop, increase or decrease, and change the investment of your Thrift Savings Plan contributions. The investment election you make during the open season affects only your future contributions. You may move any portion of your existing account balance among the three funds by requesting an interfund transfer in any month you choose, without an annual limit.

You can stop contributing to the Thrift Savings Plan at any time. However, if you stop contributing outside an open season, you must wait until the second open season after you stop before you can contribute again. If you stop contributing during an open season, you may resume contributions during the next open season.

You get a tax break for saving in the Thrift Savings Plan because your Thrift Savings Plan contribution comes out of your basic pay before Federal and many State and local income taxes are figured. There is, however, an Internal Revenue Service annual limit on tax-deferred contributions. For 2008, the limit is $15,500; this limit is indexed to cost-of-living adjustments referred to in the Tax Code and may change from year to year. You won't owe taxes on your contributions and attributable earnings until you withdraw your TSP account. You can withdraw your account when you separate or retire from Federal service. If you transfer all or any portion of your Thrift Savings Plan account balance to an Individual Retirement Arrangement or other eligible retirement plan, you do not pay taxes on the funds transferred when they are transferred. You will, however, be subject to applicable taxes when you withdraw your funds from the Individual Retirement Arrangement or other eligible retirement plan.

You may withdraw money from your Thrift account while you are working for the Government if you are age 59½ or older or document financial hardship. You will be liable for taxes on the amount withdrawn and, if you are under age 59½, for the 10% early withdrawal penalty. You also can borrow from it. There are two types of TSP loans: general purpose and residential. You must have at least $1,000 in your own contributions and associated earnings to be eligible for a loan.

The Thrift Savings Plan is managed by the Federal Retirement Thrift Investment Board, an independent Government agency. The Board manages the G Fund and contracts with a professional asset manager to manage the C, F, L, I and S Funds. This book describes the elements of the Thrift Savings Plan that are most important in making a transfer decision. To find out more about the Thrift Savings Plan, ask your employing agency for the most recent booklet prepared and issued by the Board. You should read the Board's detailed information on each of the Investment Funds and review each Fund's performance before making any investment decision. The Board also issues a Fact Sheet each month containing the monthly returns for the Thrift funds. This is available from your agency. TSP publications, forms, and rates of return are also available from the TSP Web site http://www.tsp.gov.

Important Conclusions About FERS

FERS is flexible for a work force that is more likely to work for several different employers over the course of a career. It allows for the fact that many employees may not retire from the Federal government. FERS builds on the Social Security credits that employees already have or may earn in the future from non-Federal work. Also, the Thrift Savings Plan keeps its value after an employee leaves Federal service.

There are some important advantages to FERS:

- **Portability -** FERS lets you take most of your retirement benefits with you when you leave Federal service and add to them in your future jobs. Instead of decreasing in total value, most of your benefits will continue to grow. You'll probably earn more Social Security credits wherever you work next. Also, your contributions and attributable earnings, Agency Matching Contributions and attributable earnings, and if vested, the Agency Automatic (1%) Contributions and attributable earnings, in your Thrift Savings Plan account can be transferred to an Individual Retirement Arrangement or other eligible retirement plan. You may also leave your Thrift Savings Plan account balance in the Plan where it will continue to accumulate earnings based on your investment decisions. The part of FERS that does decrease in value, the Basic Benefit, only requires a small contribution from you. If you withdraw your Basic Benefit contributions, you receive interest on that money.

- **Flexibility -** You have more control over the amount of your retirement benefits. For example, you decide how much to contribute to the Thrift Savings Plan and where money is invested. If you contribute, the first 5% of your contributions are matched by agency contributions.

- **Minimum Service Requirement -** You can receive a reduced benefit after only 10 years of service once you reach your Minimum Retirement Age, whether or not you reach that age while a Government employee. You do not have to wait until age 62.

- **Early Annuity Eligibility -** If you leave the Federal Government before retirement and with at least 30 years of service, FERS lets you begin to receive full retirement benefits as soon as you reach the Minimum Retirement Age or with 20 years of service when you are at least 60 years old. You do not have to wait until age 62.

FERS has some disadvantages too:

- To get the most out of FERS, you have to pay more than the 7% that the Basic Benefit and Social Security require. You also need to take advantage of the Thrift Savings Plan, especially if you are an upper income employee, for whom Social Security will make up a smaller percentage of retirement income.

- If you continue to work after you start receiving the FERS Special Retirement Supplement or Social Security, you could lose some benefit dollars if your earnings are more than the allowed amount.

- The cost-of-living adjustment that FERS provides (CPI minus 1%) does not completely make up for inflation if the increase in the Consumer Price Index is more than 2%. Also, cost-of-living adjustments do not start until you are age 62, even if you retire sooner.

FERS is a good retirement plan, especially for employees who are not sure whether they will stay with the Federal Government until they retire. FERS gives employees more control over the amount of their retirement benefits. It also allows you more flexibility in deciding when to retire.

If you do stay with the Federal Government until retirement, you will also receive good benefits based on your FERS coverage. FERS comes out ahead of CSRS if you retire late because the annuity value of your Social Security benefit and Thrift Savings Plan go up quickly if you continue to work past age 62. The Windfall Elimination Provision penalty reduces (see page 44) as you go from 20 to 30 years of service under FERS. The reduced cost-of-living adjustments have less effect if you retire later.

Overview

The Civil Service Retirement System (CSRS) has traditionally been a single benefit retirement plan. Employees have had one payroll deduction for the plan and, after retirement, have received one check from CSRS each month for the rest of their lives.

CSRS employees may also contribute to the Thrift Savings Plan in order to receive additional retirement income. If you stay with CSRS, you can contribute up to 5% of your basic pay each pay period and receive a tax break today. (CSRS, including CSRS Offset employees, receive no agency contributions to their Thrift accounts.)

If you have CSRS Offset coverage, you should read both this section, which gives the basic CSRS rules, as well as the following section beginning on page 21. It tells you what is different under the offset rules. If you are a law enforcement officer, firefighter, air traffic controller, or military reserve technician, you also need to read the Special Employee Groups section that begins on page 49.

When You Can Receive Retirement Benefits

If You Stay Until Retirement Age

With CSRS, you can retire with full benefits as soon as your age and years of Federal service match one of the retirement combinations shown below:

Retiring Under CSRS

- At least age 55 with 30 years of service or more.
- At least age 60 with 20 years of service or more.
- At least age 62 with 5 years of service or more.

Except in limited circumstances, CSRS does not allow you to retire voluntarily before you have the required age and service combination and take a reduced benefit (a reduced annuity) like FERS and many other modern plans do.

If You Leave Before Retirement Age

The chart above shows when you can retire and begin receiving CSRS benefits as an immediate annuity. If you leave Federal service **before** you are eligible to retire, you must wait until age 62 to receive monthly benefits, no matter how many years of service you have.

For example, let's say you simply stop working for the Federal Government at age 53 with 30 years of service. You're not 55 yet, so you don't qualify for retirement. Your monthly checks from CSRS won't start until you turn 62. Your monthly benefit amount is based on your pay when you leave. With inflation, those dollars don't buy as much by the time you receive them at age 62. You can't continue your health or life insurance as a retiree, either.

If you don't want to wait until age 62 to get benefits, you can withdraw all of the money you've contributed when you leave. However, in most cases, your money will be returned to you without any interest, and, you will not get monthly checks from CSRS, even at age 62.

How Much You Will Receive After Retirement

The amount of your annuity — the monthly checks you receive after retirement — depends on two things: your pay and your length of service. In computing your annuity, the Government uses your three highest consecutive years of basic pay and your length of service (the number of years and months you worked for the Federal Government and your creditable military service). If you retire and receive a benefit right away, you will also get credit for any unused sick leave.

Here is how the CSRS annuity formula is calculated:

CSRS Annuity Formula	
Year of Service	What You Receive
First 5 years of service	1.5 percent of your high-3 average pay for each year, or 7.50 percent of your high-3.
Second 5 years of service	**Plus** 1.75 percent of your high-3 average pay for each year, or 8.75 percent more for a total of 16.25 percent.
For all years of service over 10	**Plus** 2 percent of your high-3 average pay for each year.
10 or more years (20 total years)	20 percent more, for a total of about 36 percent of your high-3.
15 more years (25 total years)	30 percent more, for a total benefit of about 46 percent of your high-3.
20 more years (30 total years)	40 percent more, for a total benefit of about 56 percent of your high-3.

The maximum benefit you can receive from CSRS is 80% of your high-3 pay plus credit for your sick leave. This limit generally affects only those who have more than 41 years of service when they retire.

According to the formula above, if you retire at age 55 with 30 years of service, you will be eligible for an annual annuity that is about 56% of your high-3 pay.

You will receive your full monthly annuity even if you have other retirement income or start a second non-Federal career when you retire. There is no reduction in your annuity because of other employment.

This is a very generous annuity formula compared to those used by many other retirement plans. As you can see, it rewards long service, because you receive more money for the years of service that come late in your career. It's not quite as generous if you have less than 10 years of service.

Cost-of-Living Adjustments (COLA's)

Inflation is a fact of life, but the actual rate of increase varies from year to year. To help retirement benefits keep pace with inflation, CSRS gives all those who retire annual cost-of-living adjustments or COLA's.

Your retirement benefits are eligible to be increased by a cost-of-living adjustment in the year after you retire, and every year after that. The increases you receive each year actually match the rate of inflation, as measured by the Consumer Price Index (CPI).

For example, if the increase in the Consumer Price Index is 2%, CSRS retirement checks will increase by 2%. If the increase in the Consumer Price Index is 5%, the cost-of-living adjustments will also be 5%.

Cost-of-living adjustments help make sure that your retirement dollars keep the same buying power year after year. CSRS is better than many other retirement plans because it provides complete protection against inflation.

Cost to Participate

CSRS retirement benefits are financed by contributions from you and much larger contributions from the Government. Your contributions are automatically deducted from your paychecks. Your deduction in 2008 is 7% of the total basic pay you earn in a pay period. Your agency pays 7% of your basic pay each pay period. The balance of the cost of CSRS benefits are paid from the U.S. Treasury.

Thrift Savings Plan for CSRS

CSRS employees may participate in the Thrift Savings Plan. The Plan gives you a way to save extra money for the future and gives you a tax break today. The Plan allows you to contribute up to $15,500 for 2008 of your basic pay on a before tax basis to your Thrift Savings Plan account. You may also make over-50 catch-up contributions to your TSP account. Catch-up contributions have their own annual limit, which is $5,000 for 2008. CSRS employees do not receive Agency Matching or Automatic (1%) Contributions.

The Thrift Savings Plan investment options, withdrawal and tax information are the same for both CSRS and FERS employees. See page 11 for this information.

Voluntary Contributions for CSRS

CSRS employees also may make voluntary contributions. Total contributions may not exceed 10% of the total pay an employee has received to date. At retirement, each $100 in voluntary contributions (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 annuity by electing a survivor annuity. Voluntary contributions paid out as additional annuity are not increased by cost-of-living adjustments. Voluntary contributions can also be paid out as a lump sum refund at any time before retirement.

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 CSRS Fund during the previous fiscal year. The interest rate payable for 2008 is 4.75%. Interest accrues to the date of the refund calculation, separation, or transfer to a position not subject to CSRS or FERS, whichever is earliest. Employees who transfer to FERS may retain a voluntary contributions account, but may not add to it after transferring.

Interest on voluntary contributions is not taxed until the tax year in which it is paid out. At that time, interest may be rolled over to an Individual Retirement Account to further defer taxes. However, in contrast with Thrift Savings Plan contributions, voluntary contributions are not pre-tax dollars that permit you to reduce your taxable income. For further information on voluntary contributions, ask your servicing personnel office for the pamphlet *"Voluntary Contributions Under the Civil Service Retirement System,"* (RI 83-10), or get it from OPM's Web site at http://www.opm.gov/retire/pre/botdg/index.asp. Voluntary contributions are administered by the U.S. Office of Personnel Management. This program is **not** part of the Thrift Savings Plan.

Important Conclusions About CSRS

CSRS was designed for a workforce that was likely to retire from the Federal Government after many years of service. For that reason, it provides excellent benefits to employees who put in many years of service, especially if they retire before age 60. Employees who join the Federal Government late in their careers and can't retire before age 60 are less well off. CSRS does not provide good benefits to employees who leave the Federal Government before they are eligible to retire.

There are some important advantages to CSRS:

- You can retire as early as age 55 with 30 years of service and begin receiving full benefits. Even if you start a second career somewhere else, your benefits aren't affected.

- Once you begin receiving monthly checks, you also receive annual cost-of-living adjustments that match the increases in the Consumer Price Index. So, your retirement dollars keep the same buying power.

- The annuity formula is very generous when compared to many other retirement plans. It especially rewards employees who spend many years in Federal service.

- If you work until retirement, you get retirement credit for your unused sick leave.

There are also some disadvantages to CSRS that apply if you leave the Federal Government before you're eligible to retire:

- The earliest you can begin receiving monthly retirement checks is at age 62. It doesn't matter how many years of Federal service you have. While you're waiting to become eligible for your benefit, the buying power of your retirement dollars goes down because of inflation. You don't receive cost-of-living adjustments until your benefits begin. Also, the monthly checks you receive will be smaller than if you had stayed in Federal service. Your annuity is calculated according to the pay and service you had when you left Federal service.

- Unless you are a CSRS Offset person, under CSRS, you do not have Social Security coverage. This means that if you leave the Federal Government before retirement, you have not been earning credits under Social Security. If you get a new job in the private sector, you and your family may not have any benefit if you become disabled or die until you have worked long enough to have earned these benefits.

In general, the Civil Service Retirement System is a good retirement plan for employees who know that they will stay with the Federal Government until they are eligible to retire and who retire young. It is not very well-suited to employees who may not spend their entire careers in Federal service, particularly if they leave before retirement.

CSRS Offset Benefits

If you have CSRS Offset coverage, the regular CSRS rules described in the preceding section about when you can receive retirement benefits, how the benefit is computed, and cost-of-living adjustments apply to you. Also, the rules for participating in the Thrift Savings Plan are the same for both CSRS and CSRS Offset employees.

What is different for CSRS Offset employees is the fact that you are paying Social Security taxes and earning a Social Security benefit at the same time that you are paying CSRS deductions and earning a CSRS annuity. However, instead of paying 6.2% of pay for Social Security plus 7% for CSRS, the Social Security tax is subtracted from, or offset, from the 7% for CSRS. The amount you pay for CSRS is .80% of your basic pay. If your total pay in a year exceeds the maximum amount that is subject to Social Security taxes ($102,000 in 2008), the Social Security deduction stops and your CSRS deduction increases to 7% of your basic pay. Thus, you pay the same 7% cost for retirement as a CSRS employee, but the amount is divided between CSRS and Social Security.

When you retire, your annuity is computed under the same rules that apply to all CSRS employees. However, when you become eligible for Social Security benefits (normally at age 62), your CSRS benefit is reduced, or offset, by the value of your CSRS Offset service in your Social Security benefit. If you want to estimate the amount of the offset from your future annuity, see page 47 for instructions.

If you do not become eligible for any Social Security benefit, there is no offset.

Important Conclusions About CSRS Offset

You receive the value of the CSRS benefit formula and cost-of-living adjustments, but pay a smaller amount for this benefit. You also enjoy the flexibility of having Social Security coverage that continues to build if you leave the Federal government to work elsewhere.

If you leave the Federal government before retirement, the same drawbacks that apply to CSRS employees who leave early also apply to you. However, you have paid far less for your benefit and your Social Security benefit is portable.

WARNING: If you are considering electing FERS you must keep in mind that any CSRS Offset service (service under both CSRS and Social Security) will then change to FERS service. Since FERS pays a lower percentage of your "high 3" average salary, this could make a significant difference in the amount of your Federal retirement benefits. See Special Transfer Rules on page 21.

Special Transfer Rules: CSRS to FERS

Overview

For most people, transferring to FERS means you may take advantage of the features of both CSRS and FERS. You keep the benefits you have already earned and build on them. All of your CSRS service is creditable toward eligibility for death and disability benefits, as well as retirement, so you and your family do not risk any gaps in protection if you transfer to FERS.

However, if you have very many years of CSRS Offset coverage, you need to think carefully about transferring to FERS. This is because all of your Offset service will be credited under the less generous FERS rules. In addition, if you have less than 5 years of creditable civilian non-Offset CSRS service, all of your CSRS service will be switched over to FERS.

When you Receive Retirement Benefits

If you transfer, your past CSRS service and all future FERS service will be added together to determine when you can retire. Instead of the CSRS retirement rules, you will follow the more flexible FERS rules that appear below:

Retiring With Full Benefits

- At least the Minimum Retirement Age (see page 7) with 30 years or more of combined service
- At least age 60 with 20 years or more of combined service
- At least age 62 with 5 years or more of combined service

Retiring with Reduced Benefits

- At least the Minimum Retirement Age (see page 8) with 10 years or more of combined service

Example: If you have 18 years of CSRS service when you transfer and you work 2 more years, your total service is 20 years. According to the preceding chart, you can retire with full benefits at age 60, or with reduced benefits at age 55-57 (depending on your Minimum Retirement Age).

One advantage that FERS offers is the opportunity to retire early — at the Minimum Retirement Age with as little as 10 years of service, and transferees don't have to work under FERS for any minimum amount of time. If you retire early, you will receive reduced combined CSRS and FERS benefits. The reduction will be 5% for each year you are away from age 62 when you retire. However, there is no reduction if you are 60 when you retire and you have at least 20 years of service. You also can keep your Federal health and life insurance coverage as a retiree if you met participation requirements as an employee.

Example: If you transfer to FERS and then leave the Federal Government at age 55 with 20 years of service, you'll receive combined FERS and CSRS benefits that are 35% lower than the full benefit you would have received if you waited until age 62. You will, however, receive full cost-of-living adjustments on the CSRS part of your benefit. For many people, receiving benefits earlier and for a longer period of time will make the reduction worthwhile.

FERS rules will also apply if you leave the Federal Government before you have the right combination of age and service to retire. You'll keep your service credit and, once you reach the necessary age, will start receiving benefits. This is an important advantage to transferring to FERS. If you stay with CSRS and leave before retirement, you will not receive any benefits until age 62.

How Much You Will Receive After Retirement

The retirement benefits you actually receive normally will come from both CSRS and FERS. The higher CSRS annuity formula will be used for the years of non-Offset service you put in under CSRS. You can get credit for your unused sick leave (the amount you have when you transfer or retire, whichever is less) if you work until your MRA.

The lower FERS Basic Benefit (and the Special Retirement Supplement) formula will apply only to the years you spent under FERS and CSRS Offset, so you're probably not giving up all the CSRS benefits you've already earned. You are trading a higher CSRS benefit after you transfer for increased flexibility with FERS.

The high-3 pay that determines your benefits at retirement will be the highest 3 years in your entire Federal career, under CSRS or FERS. Your Social Security benefits will be based on all of the Social Security credits you've earned in your lifetime.

Cost-of-Living Adjustment (COLA's)

Once you start receiving retirement benefits, the CSRS part of your benefit will receive cost-of-living adjustments (COLA's) right away, even if you are receiving your CSRS benefit before you could have under CSRS rules. The FERS part of the benefit won't be eligible for a cost-of-living adjustment until you reach age 62. The FERS cost-of-living adjustment will usually be 1% less than the rate of inflation.

Disability Benefits

If you transfer to FERS and become disabled, your disability benefit will be determined totally under FERS rules. The Social Security disability portion of your benefit generally can't begin until you are fully insured and have paid Social Security taxes for 5 out of the last 10 years before you become disabled. For more information on disability benefits, see page 33.

How CSRS Offset Service Is Credited

If you are covered by CSRS Offset provisions, and you transfer to FERS, your Offset service becomes subject to the less generous FERS rules. In addition, you will have missed out on the opportunity to get government contributions to your Thrift account for that service.

You must have at least 5 years of non-Offset service to be eligible for an annuity with a component computed under CSRS rules — in other words you must have at least 5 years of civilian service other than your Offset service. (Count all service, even it you didn't pay CSRS deductions or you received a refund.)

If you have less than 5 years of civilian service other than CSRS Offset at the time you transfer to FERS, all of that CSRS service will become FERS service. You can request a refund of the extra money you paid for CSRS and receive it plus interest. Employees whose CSRS service will become FERS service may also receive a partial refund of any military deposits they may have paid under CSRS rules.

Example 1: Susan had 6 years of CSRS-covered employment when she resigned and got a refund of her deductions in 1985. When she was reemployed in June 1998, she was covered under the CSRS Offset provisions. She transferred to FERS in November 1998. When Susan retires, the 6 years of CSRS service will be computed under CSRS rules. However, since Offset service is treated under FERS rules once you transfer to FERS, her service from June through November becomes FERS service.

Example 2: In contrast, Bob's employment history shows that he had 4 years of CSRS-covered employment, a break, 2 years of CSRS Offset service, and another break in 1986. When he returned to Federal employment, he was covered under CSRS Offset provisions until he transferred to FERS. Since Bob had less than 5 years of non-Offset service, all of his service is now subject to FERS rules. Bob is also entitled to a refund of the extra money he paid for CSRS since he didn't previously receive a refund for his first 4 years of service.

Bob thinks he has made a good decision because he is far from retirement, and he isn't sure he will stay with the Government. In addition, since he is already contributing 5% of pay to the Thrift Plan, switching to FERS gets him the full 5% Government contribution.

Example 3: Ed had 15 years of CSRS service, a 3-year break, and now has 12 years of CSRS Offset service. He chooses to stay in CSRS Offset because he does not want to lose CSRS credit for his Offset service. If he were to transfer to FERS, his Offset service would become subject to FERS rules. This means that, instead of getting 24% of his high-3 for this period of service under CSRS rules, he would only get 12% under FERS rules.

WARNING: Since all Offset service becomes subject to FERS when an employee transfers to FERS, it is particularly important that CSRS Offset employees give careful consideration to their first transfer opportunity. Even though your employment history may result in your having another opportunity to elect FERS at a later date, the more Offset service you have, the more you can lose by having waited to transfer to FERS. In addition, you will have missed out on the opportunity to get a government match on your Thrift Account for that service.

Cost to Participate

For most employees, the cost to participate is essentially the same under CSRS, CSRS Offset, and FERS, 7% of your basic pay. However, if you are a high salaried employee, earning more than the $102,000 maximum 2008 taxable wage base, FERS will cost less than 7% because the 6.2% for Social Security drops out at $102,000 leaving only the .80% for the FERS basic benefit. This is different from CSRS Offset, which is 7% even when Social Security taxes drop out. If FERS salary exceeds the maximum taxable wage base, contributions in 2008 stay at .80%; thus take-home pay goes up. However, if CSRS Offset salary exceeds maximum taxable wage base, when Social Security deductions stop, retirement contributions go up to 7%—thus take-home pay is unchanged.

Survivor Benefits

If you transfer to FERS, all your CSRS service counts toward eligibility of your survivor for benefits. The benefits for your survivor will be determined entirely under FERS rules. These rules include: (1) a 5 or 10% reduction in your benefits to provide survivor benefits for your spouse; (2) a spousal benefit defined as either 25 or 50% of your benefit; (3) cost of living increases generally equal to the Consumer Price Index increases minus 1%; and (4) a 10-year service requirement before any monthly annuity is payable to your spouse.

Important Conclusions

CSRS usually provides better benefits to those who retire from the Federal service before age 62. Switching to FERS lets you take advantage of the features of both retirement systems: flexibility and early retirement from FERS and a generous annuity formula and full cost-of-living adjustments from CSRS for your service before you transfer. Switching gives you the ability to get government contributions to your Thrift account and have the portability that Social Security coverage gives if you leave the Federal government and go to another job.

The next section of the handbook, called “Making Your Decision”, will point out some important retirement plan considerations that can make one of the plans a better choice for you.

Making Your Decision

This decision about your retirement plan normally comes when you have just begun a new job and wouldn't otherwise have thought about all of this. You may be uncomfortable trying to consider a lot of details about a retirement plan now, especially if retirement is far away for you.

Rather than sorting through every detail of how the two plans are structured, perhaps it would be easier to think about what your future career plans are. Consider whether or not you think you'll stay with the Federal government for the rest of your career, and, if you are married, what your spouse's career plans are.

This section will help you consider some important factors about yourself and your work history that may make either CSRS or FERS clearly a better choice for you.

The factors are separated into groups according to your current age, how far from retirement you are now, and special situations. You may want to read all four groups, but:

- If you expect to retire within 10 years, the section “Close to Retirement Age” will be most important to you.
- If you expect to work another 20 or more years before retirement, concentrate on the section “Far From Retirement Age”.
- If you are in between the two categories just mentioned, you want to carefully consider the factors discussed in the section “In Between — Neither Close to Retirement nor Far From It”.
- If you may retire because of special situations such as disability or as a result of an involuntary separation or early out, read those sections.

After reading this chapter, you should know which plan you want to choose.

Choosing Based on When you Expect to Retire

Close to Retirement Age

If you are within 10 years of retiring from the Federal government, things are probably pretty clear for you.

You may have already earned most of your retirement benefit under CSRS. You will take that benefit, including the full CSRS cost-of-living adjustment (COLA), with you if you transfer to FERS. You already know a lot about your life and your career: things like your marital status, your spouse's work history, your non-Federal work history. You may also have some idea about what you want to do after you retire from the Government: turn your hobby into a business, start a second career, or concentrate on your golf game.

The fact that you know much more about yourself and your career now than you did 10 or 15 years ago, makes the choice much clearer.

CSRS Is Probably Better For You If:

- You expect to retire from the Federal government at age 55 with 30 years of service.

  The CSRS retirement benefit, with its generous annuity formula and full cost-of-living adjustment (COLA), is generally better than the FERS retirement benefit under these circumstances. CSRS pays COLA's immediately after you retire, regardless of age. FERS doesn't pay a COLA until age 62. Then it's generally 1% less than the Consumer Price Index inflation rate.

  If you transfer to FERS, you get COLA's under CSRS rules for any portion of your annuity that is computed under CSRS rules and adjustments based on FERS rules for the part of your annuity that is computed under FERS rules. For example, if you transfer to FERS after 25 years of CSRS service, work 5 years, and retire at 55, you will receive full COLA's immediately under CSRS rules for your CSRS service. However, you will receive no COLA for your 5 years of FERS service until age 62, and when you begin receiving a COLA, it generally will be 1% less than the increase in cost of living.

- Earning additional Social Security credits isn't important to you. It may not be important because you already have enough Social Security credits to qualify for a benefit, or because you plan to get enough credits by working after you "retire" from the Government, or because you have few or no Social Security credits already and no expectation of ever receiving a Social Security benefit from this service.

  However, if you have CSRS Offset coverage, you will earn Social Security credits whether you transfer to FERS or not.

- You have a substantial number of years of CSRS Offset coverage. You probably don't want these years of service treated under FERS rules at 1% of your high-3 instead of 2% under CSRS.

FERS Is Probably Better For You If:

- You are uncertain whether you will stay with the Federal government until you are eligible to retire.

  Switching to FERS allows you to be earning Social Security coverage that continues to build if you leave Government for other employment.

- Your work history includes substantial (that is, 5 or more) years of Social Security coverage, but not the full 10 years (or 40 credits) of coverage generally required for Social Security benefits, and you're within 5 years of retiring under CSRS.

  Joining FERS can allow you to get a return on the Social Security taxes you paid in the past. If you don't "lock up" your Social Security benefit by earning your 40 quarters either under FERS or elsewhere, you can lose whatever money you've paid in Social Security taxes.

- Your work history includes many years of substantial Social Security coverage, but not the 30 years required to avoid the windfall elimination provision.

  Joining FERS can allow you to reduce the impact of the windfall elimination provision or avoid it entirely.

- You want to retire before age 60, but you won't have 30 years of service.

  FERS is more flexible than CSRS. It allows you to take a reduced benefit as early as age 55 with as few as 10 years of service and there's no minimum period of FERS service required. If you join FERS, you can take advantage of this flexibility and begin to receive your retirement benefits, including the CSRS benefit that was transferred to FERS, earlier than you can under CSRS.

  Your entire benefit, including the part earned under CSRS, will be reduced at the rate of 5% a year for each year you elect to receive benefits before age 62. Once you begin to receive it, the value of the CSRS portion of your benefit will be maintained because it will receive a full cost-of-living adjustment. The portion of the benefit computed under FERS rules will not receive a cost-of-living adjustment until you are age 62. Then the cost-of-living adjustment will be 1% less than the inflation rate whenever inflation is 3% or more a year.

- You will have 30 years of service before your minimum retirement age (MRA) and you want to leave Federal service early. FERS gives you the flexibility to leave then. Later, at your MRA, you can start getting benefits.

- You plan to work to a fairly late retirement age.

  FERS can provide more valuable benefits to those who plan to work until later ages, that is, age 65 or beyond. You will continue to receive Government contributions to your TSP account and until you withdraw it, earnings will continue to compound.

  In addition, you continue adding to your basic benefit. Under CSRS, your annuity is limited to 80% of your high-3, (about 42 years of service). FERS does not have this cap.

A Special Note for Career Couples Near Retirement

The considerations outlined above apply to married couples as well as single individuals. But there is a special circumstance that may apply to married couples where both individuals had a career and only one member of the couple ("the Federal spouse") worked for the Government. Often the Federal spouse has little or no Social Security credit. In this case, he/she would normally qualify for a spousal benefit based on the non-Federal spouse's earned Social Security benefit. But the Social Security law contains a Public Pension Offset to reduce or eliminate Social Security spousal benefits for most Federal retirees (those receiving recurring retirement payments).

The Social Security law requires that, if the Federal spouse gets CSRS benefits after separating from a position not subject to Social Security, any Social Security spousal benefits otherwise payable to him/her will be offset by two-thirds of the CSRS benefit. In most cases, this eliminates the spousal benefits. This provision does not apply to people who were required by law to have Social Security coverage. Consequently, it does not apply to people who have CSRS Offset coverage.

If you have only CSRS coverage, the Public Pension Offset will not apply if you transfer and complete 5 years of service in FERS before retiring. You can still qualify for full Social Security spousal benefits even if you also receive a pension from employment not subject to Social Security (for example, CSRS service).

Remember that the spousal benefit is only paid if it is higher than the employee's own earned Social Security benefit. The Federal spouse who joins FERS earns Social Security credits. These will be added to any credits previously earned. Once enough quarters have been earned, the Federal spouse's own earned Social Security benefit will often be higher than the spousal benefit.

Also, if you are concerned about the survivor benefits that your retirement plan will provide, you should keep in mind that the FERS survivor rules will apply to all of your benefit — even the CSRS part. This formula is less generous than the one used under CSRS.

Far From Retirement Age

It's difficult to predict the future, and especially difficult to guess what might happen over the next 15 to 20 years or so. Most people who are about 20 years away from retiring don't know with any certainty whether or not they will actually retire from the Federal Government. If you are one of these people, FERS is probably the plan for you. Here's why:

- The Social Security and Thrift Savings Plan parts of FERS are both portable. If you leave Federal service, your new job will continue adding to your Social Security account. As for your Thrift Savings Plan account, you can transfer your funds (your contributions, Agency Matching contributions, and, if vested, the Agency Automatic (1%) Contributions) to an Individual Retirement Arrangement (IRA) or other eligible retirement plan. You can also leave your account balance in the Plan. While you may not continue to contribute after you leave Government service, your Thrift Savings Plan account balance will continue to accumulate earnings based on your investment decisions.

- While the value of the FERS Basic Benefit will decrease if you leave the Federal Government short of retirement, it will not decrease as much as the value of the CSRS benefit will. This is because FERS gives you the flexibility to choose to receive a reduced benefit as soon as you reach the Minimum Retirement Age (age 55-57) with only 10 years of Government service. CSRS makes you wait until age 62.

  Under both plans, the basic annuity benefits become fixed when you leave Government. Getting the benefit earlier under FERS may be important if inflation is reducing the value of the fixed benefit. Also, the FERS basic benefit costs you less (.80% of pay versus 7% under CSRS), so less of your money is at risk.

  Should you decide you want your money back, FERS will pay market rate interest on your contributions toward the Basic Benefit. CSRS pays no interest in most cases. However, you can pay back a CSRS refund and regain your service credit if you return to Federal service. FERS refunds cannot be repaid.

  If you have CSRS Offset coverage, you will get the value of the CSRS annuity computation formula and cost-of-living adjustment rules if you stay until retirement. However, if you don't stay until retirement, the more flexible FERS rules about when you can get your annuity may be important. In addition, under FERS you can take advantage of the government match for your TSP account and the opportunity to put more of your pay into the account.

In conclusion, the flexibility and portability FERS offers is important in cases where the future is unclear or uncertain. This flexibility and portability come at the price of slightly lower benefits for the same investment on your part if you do stay in the Federal service until retirement. Only with Thrift Savings Plan participation are the benefits comparable. Investing a higher percentage of your pay in the Thrift Savings Plan could result in your benefits exceeding those that you would have earned under CSRS.

So, if you feel sure that you will retire from the Federal Government in 20 years and be under age 62, you may want to stay with CSRS. There is one exception: low-salaried employees who are able to work long enough (30 years) under Social Security to avoid the Windfall Elimination Provision (see page 44) will benefit from the fact that the Social Security benefit formula favors people with low career earnings. If you are low-salaried and expect to retire from the Government, you should consider FERS with its Social Security coverage, if you can avoid the Windfall Elimination Provision.

So, if you're not sure about the next 15 to 20 years, FERS may be a better choice for you.

In Between -- Neither Close to Retirement nor Far From It

If you're about 15 years away from retiring, you may or may not be sure of your future work plans. If you're sure about your plans and know whether or not they include retiring from Federal service, you're probably ready to decide based on what you've read so far. You know FERS portability and flexibility are real pluses if your career includes both Federal and non-Federal service, and especially if you don't plan to retire from a Federal position. You also know that CSRS can provide better benefits if you can retire from the Federal Government before age 62.

If you haven't made your decision based on what you've read so far, keep reading. Maybe this discussion will help clarify things for you.

The Trade-offs

With CSRS, you have a plan that offers superior retirement benefits, if you're able to take advantage of them. With FERS, you get more flexibility and portability, but you may have to give up a little in the way of benefits, or pay more in contributions while you're working, if you want to reach the same benefit level.

The Thrift Savings Plan under FERS is very attractive if you're in mid-career and can contribute to your Thrift account. If you can contribute 5% of your basic pay each pay period, the Agency Matching Contributions plus the Agency Automatic (1%) Contributions you receive will add to your account an amount equal to another 5% of your basic pay for that pay period. This, coupled with the effect of compounding, may provide a significant source of retirement income. In fact, this kind of Thrift Savings Plan account balance, when added to your FERS Basic Benefit and Social Security payments, can easily produce a FERS benefit that exceeds the CSRS benefit.

If you switch to FERS and can make contributions to your Thrift Savings Plan account, you will gain the portability of the Social Security and Thrift Savings Plan portions of FERS. And you will gain the flexibility to choose to receive benefits earlier with fewer years of service. You will minimize your investment in CSRS, which offers no portability.

So, switching to FERS involves some trade-offs. For the advantages of lower risks and equal or better benefits, you have to make greater contributions. In fact, you may need to contribute more of your pay each pay period than you would under CSRS because some FERS employees (especially those with higher incomes) must contribute more in order to receive equivalent retirement benefits to those received by CSRS employees.

If you have little or no previous employment that counts as years of “substantial coverage” under Social Security you should think about whether you will earn enough of a benefit under Social Security to avoid or minimize the impact of the Windfall Elimination Provision.

On the other hand, if transferring will give you substantial Social Security coverage by retirement, FERS offers an opportunity to provide a Social Security benefit for your spouse.

If you are married and your spouse will not be eligible for his/her own Social Security benefit or for a retirement benefit other than Social Security, FERS benefits can come close to CSRS benefits even if you can't contribute 5% of pay to the Thrift Savings Plan. This is because your spouse can receive a Social Security spousal benefit. This makes FERS more attractive. But, you may still need to make contributions to the Thrift Savings Plan if you want your total benefit to equal what you could have earned under CSRS. Again, there's a trade-off involved. FERS generally costs you more if you want to match the CSRS benefit level, but FERS is more portable and more flexible.

If you now have CSRS Offset coverage, you have the benefits of the good CSRS benefit formula and cost-of-living adjustments, as well as the advantage of Social Security coverage. However, there is an offset of your CSRS benefit by the amount of Social Security attributed to your CSRS Offset Service at 62. This is an excellent package if you retire from the Federal government. However, if you do not expect to retire from the government, the more flexible FERS rules about when you can receive your benefits may be better for you. In addition, you can take advantage of the Thrift Savings Plan Government match and Agency 1% Automatic Contribution and the ability to contribute more to your account.

FERS Flexibility

FERS allows you to begin getting benefits at an earlier age with fewer years of service. This can be an important advantage, depending on your future plans.

Keep in mind that FERS lets you start getting both the benefit you earned under the CSRS formula plus the annuity you earn under FERS with as few as 10 years of service when you reach the Minimum Retirement Age (55-57, depending on when you were born). Your benefit will be reduced 5% a year for each year you choose to receive benefits before you are age 62. Under CSRS, though, you can't receive any benefits until age 62 if you leave the Federal Government without retiring.

This kind of flexibility is important if you think you may leave the Federal service before retiring. It's also important if you would have to work until age 60 or 62 under CSRS rules, but would rather leave earlier.

Some Important Cautions

There are some factors that can make FERS clearly a better choice for you. There are other factors that can mean switching to FERS is not the best thing for you to do. Although you can't predict the future, use what you know now to make the best decision you can. This section contains some information you should consider before you make your final decision.

If You Are Unable to Meet Social Security Eligibility Requirements

In general, switching to FERS can be a mistake if you are not able to earn the 10 years or 40 credits of Social Security coverage that will allow you to receive a Social Security benefit. Here's what could happen:

Example: Say you're close to retiring and you switch to FERS. You've never worked in the private sector, so you've earned no Social Security credits. Six years after switching, you decide to retire.

You will make a mistake by not thinking ahead about how much longer you wanted to work when you switch to FERS. You cannot receive a Social Security benefit unless you've earned the required years of coverage. In most cases, 10 years are required. So, you've lost one of the three parts of your FERS benefit.

Also, if you do not qualify for a benefit, the percentage of salary that you pay in for Social Security taxes is simply lost.

CSRS, then, normally is a better choice if you will not be able to earn enough years of Social Security coverage to qualify for that portion of your FERS benefit. In addition, even if you will qualify for a Social Security benefit, you need to look at the impact on you of the Windfall Elimination Provision.

Exceptions: There are several cases where switching to FERS and not being able to “lock up” your Social Security benefit are not a problem. One is that you're not interested in earning a Social Security benefit because you want to avoid having your spousal Social Security benefit reduced by the Public Pension Offset. Page 47 gives you more information on this topic.

In addition, if your reason for transferring to FERS is to take advantage of its more flexible rules about when you can receive your benefits, then eligibility for Social Security benefits may not be a concern to you. For example, if you work in an agency that is downsizing, FERS more flexible rules may be very important to you.

If You Are Unable to Contribute Enough to the Thrift Savings Plan

The Thrift Savings Plan portion of FERS can provide a valuable benefit if you're able to contribute to it. If you're not, switching to FERS can be a mistake. Here's what could happen if you don't carefully consider how much you are able to save, or if you don't decide correctly.

Example: Suppose you transfer because you think the growth potential of your Thrift Savings Plan account can allow you to retire from the Federal Government with a larger benefit under FERS than under CSRS.

You're counting on your agency contributing an amount equal to 5% of your basic pay each pay period. To get that rate of agency contribution, you know you have to contribute at least 5% of your basic pay each pay period.

After you transfer, you find that you miscalculated your ability to save and your budget will not let you make any contribution to the Thrift Savings Plan. All you're able to get is your agency's contribution equal to 1% of your basic pay each pay period.

If you are not able to begin contributing to your TSP account soon after you transfer to FERS, your benefit will probably be significantly less than the benefit you could have received by retiring under CSRS. If you are concerned about whether you can participate adequately in the Thrift Savings Plan, you may want to review your financial situation carefully to see what level of savings you can expect to be able to make.

If You Should Die Soon After Choosing

It is not likely you will base your choice of retirement plan on the possibility that you may die soon after choosing. However, if you are married, you should be aware that you must have 10 years of service before your spouse can receive a survivor annuity under FERS.

You must have also earned the minimum number of Social Security credits required before your survivors can receive Social Security benefits if you die. The number of credits required depends on when you were born and how old you are when you die. The least number of credits required is 6 credits or quarters or 18 months.

Whether you are under CSRS or FERS, all Thrift Savings Plan contributions, including the Agency Automatic (1%) and Matching Contributions, will be paid to your beneficiary (or beneficiaries).

Survivor benefits are discussed further on page 35 and in the Social Security section starting on page 41.

Summary of Situations That Could Make Switching to FERS a Problem

You've now seen some factors that could make transferring to FERS a problem for you. They are:

- Switching to FERS and then being unable to earn the 40 credits needed to qualify for Social Security benefits;
- Switching and then being unable to contribute as you had planned to your Thrift Savings Plan account;
- Dying before you've earned adequate Social Security coverage for your family to receive FERS and Social Security survivor benefits.

If you believe any of these factors are likely to apply in your case, you may decide to minimize your risk by staying in CSRS.

Disability Benefits Under CSRS and FERS

Introduction

CSRS and FERS both provide disability benefits. The benefits offered by the two plans are alike in some ways and different in others. Depending on your personal situation, the benefits offered by one plan or the other may be better for you.

Unless you have a serious chronic illness or a life-threatening medical condition, you will probably base your choice between CSRS and FERS more on what you want your retirement benefit to be than on the disability benefits offered. You should be aware of the differences between the plans, though, in case one or the other clearly meets *your* needs better. Note that, if you transfer to FERS, *all* of your disability benefits will be paid according to FERS rules.

This section explains the key features of the disability benefits given by both plans. It also points out some areas to think about in deciding which plan is better for you.

Eligibility

CSRS requires you to have at least 5 years of creditable civilian service before you can qualify for disability benefits. FERS requires 18 months of civilian service.

Those who apply for disability benefits under CSRS Offset or FERS must also apply for Social Security disability benefits or show that they are not eligible for them.

There are separate eligibility requirements that you must meet in order to qualify for a Social Security disability benefit. You must meet Social Security eligibility requirements *and* have earned a specified number of Social Security credits before becoming disabled.

Definition of Disability

CSRS and FERS both use the same definition of disability. In order to be declared disabled under either plan, you must be unable to do your job, and must not turn down a suitable vacancy within your agency that is within your commuting area and at the same grade or pay level as your current position.

The definition used to determine your eligibility for Social Security disability payments is more strict than under CSRS and FERS. It requires you to be unable to perform *any* job, rather than just your current job. So even if you have the required number of Social Security credits, you may qualify for FERS or CSRS disability payments, but not qualify for Social Security disability payments.

How Much Disability Benefits Will Be

CSRS

Under CSRS, your disability benefit will generally be equal to your projected benefit at age 60 or 40 percent of your high-3 average salary, whichever is less. If you have more than 22 years of service when you become disabled, you will receive your accrued benefit, which will amount to more than 40% of pay. Cost-of-living adjustments will be added annually at the full rate of inflation. See Retirement Facts 4, *Disability Retirement Under the Civil Service Retirement System* (RI 83-4) available from your personnel office and on the Internet at http://www.opm.gov/retire/pubs/pamphlets/index.asp.

CSRS Offset

Under CSRS Offset, your basic annuity is computed under CSRS rules described in the preceding paragraph. In addition, if you qualify for Social Security benefits, OPM must reduce your annuity by the value of your Offset service in your Social Security disability benefit. The calculation is the same as was described earlier for a regular retirement.

FERS

FERS uses a different benefit formula that takes into account any Social Security disability benefits you may be eligible for.

During your first year of disability, FERS will pay you 60% of your high-3 average salary minus 100% of an approximation of any Social Security benefit you qualify for. No COLA's will be paid during this year.

(Note that Social Security disability payments and the reduction in your FERS benefit will not begin until 5 months after you qualify for Social Security disability. You will receive full FERS benefits during this period.)

During your second and any future years until age 62, your basic FERS benefit will amount to 40% of your high-3 salary. If you are entitled to Social Security disability benefits, your FERS annuity will be reduced by 60% of the approximate amount of your Social Security benefit. COLA's match the inflation rate if it is 2% or less. If the inflation rate is more than 3%, the COLA will be 1% less than the inflation rate.

The total FERS and Social Security benefit you receive will be equal to at least 40% of your high-3 salary *plus* 40% of your Social Security disability benefits. You may also get your Thrift Savings Plan account when you become disabled.

Your basic FERS disability benefit will be recomputed at age 62. At that time, you will receive your accrued FERS retirement benefit. In this case your accrued FERS benefit would be based on years of service that include the time you were receiving disability benefits. Also, the average salary used would be based on what you were earning at the time you became disabled, increased by all cost-of-living adjustments under FERS during that period.

CSRS and FERS

Under the Social Security law, your Social Security disability check must be reduced if the combined amount of your employees' compensation payment and/or public disability benefit is more than 80% of what is called your "average current earnings." Public disability benefits come from employment not subject to Social Security taxes, such as CSRS. Since FERS includes Social Security, this type of reduction is less likely under FERS.

Continuing Eligibility for Disability Payments

Under both CSRS and FERS, if you retire on disability and then decide to work again, your disability benefits may be affected. If your total income from work is more than 80% of the current salary of the position you retired from, your disability benefits will end. They may also end if you go back to work for the Federal Government.

Also, at times you may be required to prove that you still meet the CSRS and FERS definition of disability.

Conclusion

In general, the combined FERS and Social Security disability benefit (if you qualify for the Social Security benefit) will be larger than the CSRS benefit. However, it is more difficult to qualify for the Social Security disability benefit and you must be covered for the number of years required by Social Security. Even if you do not qualify for Social Security, the FERS benefit is likely to be larger. Depending on your recent coverage under Social Security, you may have to work under FERS for 5 years before Social Security disability protection is available.

Note also that, when your FERS benefits are recomputed at age 62, you may stand to lose a *significant* portion of your benefit. Remember when you transfer to FERS, you take your CSRS credit with you. If your combined CSRS and FERS benefits (under regular rules) are more than the benefit produced by the FERS disability rules, you will receive the combined benefit. This means that the possibility of becoming disabled may be less of a concern for CSRS employees with substantial CSRS service because of the larger accrued benefit that transfers to FERS based on that service. However, if disability benefits are a serious concern for you, you should ask your agency to do estimates of benefits under both CSRS and FERS before you make a transfer decision.

Survivor Benefits Under CSRS and FERS

Introduction

CSRS and FERS both provide survivor benefits, but the benefits offered by the two plans differ greatly. Depending on your personal situation, the benefits offered by one plan may be better for you than the other plan's benefits.

Recipients of Survivor Benefits

Under CSRS, FERS, and Social Security, survivor benefits can be paid under various conditions to current and former spouses and children. Social Security benefits can also be paid to dependent elderly parents. Surviving spouses must meet certain age and length of marriage requirements in order to qualify for benefits. You can also elect benefits for a spouse you marry after retirement under both FERS and CSRS. The rules for who is eligible for spousal benefits are the same for FERS Basic Benefits and CSRS. Under both CSRS and FERS, children's benefits are payable to each unmarried child:

- up to age 18;
- up to age 22 if a full-time student; and
- at any age if the child became disabled before age 18.

Also, under both CSRS and FERS, your Thrift Savings Plan account will be available to your designated survivor. If you want more information about CSRS and FERS survivor benefits (including court ordered benefits for a former spouse), several pamphlets on OPM's Web site have more information. Go to http://www.opm.gov/retire/pubs/pamphlets/index.asp.

If You Die While Employed

CSRS

CSRS will pay benefits to the eligible survivors of an employee who had at least 18 months of creditable civilian service.

Under CSRS, if you die while you are a Federal employee, your eligible spouse will receive 55% of your accrued benefit. If a larger benefit would result, your spouse would receive the smaller of the following computations: 55% of 40% of your high-3 annual salary or 55% of what your annuity would have been if you had worked until age 60.

Your eligible children will receive an annuity that is based on how many children you have and whether or not your spouse is still living. This is true under CSRS whether you die as an employee or retiree.

If you are a CSRS Offset employee and your spouse or children are eligible for survivor benefits based on your service, OPM must reduce the benefit that is paid to your surviving spouse and children. This reduction is computed in the same way as the reduction in a retirement annuity. See page 47 for an example of how the reduction is done.

FERS

FERS also pays benefits to the eligible survivors of an employee who had at least 18 months of creditable civilian service. Your CSRS service counts to meet this requirement.

Under FERS, if you die while you are a Federal employee, and have more than 18 months of creditable civilian service but less than 10 years of total service, your eligible spouse will receive a two-part FERS benefit. It includes a lump-sum payment that is adjusted each year for inflation ($28,093.53 for 2008), plus the greater of half of your high-3 average pay or half of your annual rate of pay at death. Social Security and other survivor benefit payments will not affect this lump-sum benefit.

In addition, if you had 10 years of service, your eligible spouse will also receive an annuity equal to one-half of your accrued Basic Benefit.

FERS childrens' benefits also depend on whether your spouse is still living and how many children are eligible for benefits. In addition, children's benefits are reduced dollar for dollar by Social Security children's benefits that may be payable.

Social Security also provides survivor benefits to the eligible survivors of an employee who met the minimum Social Security eligibility requirements. The number of Social Security credits needed to qualify depends on when the employee was born and how old he/she was at the time of death. The minimum number of credits required is 18 months.

Under CSRS and FERS these benefits are available without additional cost to you, that is, at the regular deduction rate for CSRS and FERS benefits.

If You Die After You Retire

CSRS

If you are a CSRS retiree when you die, your eligible spouse will be paid 55% of the amount you were receiving as your annuity or a lesser amount that you and your spouse agreed on when you retired.

As a married retiree, your annuity will be reduced in order to provide for this survivor benefit unless you and your spouse waive this benefit. The amount of the reduction is 2.5% of the first $3,600 of your annual benefit, plus 10% of the amount over $3,600. For most career retirees, this amounts to a 7% to 8% reduction. Note that the 55% benefit is based on the amount of your annuity before this reduction is taken. You may also choose, if your spouse agrees, a smaller survivor benefit.

If you want more information about survivor benefits, see the pamphlet Retirement Facts 5, *Survivor Benefits Under the Civil Service Retirement System,* RI 83-5, available at your personnel office or on the Internet at http://www.opm.gov/retire/pubs/pamphlets/index.asp.

If you are a CSRS Offset retiree, OPM must reduce the survivor annuity if your widow(er) or children are entitled, or would be entitled upon proper application, to Social Security benefits as your widow(er) or children. This reduction is done in the same manner as the reduction in a retiree's annuity.

FERS

If you are a FERS retiree when you die, your eligible spouse will be paid 50% of the amount of your annuity, plus a Special Retirement Supplement if your spouse is younger than age 60 and not yet eligible for Social Security benefits.

As a married retiree under FERS, your annuity will be reduced in order to provide for this survivor benefit unless you and your spouse waive the reduction. Under FERS, the reduction is larger than under CSRS. It is a full 10% of your entire annual benefit amount. Again, the 50% benefit is based on the amount of your annuity before this reduction is taken. You and your spouse also can choose a smaller survivor benefit of 25% of your annuity, with a 5% reduction in your benefit. However, under FERS you cannot choose other benefit levels as you can under CSRS.

Children's benefits are the same for both retirees and employees.

If You Die After You Leave Federal Service, but Before You Retire Under FERS

If you have at least 10 years of service and die after you leave Federal service but before you begin to receive your annuity, a survivor benefit is payable to your spouse under FERS. The amount of the benefit payable to the surviving spouse is one-half of your accrued basic retirement benefit. The benefit will begin at the time you would have reached age 62, or sooner if your survivor elects a reduced benefit. For your spouse to be eligible, you must not take a refund of your contributions. No similar benefit exists in CSRS. Social Security benefits are also payable to survivors of employees who meet the Social Security requirements. These benefits are based on the Social Security benefit for which the employee was eligible. Benefits vary based on the age and situation of the survivor.

Transfer Considerations

If you transfer, the FERS survivor rules will apply to all of your benefit—even the CSRS part. This includes:

(1) the 10% or 5% reduction to provide survivor benefits after you retire;

(2) the 50% or 25% benefit levels (this was up to 55% under CSRS); and

(3) Cost of living increases generally equal to consumer price index increase less 1%; and

(4) the 18 month FERS service requirement for lump sum death-in-service benefits.

Conclusion

The survivor benefits under FERS and CSRS differ substantially. Your individual circumstances will determine which system is better for you. Also, you need to remember that FERS rules apply to all of your survivor benefits.

As a general rule, surviving spouses who will receive a substantial spousal Social Security benefit will be better protected by FERS. Surviving spouses who are employed and/or earn a Social Security benefit on their own will receive greater benefits from CSRS.

Involuntary Retirement and "Early-Out" Retirement

Introduction

Earlier parts of this handbook discussed forms of voluntary retirement (retiring under CSRS with full benefits, retiring under FERS with full or reduced benefits) and leaving the Federal service before retirement age. This section discusses what your benefits will be under CSRS and FERS if you must retire involuntarily because of a reduction in force, reorganization, transfer of function, or similar circumstance, or you choose to retire early under a voluntary "early out" opportunity. (These provisions do not apply if you are separated because of misconduct or delinquency or if you refuse a reasonable offer of another position.)

CSRS

Under CSRS if you retire involuntarily, you are eligible for an immediate annuity at any age with 25 years or more of service, or age 50 with 20 years of service or more. Your benefit will be reduced 2% for each year that you retire under age 55. This is a permanent reduction that will be applied to your entire annuity, including your payments after you reach age 55. The same rules apply for early voluntary retirements.

FERS

Under FERS, if you retire involuntarily, you are also eligible for an immediate annuity at any age with 25 or more years of service, or at age 50 with 20 years of service or more. The difference between CSRS and FERS in this case, however, is that your FERS annuity is not reduced if you retire before age 55. However, you would not begin to receive the Special Retirement Supplement until you reach your Minimum Retirement Age (55-57). This benefit continues until age 62. The same rules apply for early voluntary retirements.

Special Transfer Rules

If you transfer to FERS and retire involuntarily, you are eligible for an immediate annuity at any age with 25 or more years of service or at age 50 with 20 or more years of service. Your retirement benefit will be calculated using the CSRS formula for your years of service under CSRS, and the FERS formula for the years after you transfer. Any CSRS Offset service will be converted to FERS. The CSRS portion of your benefit will be permanently reduced by 2% for each year that you are below age 55 when you retire. No reduction will be applied to the FERS portion of your benefit but you will not begin to receive a Special Retirement Supplement until your Minimum Retirement Age. The same rules apply for early voluntary retirements.

Transfer Considerations for Involuntary Retirees and Early Voluntary Retirees

Whether or not you may be involuntarily retired should not be a key factor in determining which retirement plan you choose. You should be aware of the differences between CSRS and FERS, however.

If you meet the age and service requirements and retire early, your CSRS benefit will be reduced if you are under age 55; your FERS benefit will not. However, the CSRS retirement benefit is larger than the FERS benefit to begin with. Even with the reduction, the CSRS benefit is likely to be larger than the FERS benefit. This is especially true if you retire below your Minimum Retirement Age under FERS, because your Special Retirement Supplement will not be paid until you reach your Minimum Retirement Age (MRA). FERS COLA's do not begin until age 62, but CSRS COLA's start immediately.

If you think you may leave Government service involuntarily and you will not meet the age and service requirements for early voluntary or involuntary retirement, FERS is probably the better choice, as it is in general for those who do not plan to retire from the Federal service. This is especially true if transferring to FERS could give you eligibility for an MRA + 10 retirement, which could allow you to keep your Federal health and life insurance as a retiree.

Brief Description of the Social Security Program

Introduction

Social Security is a national system of old-age, survivors and disability insurance (OASDI) cash benefits. The program's basic plan is a simple one: During working years, employees, their employers, and self-employed persons pay Social Security taxes; when their earnings stop or are reduced due to retirement, severe disability, or the death of an employee, monthly cash benefits are paid to replace part of the earnings the employee and the family have lost.

How the Program is Financed

The primary sources of financing are the Social Security taxes paid by employees and their employers and by the self-employed. Employers and employees each contribute 7.65% of the employee's wages, which includes 1.45% for Medicare hospital insurance (HI). The maximum amount of earnings taxed for Social Security purposes ($102,000 in 2008) is subject to automatic adjustment under a formula related to the increase in wages.

Qualifying for Benefits

To become eligible for old-age, survivors, and disability insurance benefits, an employee must have credit for a required amount of work that is covered by Social Security. Social Security work credits are measured in quarters of coverage. In 2008, a credit is earned for each $1,050 in covered annual earnings up to a total of four credits ($4,200) for the year.

The minimum requirement is 6 credits for death and disability benefits and the maximum is 40 credits of coverage. An employee who has accumulated the required number of credits is considered to be fully insured and eligible for most types of benefits.

An additional insured status test must be met by employees in order to qualify for disability insurance benefits. Employees who become disabled after age 31 must have worked under Social Security at least 5 of the last 10 years preceding the onset of disability. Employees between ages 24 and 31 must have worked at least half of the quarters from age 21 and before disablement, and employees under age 24 may qualify for benefits with a minimum of 1½ years (18 months) of work in the 3 years prior to becoming disabled.

Who Is Eligible for Benefits

Fully insured employees are eligible for benefits as early as age 62, but benefits are permanently reduced for each month of entitlement prior to the full-benefit retirement age, currently age 65. The age at which unreduced benefits are payable will be increased gradually from age 65 to 67 over a 21-year period beginning with individuals who reach age 62 in the year 2000. (The age of eligibility for Medicare is not affected by these changes.)

Employees who are fully insured and who become disabled, are eligible for unreduced benefits, regardless of age. Under the Social Security law, a person is considered disabled if he/she is unable to engage in any substantial gainful activity due to a physical or mental impairment that lasts for at least 12 months or is expected to result in death. The term "substantial gainful activity" refers to the performance of significant productive physical or mental duties, generally for pay or profit.

Benefits to Family Members

Auxiliary benefits may be payable to members of the employee's family (as listed below) whenever the indicated requirements for entitlement are met. As explained later in this section, there is a limit on the amount of family benefits payable on an employee's record. (References to age 65 are used because that is the current retirement age at which unreduced benefits can be paid.)

Note: While the following benefits are expressed as a percentage of an employee's benefits, their payment does not reduce the employee's benefit. For example, the spousal benefit [in (1) below] can be paid in addition to the employee's Social Security benefit.

- Spouse (of employee receiving retirement or disability benefits):

  1. Married to the employee for at least 1 year, or, if less than 1 year, is the parent of the employee's child, and meets one of the following age requirements:

     a. Any age, with entitled child under age 16 or disabled in care (payment rate is 50% of employee's full benefit).

     b. Age 65 (50% of employee's full benefit).

     c. Age 62-64 (50% of employee's full benefit, permanently reduced for each month of entitlement prior to age 65).

  2. Divorced spouse, married to the employee at least 10 years, and meets one of the following age requirements:

     a. Age 65 (50% of employee's full benefit).

     b. Age 62-64 (50% of employee's full benefit, permanently reduced for each month of entitlement prior to age 65).

- Child (of employee receiving retirement or disability benefits):

  1. Under age 18 and unmarried (50% of employee's full benefit).

  2. Attending elementary or secondary school full-time at age 18 and through the end of the school term in which age 19 is attained (50% of employee's benefit).

  3. Disabled child, age 18 or over, who was disabled before age 22 (50% of employee's full benefit).

Monthly cash benefits are also payable, as follows, to the survivors of a deceased employee:

- Widow/Widower (of deceased employee):

  1. Married to the employee at least 9 months (3 months in the case of accidental death), or married to the employee and is the parent of the employee's child, and meets one of the following age requirements:

     a. Any age with entitled child in care (75% of employee's full benefit),

     b. Age 65 (100% of employee's full benefit),

     c. Age 60-64 (permanently reduced benefit),

     d. Age 50-59 and disabled (permanently reduced benefit).

  2. Surviving divorced spouse, married to the employee at least 10 years, age 60 or over (permanently reduced benefit if entitled prior to age 65),

  3. Disabled surviving divorced spouse, married at least 10 years, age 50-59 (permanently reduced benefit).

- Child (of deceased employee):

  1. Under age 18 and unmarried (75% of employee's full benefit).

  2. Attending elementary or secondary school full-time at age 18 and through end of school term in which age 19 is attained (75% of employee's full benefit).

  3. Disabled child, age 18 or over, who was disabled before age 22 (75% of employee's full benefit).

- Dependent Parent Age 62 or Older (of deceased employee):

  1. One surviving parent (82½% of the employee's full benefit).

  2. Two surviving parents (75% of employee's full benefit payable to each parent).

Lump-Sum Death Payment—A one-time payment of $255 is payable, upon the death of an employee, to a spouse with whom the employee was living at the time of death or to a spouse or child who is eligible for monthly survivor benefits in the month of the employee's death.

Amount of Social Security Benefits

An employee's primary insurance amount (PIA) is the monthly benefit amount payable at disability or at the full-benefit retirement age. All other monthly benefit amounts are derived from the PIA.

- The employee's PIA is derived by applying a three-step benefit formula to the employee's lifetime average earnings in employment covered by Social Security. Before averaging the earnings, the yearly earnings are adjusted to reflect wage levels prevailing shortly before retirement, disability, or death. (These are known as adjusted career earnings.)

- For employees who receive an annuity based on CSRS service (including those who transfer to FERS from CSRS) a modified benefit formula may be used in computing the Social Security retirement or disability benefit. (See Windfall Elimination provision on page 45.)

As previously noted, benefits taken before the full benefit retirement age are permanently reduced. For example, retirement benefits for employees entitled at age 62 are currently reduced by 20% and benefits for spouses entitled at age 62 are reduced by 25%. As the full-benefit retirement age increases in the future, reduced benefits will continue to be available at age 62 for employees and spouses (age 60 for surviving spouses), but the reduction factors will be revised so that there is a further reduction. The maximum reduction will increase gradually to 30% for employees entitled at age 62 and to 35% for spouses entitled at age 62. There is no increase in the maximum reduction in the case of widows and widowers entitled at age 60 (28.5%).

Family benefits payable on an employee's Social Security record are limited to a maximum set by law. The maximum family benefit is generally related to the employee's PIA. The maximum monthly benefit that can be paid to a family (including the employee) ranges from 150% to 188% of the employee's PIA in retirement and survivor cases. In disability cases, it ranges from 100% of the PIA to 150% of the PIA. Generally, the maximum family benefit amount applies whenever there is more than one auxiliary or survivor beneficiary entitled on the employee's record.

Under the “dual-entitlement” provision, a person who qualifies for benefits based on the earnings of more than one employee (for example, a benefit as an employee and a benefit as a spouse of another employee) cannot receive both benefits in full. The amount of the spouse's or surviving spouse's benefit is offset dollar for dollar against the person's own employee's benefit so that the spouse receives the larger of the two benefits.

Similar to the dual entitlement provision discussed above, under the Government Pension Offset Provision, the amount of a person's Social Security benefit as a spouse or surviving spouse will be reduced by two-thirds of the amount of the Government pension (for example, a CSRS annuity) the person receives based on his/her own work that was not covered by Social Security. (See further discussion of this provision on page 47.) If you transfer to FERS and are not covered under FERS for 5 years before retirement, the Government Pension Offset will still apply to you.

Social Security benefits are increased automatically each year whenever the cost of living, as measured by the Consumer Price Index rises.

Taxation of Social Security Benefits

Social Security benefits are subject to income tax if a beneficiary's total income exceeds specified limits. The limits generally are $25,000 for a single taxpayer; $32,000 for a married couple filing a joint tax return. If the appropriate limit is exceeded, up to 85% of the benefit is taxable. Revenues generated by this tax are deposited to the Social Security Trust Fund.

Social Security Earnings Test

This section applies to you if you plan to work after you begin receiving your FERS Special Retirement Supplement or your Social Security Benefit.

What Is the Social Security Earnings Test?

The Social Security Earnings Test is part of the Social Security law. It means that your Social Security benefits may be reduced if you work after retirement and earn more than the allowable amount.

Who Is Affected?

If you switch to FERS, this provision could affect parts of your benefit.

Note that this provision also applies if you remain with CSRS or CSRS Offset and have enough Social Security credits to qualify for a benefit. Your CSRS benefit will not be affected in this case, but your Social Security benefit will be.

Benefits you receive from the Thrift Savings Plan are not included as income for the Social Security Earnings Test.

How the Social Security Earnings Test Works

If you work after you start receiving Social Security benefits and are under age 70, the amount of money you earn by working can reduce your Social Security benefits. Earnings from savings, most investments, and insurance will not affect your Social Security benefit. Wages and earnings from self-employment can, however. Under the Social Security earnings test, Social Security counts wages for services rendered during the year on net earnings from self-employment minus any net loss from self-employment.

Whether or not your Social Security benefit is reduced depends on how much you earn when you work. In 2008, the annual exempt amount of earnings is $13,560 if you're under 65, and $36,120 if you're age 65-69. You can earn up to these amounts without affecting your Social Security income. If you earn more than these amounts, however, your Social Security benefit will be reduced. If you are under age 65, it will be reduced by $1 for every $2 above the limit that you earn by work. For people age 65 and over, $1 in benefits is withheld for each $3 in earnings above the limit. If you are age 70 or above, your Social Security benefits will not be reduced because of your earnings.

The amount you can earn each year before your benefit is affected increases yearly. How much it increases is based on how much average wage levels increase in the United States as a whole.

Similar rules, including the $13,560 limit, apply to the Special Retirement Supplement provided to those who retire under FERS before age 62.

Conclusion

If you are eligible for the FERS Special Retirement Supplement (that is, you retire at your MRA with 30 or more years of service, at age 60 with 20 or more years of service, or other rules that allow receipt of the Supplement), the earnings test may reduce the amount of your Supplement. If you plan to work past age 62, you can delay your application for Social Security benefits in order to receive higher benefits. In any case, you should remember that the earnings test only applies when you have substantial earned income during your "retirement" years.

Windfall Elimination Provision

The rules concerning the Windfall Elimination Provision (WEP) may be a transfer consideration if:

- You are under CSRS (not CSRS Offset); and
- You will reach age 62 after 1985 and are eligible for a Social Security benefit; and
- You will have had "substantial" earnings under Social Security for less than 30 years; and
- You are first eligible to retire under CSRS after December 31, 1985.

Benefits you receive from the Thrift Savings Plan will not reduce your Social Security Benefits under the WEP.

If you already have Social Security coverage as a CSRS Offset employee, the WEP is not a transfer consideration, but you may want to read this section to find out if your future Social Security benefits will be reduced by the WEP.

What the Windfall Elimination Provision Is

Social Security law includes a provision that reduces Social Security benefits for those who have less than 30 years of "substantial coverage" under Social Security and who have earned a retirement benefit from employment not covered by Social Security; for example, CSRS service. (In 2008, the amount of substantial coverage is $18,975. In contrast, the amount needed to earn four credits of coverage in 2008 is $4,200.) If it applies to you, your benefits will be figured at a different formula from the one used for those with longer covered service.

Who Is Affected

If you have fewer than 30 years of substantial Social Security coverage and become eligible for a Social Security benefit, this provision will affect you if you are also eligible for a retirement benefit that includes service performed under CSRS rules. Note: The provision will apply to you even if you have past CSRS (non-Offset) service that will become subject to FERS rules when you transfer. See the example on page 46.

If you do not earn at least 10 years (or 40 credits) of Social Security coverage, you will not be eligible for a Social Security benefit (unless you were born before 1929, in which case fewer quarters of coverage are required). This provision would, of course, not apply to you if you are not eligible for Social Security benefits. Likewise, it does not apply to you if you already have 30 years of substantial Social Security coverage. If you are uncertain how many years of substantial Social Security coverage you have and this issue is a consideration in deciding to transfer to FERS, request your earnings history from the Social Security Administration.

How the Windfall Elimination Provision Works

The WEP was designed to eliminate the “windfall” that could result if you were to receive a CSRS annuity based on many years of employment not covered by Social Security and also receive a full Social Security benefit because you did have a few years of covered employment. If you're subject to the WEP, your earned Social Security benefits will be figured using a modified benefit formula.

The modified formula is not used in computing survivor benefits upon your death or the Special Retirement Supplement. It is used in computing Social Security retirement as well as disability benefits if you become disabled.

The regular Social Security benefit formula uses three levels of earnings. Each level of earnings is multiplied by a different percentage. The first level of earnings is multiplied by 90%. The second by 32%, and the third by 15%. Those amounts are added together to determine a person's basic benefit rate.

Under the modified benefit formula, the first level of earnings is not multiplied by 90%, but by a smaller percentage, depending on the number of years of substantial Social Security coverage you have. The modified formula reduces your Social Security Benefit to the greatest extent if you have less than 21 years of substantial Social Security coverage. In that case the first level of earnings is multiplied by 40% instead of 90%. For each year of coverage over 20 years the percentage increases by 5% increments (e.g., 45% for 21 years, 50% for 22 years, etc.). However, in no case will the reduction in your Social Security benefit because of the WEP be greater than one-half of the portion of your pension from employment not subject to Social Security taxes; for example, your CSRS annuity.

That aspect of the WEP will only help if the amount of your CSRS benefit is relatively low. If you could earn between 21 and 30 years of substantial Social Security coverage, you should consider whether or not you could earn the required years by transferring to FERS. If you can, it will reduce or cancel out the effect of this provision. For example: Two employees with the same date of birth retire at age 65. Both have worked for the same employer for their entire working career and have identical wages posted to their earnings records. However, one also worked for the Federal government and is receiving a CSRS pension of $800 per month, based on that non-covered work. When Social Security benefits are computed, the worker entitled only to Social Security will receive a benefit of $567 per month. The second worker is subject to the WEP modified formula and will receive a benefit of $354 per month.

These benefit amounts are computed using the different percentages as follows:

The average indexed monthly earnings for each worker is $1000.	
1st worker	**2nd** worker
426 x .90 = 383.40	426 x .40 = 170.40
574 x .32 = 183.60	574 x .32 = 183.60
Total 567.00	Total 354.00

Conclusion

If you become eligible for a Social Security benefit, you may be subject to the WEP whether you choose to stay with CSRS or transfer to FERS. This is because, either way, you may not be able to acquire 30 years of substantial Social Security coverage.

If you earn 21 or more years of substantial Social Security coverage, though, you can lessen the effects of this provision. Depending on your age, your previous

Social Security coverage, and the number of years you plan to work, transferring to FERS could allow you to earn some or all of the additional Social Security coverage you need to avoid the WEP. This could be especially valuable for lower paid employees.

Social Security generally provides a higher proportion of benefits to lower income employees than it does to those who are higher paid. The reduction that results from the WEP, however, tends to cancel out this effect. Lower salaried employees who are subject to the WEP will find FERS a less attractive alternative than those who are not. If you are low salaried, staying with CSRS is usually a better choice if you are sure you will retire from the Federal Government and will not be able to earn enough Social Security substantial earnings years to avoid the Windfall reduction by transferring to FERS.

How to Estimate the Reduction in Your Social Security Benefit Resulting from the Windfall Elimination Provision

Upon request by a worker (using form SSA-7004), the Social Security Administration (SSA) will send a Personalized Earnings and Benefit Estimate Statement (PEBES) that will list the worker's earnings in employment covered by Social Security and provide a Social Security retirement benefit estimate assuming retirement at alternative ages — 62, 65 and 70. The benefit estimate is based on the person's own estimate of his or her future annual earnings in employment covered by Social Security.

For additional information on the Windfall Elimination Provision you may visit Social Security's web site at www.socialsecurity.gov/pubs/10045.html.

You can request a PEBES online from Social Security's Web site at http://www.ssa.gov.

You also can obtain the PEBES request form (SSA-7004) at this Web address, from your personnel office, or by calling 1-800-772-1213.

Use of PEBES Benefit Estimates to Estimate CSRS-Offset Reductions

If you are a CSRS-Offset employee considering whether to join FERS, you may want to know how much your CSRS annuity will be reduced under the CSRS-Offset calculation. Generally, this reduction is the smaller of:

(1) The difference between (a) the Social Security benefit including future Federal CSRS-Offset employment and (b) the Social Security benefit excluding future CSRS-Offset employment; and

(2)1/40 of the Social Security benefit (including future Federal employment), multiplied by the number of years of future CSRS-Offset employment.

You can estimate these reductions by first requesting two Personalized Earnings and Benefit Estimate Statements (PEBES) from the Social Security Administration (see How to Estimate the Reduction in Your Social Security Benefit Resulting From the Windfall Elimination Provision in the previous section). On one PEBES request form, you should indicate the annual Federal pay you estimate that you would have (in today's dollars) until age 62; on the other PEBES request form, you should show no future earnings under Social Security. When you receive the two statements from SSA, adjust each benefit estimate for the windfall elimination provision (WEP) as explained in the previous section (page 45).

After adjusting for the WEP, the difference between the two Social Security benefit estimates at age 62 can be used as an estimate of (1), above—assuming that you continue to work under CSRS-Offset until age 62. If you plan to work until age 65, use the age-65 benefit estimates on the PEBES output.

The reduction under (2), above, can be estimated by taking 1/40 of the estimated Social Security benefit including future CSRS-Offset employment (as adjusted for the WEP) and then multiplying by the number of years of future CSRS-Offset employment.

Government Pension Offset

This section applies to you if:

- You are covered by CSRS (or you transfer to FERS, but do not serve 5 years under FERS); and
- Based on your work history you are eligible for no Social Security benefit or only a small Social Security benefit; and
- Based on your spouse's (or former spouse's) work history, he or she is eligible for a full Social Security benefit.

This section does not apply to you if you are covered by CSRS Offset provisions. People who are mandatorily covered under Social Security are exempt from the Government Pension Offset.

What the Government Pension Offset Is

Under the Government Pension Offset, the amount of the benefit a person receives from Social Security as a spouse, former spouse, or surviving spouse will be reduced if that person also receives a pension based on his/her own work in Federal, State, or local government that was not covered by Social Security.

Who Is Affected?

Federal employees who remain with CSRS are subject to the Government Pension Offset. In addition, CSRS employees who transfer to FERS must serve 5 years in FERS before becoming exempt from the offset.

The Government Pension Offset does not affect any benefits you receive from your Thrift Savings Plan account.

What Is a Social Security Spouse or Survivor Benefit?

In some cases, Social Security law provides for what is known as a spouse or survivor benefit. If your spouse has earned a Social Security benefit and you have earned little or no benefit, you can receive an additional Social Security benefit based on your spouse's Social Security benefit. If you begin taking this benefit at age 65, it will amount to one-half (50%) of the amount your spouse receives. If you start receiving this benefit at age 62, it will amount to a little over one-third (37.5%) of the amount your spouse receives.

Example: Your spouse receives a monthly check from Social Security in the amount of $1,200. If you begin receiving Social Security benefits as a dependent of your spouse at age 65, you will receive a monthly check from Social Security in the amount of $600. If you begin receiving your spousal benefit at age 62, you will receive a monthly check from Social Security in the amount of $450.

How the Government Pension Offset Works

If you retire from the Federal service under CSRS and are also eligible for Social Security benefits as a spouse, former spouse, or survivor, your Social Security benefit will be reduced. It is reduced because you are receiving a pension from the Federal Government based on earnings that are not covered by Social Security. For every $3 you receive from your CSRS annuity, your Social Security spousal benefit will be reduced by $2.

Example: Using the above example where you were eligible for a $600 Social Security spousal benefit, suppose you were also receiving a CSRS benefit that amounted to $1,200 a month. The Government Pension Offset would be two-thirds of your monthly $1,200 CSRS benefit, or $800. Since the offset amount is larger than your $600 Social Security benefit, your Social Security benefit would be eliminated.

What Is the Effect of Transferring to FERS?

Employees who transfer and work at least 5 years under FERS before retiring are exempt from the Government Pension Offset.

Conclusion

This factor will probably not be significant for anyone who earns his/her own Social Security benefit based in whole or in part on FERS service. This is because earned Social Security benefits are usually larger than spousal benefits, and Social Security will not pay both at the same time. Even those who are thinking of transferring to FERS because of this factor should also consider the fact that non-Social Security survivor benefits under the Basic Benefit Plan are slightly lower and more costly under FERS (see page 35).

Special Employee Groups

This section covers four types of employees: law enforcement officers, firefighters, air traffic controllers, military reserve technicians, and Customs and Border Protection Officers.

Law Enforcement and Firefighting Personnel

CSRS

If you work in a position that your agency has determined to be a law enforcement or firefighting position, you are covered under special rules of the Civil Service Retirement System. You pay a higher retirement contribution rate (7.50% of pay) for more generous retirement benefits, and you have the ability to retire at age 50 after 20 years of law enforcement officer/firefighter covered service. The benefits you receive will be computed based on 2.5% of your high-3 average pay for each of the first 20 years of law enforcement/firefighter service, and 2% per year of service (covered or not) thereafter. Once you have 20 years of covered service, you are subject to mandatory retirement at age 55 if you are a firefighter and age 57 if you are a law enforcement officer. Other CSRS rules apply to you in the same manner as to any other employee.

FERS

Under FERS, there are also special benefits for law enforcement and firefighting personnel, but the rules are different. First, the FERS definition of a law enforcement or firefighting position includes a requirement that the positions be limited to "young and vigorous" personnel. Second, in order to qualify for the special benefits, you must have occupied a primary or first-line law enforcement or firefighting position for at least **3** years before moving to a secondary (that is an administrative or supervisory) position. Agency heads may determine that some supervisory positions are "primary" because they meet the "young and vigorous" requirement. The FERS definition and the 3-year requirement are generally more strict than the CSRS rules.

The contribution rate for FERS special law enforcement and firefighting benefits is a half percent more of pay than for regular benefits. FERS also has different rules for when you can retire: at age 50 with 20 years of covered service, like CSRS, or at any age with 25 years of covered service. Under FERS, the special benefits formula is 1.7% of your high-3 average pay for each of the first 20 covered years of FERS service, and 1% of pay per year of service thereafter. The FERS cost-of-living adjustments will begin at retirement instead of at age 62, the age when most FERS retirees begin to receive cost-of-living adjustments. In addition, law enforcement and firefighting retirees will receive the FERS Special Retirement Supplement until age 62. The earnings test does not apply to the Special Retirement Supplement until you reach the Minimum Retirement Age. Once you have 20 years of covered service, you are subject to mandatory retirement at age 55. Other FERS provisions, including those for Social Security and the Thrift Savings Plan, are the same as for regular employees.

Note: There are special rules that apply to Customs and Border Protection Officers. Contact the Benefits Officer at your agency for additional information.

Special Transfer Rules

In general, the same transfer rules apply to CSRS law enforcement and firefighting personnel who elect FERS as they do to regular employees. That is, you take with you your credit for your CSRS service, including your 2.5% credits, and the full CSRS cost-of-living adjustments payable on those credits. (You must retire under the special provisions to get the 2.5% credits.)

However, there are two points that you should keep in mind:

- All of your covered (law enforcement/fire-fighting) service that was subject to the 7.50% deduction rate (or the CSRS Offset rate) counts toward the required 3 years of service in a primary position when you transfer to FERS, even if some of the service was in an administrative or supervisory position. If you now occupy a covered position but will not meet the 3-year requirement at the time you transfer, you may want to check to see that you will accumulate enough additional service in a position that your agency head has designated as a primary law enforcement/firefighting position to meet the 3-year requirement under FERS.

- Your law enforcement/firefighter service that was subject to the 7.5% deduction rate (or the CSRS Offset rate) will not count against the 20-year limitation for the more generous FERS benefit formula.

  Example: If you transfer to FERS after 13 years of CSRS law enforcement/firefighter service, you can still earn up to 20 years of additional service at the 1.7% rate under FERS. In effect, the period of time during which you can earn special benefits is extended by transferring to FERS. However, mandatory retirement age requirements are not affected by transferring.

Transfer Considerations for Law Enforcement and Firefighting Personnel

If you will perform, or have already completed 25 years of covered (law enforcement/firefighting) service before attaining age 50, the FERS provisions permitting retirement at any age after 25 years of service permit you to retire earlier under FERS than under CSRS.

If you are close to meeting the 20-year limitation for the special benefit formula under CSRS but contemplate working beyond 20 years, you may wish to consider FERS as a means of extending your eligibility for the special benefit formula. The FERS 1.7% rate, plus Social Security and the Thrift Savings Plan, generally provide more basic value than the regular 2% per year CSRS formula you earn after 20 years of covered service under CSRS.

Because the FERS definitions of law enforcement officer and firefighter differ from the CSRS definitions, you will not necessarily be covered by FERS special provisions if you transfer, even though your position now qualifies under CSRS provisions. Your agency head must determine which positions qualify. If there is any question as to whether your current position meets the FERS definition or whether you can meet the 3-year requirement for primary law enforcement/firefighting duties under FERS, you should consider staying with CSRS.

Of course, as has been stated throughout this handbook, if you plan to leave Federal service short of retirement, FERS is almost always the better choice. This is especially important for those who leave before becoming eligible to retire under the law enforcement/firefighter provisions. They will be treated the same as any other employee under CSRS or FERS.

Air Traffic Controllers

The definition of an Air Traffic Controller, or Controller is the same under CSRS and FERS.

CSRS

Under CSRS you can retire at age 50 after 20 years of service as a controller, or at any age after 25 years as a controller. While there is no special benefit formula, there is a guaranteed benefit after at least 20 years of controller service. The guarantee is 50% of your high-3 average pay. If you retire after 25 years, it works out to earning 2% per year. If you retire after 27 years, the guarantee provides no more than the regular formula would have. Other than the guaranteed benefit and mandatory retirement, there are no special CSRS rules for controllers.

FERS

While FERS has the same rules as CSRS for when a controller can retire, FERS doesn't have a guaranteed benefit. Instead, FERS provides the same special benefits that are provided to law enforcement and firefighting personnel, discussed on the previous page. FERS also requires controllers to pay a 1/2% more for the special benefits, as must law enforcement and firefighting personnel.

Special Transfer Rules

There are no special rules for controllers who transfer to FERS.

Transfer Considerations for Controllers

When a controller transfers to FERS, the regular CSRS formula is used to calculate the CSRS credit that the controller will receive under FERS, and the guaranteed benefit is completely disregarded. In cases where a controller plans to retire before completing 27 years of service, this can have the effect of significantly reducing the value of the CSRS service performed before transferring.

Example: A controller who has between 20 and 25 years of controller service has earned the CSRS guaranteed benefit of 50% of average pay. When that service is transferred to FERS, its value will be computed using the regular CSRS formula; 36% for 20 years and 46% for 25 years. This results in a loss of 4 to 14% of average pay compared to the value of the service under CSRS. Unless the controller expects to perform many years of service, the special formula for controllers under FERS won't make up the difference.

Of course, the CSRS guaranteed benefit is only available to employees who retire under the system. FERS is almost always a better system for those who expect to leave Federal service short of retirement.

Military Reserve Technicians

A military reserve technician, or National Guard technician is a civilian employee who is a member of the Army National Guard of the United States, the Army Reserve, the Naval Reserve, the Marine Corps Reserve, the Air Force Reserve, or the Coast Guard Reserve who is assigned to duties in one of these components and who is required to maintain a specific military grade in order to continue in his/her civilian employment.

CSRS

A technician is treated the same as any other employee under CSRS. A technician who is involuntarily separated (not for delinquency or misconduct) from his/her position can get a discontinued service annuity at any age with 25 years of service, or at age 50 with 20 years of service. The annuity is reduced at a rate of 2% for each year the employee is under 55 years of age.

A National Guard technician who is medically disqualified for military duty and who has 5 years of creditable civilian service may receive disability benefits without meeting the usual CSRS disability criteria. This special provision does not apply to military reserve technicians.

FERS

Under FERS, a technician who is separated from civilian service because he/she no longer qualifies as a member of a military reserve component may retire and receive an unreduced annuity at age 50 with 25 years of service. If military status is lost due to a disability, FERS disability benefits are payable after only 18 months of FERS service. Also, the Special Retirement Supplement is paid until age 62. It is not subject to the Social Security Earnings Test until the employee reaches the Minimum Retirement Age. However, technicians are not eligible for the 1.1% annuity formula under FERS, no matter how long they work or their age at retirement.

Thrift Savings Plan Considerations for Special Groups

If you retire under any of the special retirement provisions, you will be eligible to withdraw your Thrift Savings Plan account. You may receive your entire account as a single payment, receive your account in a series of monthly payments, or have the TSP purchase an annuity for you. If you elect a single payment or certain monthly payments, you may have TSP transfer all or any portion of the payment(s) to an Individual Retirement Arrangement (IRA) or other eligible retirement plan.

Thrift Savings Plan payments are taxable as ordinary income for Federal income tax purposes for the year in which they are disbursed. In addition, if you retire before the year in which you reach age 55 and receive a direct single payment or monthly payments determined by dollar amount or number of months before you reach age 59½, the payment(s) will be subject to the Internal Revenue Service 10% early withdrawal penalty tax. If you transfer all or any portion of the payment(s) to an IRA or other eligible retirement plan, the amount transferred is not taxable income when it is transferred (it becomes taxable income when it is disbursed from the plan to which it was transferred) and, consequently, is not subject to early withdrawal penalty tax. If you receive a TSP annuity, or monthly payments computed by your life expectancy, the payments are not subject to the early withdrawal penalty.

Service Credit Deposits and Refunds

Civilian Service

CSRS

Under CSRS, civilian service as a Federal or District of Columbia employee is generally creditable for retirement. Service while employed but in a nonpay status is creditable for up to 6 months per calendar year.

If you are covered by CSRS, all past civilian service (including service for which no deductions were withheld and service for which a refund of deductions has been paid) is used to determine your eligibility for an annuity. If you received a refund, however, the service covered by the refund cannot be included in computing your length of service for your annuity, unless the refund is redeposited (repaid) after you become reemployed. Exception: Even if you do not pay a redeposit, refunded service that ended before October 1, 1990, will still be credited when you retire, subject to an actuarial reduction in your annuity. The reduction is based on the amount of the redeposit and your age at the time of retirement. This exception to the redeposit requirement does not apply if you retire for disability.

Nondeduction service (service for which no deductions were taken) performed on and after October 1, 1982 is not creditable in computing your annuity unless a deposit is paid. Nondeduction service performed before October 1, 1982, is not fully creditable in computing your annuity unless a deposit is paid. However, if you do not pay the deposit for pre-October 1, 1982 service, the yearly amount of your annuity will be reduced by 10 percent of the unpaid deposit. A CSRS employee may make deposits and redeposits at any time, but not after the U. S. Office of Personnel Management has completed processing the employee's annuity application. The redeposit payment is the amount of the refund, plus interest from the date of the refund. The amount of a deposit is usually 7% of the basic pay for the period, plus interest from the midpoint of the period. Interest on deposits for nondeduction service on and after October 1, 1982, and on refunds based on applications received on and after October 1, 1982, is computed at the rate of 4% through 1947, 3% through 1984, and an annually variable rate beginning in 1985 (reflecting certain U.S. Treasury Department interest rates for the previous fiscal year). The variable interest rates since 1984 are as follows:

1985	13%
1986	11.125%
1987	9%
1988	8.374%
1989	9.125%
1990	8.75%
1991	8.625%
1992	8.125%
1993	7.125%
1994	6.25%
1995	7.0%
1996	6.875%
1997	6.875%
1998	6.75%
1999	5.75%
2000	6.375%
2001	6.375%
2002	5.5%
2003	5.0%
2004	3.875%
2005	4.375%
2006	4.125%
2007	4.875%
2008	4.75%

Interest on deposits for nondeduction service before October 1, 1982, and refunds based on applications received before October 1, 1982, is computed at the rate of 4% through 1947, and 3% after 1947.

FERS

Under the rules for employees who transfer to FERS, civilian service covered by retirement deduction or deposits is creditable for all purposes. If you receive a refund of FERS deductions after the effective date of your transfer to FERS, you can never redeposit the FERS funds, and the period covered by the refund will not be creditable for the purposes of entitlement or computation of your annuity. If there is a CSRS component, and CSRS contributions were also returned, they follow CSRS redeposit rules. You can also request a refund of only your CSRS deductions upon separation.

Nondeduction service cannot be credited unless it was performed before 1989 and a deposit is made. (An exception in the law allows certain nondeduction service performed after 1988 to be credited if it is creditable under the Foreign Service Pension System.)

If you transfer to FERS, any service subject to CSRS Offset deductions after 1983 (and before the effective date of your transfer to FERS) becomes subject to FERS rules. But, if these deductions were refunded upon separation from service, they may usually be redeposited upon later reemployment subject to FERS. The treatment of other civilian service performed before the effective date of your transfer (that is, the civilian service not subject to CSRS Offset deductions) depends on how much service you have. For simplicity, this past service will be called non-offset service. Non-offset service includes nondeduction service performed before transferring to FERS (except that such nondeduction service performed after 1988 can be used only in a CSRS component), service for which a deposit or redeposit has been made at the full CSRS rate, and service for which deductions were taken at the full CSRS rate, whether refunded or not.

Military Service

CSRS

Under CSRS, honorable active military service is generally creditable. However, most military retirees are barred from receiving credit toward a civilian annuity unless they waive their military retired pay. The military retired pay need not be waived if it is based on disability involving certain injuries incurred in wartime or if it is Chapter 67 (reservists') retired pay. If you are a military retiree, your retired pay center can tell you whether you fall under one of these exceptions.

Beginning in 1957, military service became subject to Social Security, and treatment of military service under retirement depends on whether or not it was performed after December 31, 1956. A 1982 change in law also distinguished between pre-October 1, 1982 hires and those employees who first became subject to CSRS on or after that date.

Employees first hired in positions subject to CSRS after September 30, 1982 can receive credit for military service after 1956 **only** if they make a deposit covering this service. Employees hired in positions subject to CSRS before October 1, 1982 can receive credit for military service after 1956 without making the deposit. However, credit for this service will be eliminated if the individual becomes eligible (or would become eligible upon proper application) for Social Security old-age benefits at age 62 unless a deposit for the service is made before retirement.

The deposit is made directly to the employing office. The amount of the deposit is 7% of the military basic pay for the period, plus interest. CSRS Offset employees pay the same amount. Interest is computed at the rate of 3% through 1984 and an annually variable rate beginning in 1985 (see table on page 53). Interest begins on October 1, 1985, or 2 years after the employee is first hired in a position subject to CSRS; whichever is later. However, because the method of computing the deposit calls for adding interest only at the end of the year after it begins, no interest is charged if the deposit has been paid in full by September 30, 1986, or within 3 years after first becoming subject to CSRS, if later.

Service in the National Guard

Service in the National Guard, except when ordered to active duty in the service of the United States, is generally not creditable. However, you may receive credit for National Guard service, followed by Federal civilian reemployment that occurs after August 1, 1990, when **all** of the following conditions are met:

- The service must interrupt civilian service creditable under CSRS (or FERS) and be followed by reemployment in accordance with the appropriate chapter of the laws concerning Veterans Benefits; and

- It must be full-time (and not inactive duty), and performed by a member of the U.S. Army National Guard, or U.S. Air National Guard; and

- It must be under a specified law and you must be entitled to pay from the U.S. (or have waived pay from the U.S.) for the service. The deposit for National Guard service that meets these criteria is limited to the amount that would have been deducted from your pay for retirement if you had remained in the civilian service. This means that CSRS Offset employees may pay a deposit of less than 7% for qualifying National Guard service.

FERS

Military service that would be creditable under CSRS is creditable under FERS, except that all military service after 1956 must be covered by a deposit to receive credit. Even if an employee covered by FERS was first hired before October 1, 1982, military service after 1956 cannot be credited under FERS rules unless the required deposit is completed. The deposit must be made directly to the employing agency before retirement.

The amount of the deposit is 3% of the military basic pay for the period, plus interest. The deposit rate for qualifying National Guard service is limited to the amount that would have been deducted from pay had the person remained in his/her civilian position. Interest is computed at the same rate as applicable to CSRS deposits. Interest for military service that will be credited under FERS rules begins 2 years after the effective date of an election to join FERS. As under CSRS, however, no interest will actually be charged if the deposit is completed before the end of the year after interest begins; that is, if the deposit is completed within 3 years of the effective date of the election to join FERS.

Whether your past military service is credited under CSRS rules or FERS rules depends on how much non-offset civilian service you have as of the effective date of your transfer to FERS. Refer to the above FERS section under "Civilian Service" to determine whether your military service will be subject to FERS rules or CSRS rules. Any military service performed after your transfer and before retirement can be credited only under FERS rules. If you become subject to FERS rules but have already made a deposit under CSRS rules, a refund is payable. The refund will be equal to the difference between the 7% deposit and the 3% deposit. If you are eligible for this kind of refund, your employing agency can give you more information.

Conclusion

The varying rules for service credit deposits and refunds under CSRS and FERS are not significant factors in most transfer decisions.

Adjusted Career Earnings—A figure based on an employee's earnings history that is used in calculating Social Security benefits amounts. A worker's actual earnings through out his/her work history are indexed to reflect the national wage levels in effect when he/she becomes eligible for Social Security benefits.

Agency Automatic (1%) Contribution—An amount equal to 1% of a FERS employee's basic pay that his/her agency contributes to the employee's Thrift Savings Plan account each pay period. This contribution is made from agency funds; it is not a deduction from the employee's basic pay. It is made whether or not the employee contributes to the Thrift Savings Plan.

Agency Matching Contributions—A FERS employee who contributes a percentage of his/her pay to the Thrift Savings Plan receives additional contributions from the Government. These Government contributions are known as Agency Matching Contributions.

Annuitant—An individual who is receiving a CSRS, CSRS-Offset or FERS annuity.

Annuity—The recurring monthly payments to a former employee who has retired.

Annuity, Deferred—An annuity that begins more than 1 month after separation from employment at some future point when retirement age is reached. (Also called deferred benefits.)

Annuity, Immediate—An annuity that becomes payable within 1 month after separation from Federal employment. (Also called immediate benefits.)

Annuity, Postponed—Delaying your FERS annuity benefit to sometime in the future after meeting your Minimum Retirement Age but before age 62.

Annuity, Reduced—A retiree's basic annuity that is reduced because of retirement before a certain age (for reasons other than disability). Annuities are also reduced because of unpaid deposits or redeposits, or to provide a survivor annuity. (Also called reduced benefits.)

Annuity, Survivor—The recurring monthly payments to a deceased employee's or retiree's survivor(s). Survivor annuities may be paid to surviving spouses, certain former spouses, and children. (Also called survivor benefits.)

Average Indexed Monthly Earnings (AIME)—The adjusted earnings determined under the Social Security Act formula used to determine Social Security benefits. It is based on an individual's lifetime earnings subject to the Social Security System.

Basic Benefit Plan—The first tier of FERS (Federal Employees Retirement System). The Basic Benefit Plan provides annuities and lump-sum payments based on years of service and pay.

Basic Pay—An employee's pay subject to retirement deductions under CSRS or the FERS Basic Benefit Plan, generally excluding such compensation as bonuses, overtime pay, special allowances, etc.

COLA, CSRS—CSRS cost-of-living adjustments (COLA's) provide an increase that is equal to the rate of inflation as measured by the Consumer Price Index (CPI). CSRS cost-of-living adjustments are provided to retirees at all ages.

COLA, FERS—FERS cost-of-living adjustments (COLA's) provide an increase that is equal to the rate of inflation as measured by the Consumer Price Index (CPI) when the inflation rate is 2% or less. When the inflation rate is between 2% and 3%, the cost-of-living adjustments will be 2%. When the inflation rate is 3% or more, FERS cost-of-living adjustments are 1% less than the rate of inflation. FERS cost-of-living adjustments under the Basic Benefit Plan are not provided until a retiree reaches age 62, except for disability and survivor benefits, and employees retired under the special provisions for law enforcement officers, firefighter, air traffic controllers, and Customs and Border Protection Officers.

Common Stock Index Investment Fund (C Fund)—One of the six Thrift Savings Plan investment funds. This fund allows participants to invest in common stocks and is invested in a fund that tracks the Standard and Poor's 500 stock index.

Consumer Price Index (CPI)—The measure of change in consumer prices as determined by a monthly survey of the U.S. Bureau of Labor Statistics. Among the Consumer Price Index components are the costs of housing, food, transportation, and electricity. Both CSRS and FERS benefits are adjusted for changes in the rate of inflation as measured by the Consumer Price Index. (See Cost-of-living adjustments entries.)

Cost-of-Living Adjustment (COLA)—An adjustment of an annuity amount based on the rate of inflation as measured by the Consumer Price Index (CPI). It protects an annuity's buying power in times of inflation.

Credits of Coverage —A measurement used to credit work covered by Social Security. In 2008, earnings totaling $1,050 generally equal one credit of coverage. No more than four credits may be earned in any one calendar year. The term "quarters" of coverage is also used.

CSRS—The Civil Service Retirement System.

CSRS Offset—Generally applies to an employee who was originally employed under CSRS, left the Federal service for more than a year, and returned after 1983 to be covered by both CSRS and Social Security. If you elect FERS, CSRS-Offset service changes to FERS service.

Deductions—The amount withheld from the basic pay of an employee for the basic retirement benefit plan.

Deposit—A sum of money paid into CSRS or FERS by an employee (or a survivor) to get credit for a period of Federal civilian service during which retirement deductions were not withheld from pay.

Earnings Offset—A reduction in an employee's Social Security payments or Special Retirement Supplement made when he/she continues to work after benefits begin and earns over an allowable amount ($13,560 in 2008). For every $2 earned over this amount, the employee will give up $1 in benefits. This offset does not apply to special groups of employees until the Minimum Retirement Age is attained.

Earnings Test—A method of connecting benefits to income so that as income increases, benefits decrease. Used in the earnings offset.

FERS—The Federal Employees Retirement System.

Federal Retirement Thrift Investment Board—An independent Federal agency established to administer the Thrift Savings Plan.

Fixed Income Investment Fund (F Fund)—One of the six Thrift Savings Plan investment funds. This fund allows participants to invest in fixed income obligations and is invested in a fund designed to closely track the Lehman Brothers Aggregate bond index.

Government Pension Offset—A part of the Social Security law that affects CSRS retirees who are also entitled to a Social Security spouse or survivor benefit. It is sometimes referred to as the "Public Pension Offset." The Social Security benefit is reduced because the CSRS retiree is also receiving a pension from employment that was not covered by Social Security. If you elect FERS, you must be covered for 5 years to avoid Government Pension Offset.

Government Securities Investment Fund (G Fund)—One of the six Thrift Savings plan investment funds. This fund consists exclusively of investments in short-term nonmarketable U.S. Treasury securities specially issued to the TSP.

High-3 Average Pay—The average of an employee's 3 highest consecutive years of basic pay earned during creditable service. Used in benefit computations under both FERS and CSRS.

International Stock Index Investment Fund (I Fund)—One of the six Thrift Savings Plan investment funds. The I Fund offers the opportunity to earn a potentially high investment return over the long term by investing in the stocks of companies in developed countries outside the United States.

Lifecycle Fund (L Fund)—One of the six Thrift Savings Plan investment funds. The L Funds diversify participant accounts among the G, F, C, S, and I Funds, using professionally determined investment mixes (allocations) that are tailored to different time horizons. The L Funds are rebalanced to their target allocations each business day. The investment mix of each fund adjusts quarterly to more conservative investments as the fund's time horizon shortens.

Market Rate of Interest—The percentage of interest paid on certain FERS deposits and refunds. Based on the average interest earned by the Civil Service Retirement and Disability Fund in the previous year. In 2008, the interest rate is 4.75%.

Maximum Taxable Wage Base—The maximum amount of an employee's wages subject to Social Security taxes. In 2008, the maximum taxable wage base is $102,000. An employee pays no Social Security taxes on any earnings above the base. However, the excess earnings are not used in calculating the Social Security benefit, either. The maximum taxable wage base increases yearly based on the average increase in earnings of the American workforce as a whole.

Minimum Retirement Age (MRA)—The earliest age at which a FERS employee may retire voluntarily or elect to receive benefits if separated from Federal service after at least 10 years of service. The MRA varies according to the year in which the employee was born. For anyone born before 1948, the MRA is 55. It increases gradually to 57 for those born later. The benefits of an employee who has less than 30 years of service (or who is not age 60 with 20 years of service) are reduced if he/she elects to receive them at the MRA.

Non-CSRS Offset Service—Civilian service performed before the effective date of a transfer to FERS that was not subject to both CSRS and Social Security deductions. Non-CSRS Offset service includes nondeduction service performed before transferring to FERS, service for which a deposit or redeposit has been made at the full CSRS rate, and service for which deductions were taken at the full CSRS rate, whether refunded or not.

OASDI or Social Security Tax—The part of the Social Security tax that goes to the old age, survivor, and disability insurance. Since 1990 the tax rate has been 6.2% up to the maximum taxable wage base. The total Social Security tax also includes 1.45% for Medicare.

Offset Plan—(See CSRS Offset.)

OPM (U.S. Office of Personnel Management)—The Federal Government's central personnel agency. OPM administers the CSRS and the FERS Basic Benefit Plan.

Primary Insurance Amount—A worker's basic Social Security benefit based on his/her adjusted career earnings. (See Adjusted Career Earnings.)

Quarters of Coverage ("Quarters")—A measurement used to credit work covered by Social Security. In 2008, earnings totaling $1,050 generally equal one quarter of coverage. No more than four quarters of coverage may be earned in any one calendar year. The term "credit" is also used to refer to quarters of coverage.

Reasonable Offer—For discontinued service retirement (early, involuntary), a reasonable offer is a written offer of another position in the employing agency for which an individual is qualified, not lower than two grades below the individual's current grade, at the same tenure and work schedule, and in the same commuting area. A different definition applies for disability retirement: A written offer of another position in the employing agency for which an individual is qualified, at the same grade as the individual's current grade, at the same tenure and work schedule, and in the same commuting area.

Redeposit—A sum of money paid into CSRS by an employee (or a survivor) to get credit for a period of Federal civilian service for which a refund of retirement contributions was received. (Not allowable for FERS service.)

Refund—The amount of money a former Federal employee withdraws from his/her retirement account. Under FERS, refunds are paid with a market rate of interest.

Retiree—A former Federal employee who is receiving recurring CSRS or FERS payments based on his/her service.

Retirement, Deferred—Retirement under CSRS or FERS when the employee separates from service with at least 5 years of civilian service, but before meeting the requirements for an immediate annuity. A deferred retirement under CSRS begins on the employee's 62nd birthday. Under FERS, the deferred retirement can begin as early as the employee's MRA if the employee had at least 10 years of service.

Retirement, Early, FERS—Retirement with at least 10 but less than 30 years of service after reaching the MRA and receiving a reduced annuity. Not available under CSRS. Also called "MRA + 10" benefit.

Retirement Fund—The Civil Service Retirement and Disability Fund. This is the account that contains the employee and employer contributions to CSRS and FERS. It includes additional payments, as well, and is invested in Federal Government securities.

Retirement, Unreduced—Retirement under CSRS or FERS with full benefits after meeting appropriate age and length-of-service requirements: 62 with 5 years, 60 with 20 years, 55 with 30 years under CSRS, or the MRA with 30 years or involuntary and early out under FERS. (Also called unreduced benefits.)

Retirement, Voluntary, or Optional—Retirement from Federal service under CSRS or FERS at the individual's option with an immediate annuity at any time following completion of the appropriate age and length-of-service requirements.

Service, Nondeduction—Periods of civilian service for which no retirement deductions were withheld from pay for retirement purposes.

Small Capitalization Stock Index Investment Fund (S Fund)—One of the six Thrift Savings Plan investment funds. The S Fund offers the opportunity to earn a potentially high investment return over the long term by investing in the stocks of small and medium-sized U.S. companies.

Social Security—A social insurance program that covers most of the Nation's work force. It is often the basic retirement plan to which other benefits are added. It provides retirement, disability, survivor, and Medicare benefits.

Social Security Credits—When an employee works in a position and pays Social Security taxes, he/she earns Social Security credits. Minimum numbers of credits are required in order to qualify for various Social Security benefits. (See Quarters of Coverage.)

Special Retirement Supplement—An annuity supplement provided to some FERS employees who retire before age 62, because Social Security benefits cannot start before then. The supplement approximates the portion of a full career Social Security benefit earned while under FERS, and ends at age 62 when Social Security benefits first become available. The supplement is subject to an earnings test.

Substantial Social Security Coverage or Earnings—Earnings above a certain amount that count toward reducing the effect of the Windfall Elimination Provision (WEP). The effect of the WEP starts to be reduced when 21 or more years of substantial Social Security coverage are earned. (In 2008, $18,975 in earnings subject to Social Security taxes are considered to be “substantial.” In contrast, the amount needed to earn four credits for the year is $2,875.) (See Windfall Elimination Provision.)

Survivor—A person who is entitled to a benefit based on the service of a deceased employee or annuitant.

Thrift Savings Plan (TSP)—A retirement savings and investment plan established by Congress in the Federal Employees' Retirement System Act of 1986 to provide eligible Federal employees savings and tax benefits similar to those offered by many private corporations. It is a defined contribution plan administered by the Federal Retirement Thrift Investment Board. CSRS employees can also contribute but receive no agency contributions.

Wage Base—(See Maximum Taxable Wage Base.)

Windfall Elimination Provision (WEP)—This provision of the Social Security law reduces Social Security benefits for employees who have less than 30 years of substantial coverage under Social Security and get a pension from employment not covered by Social Security (for example, a CSRS benefit).

Acronyms

AIME Average Indexed Monthly Earnings

AIYE Average Indexed Yearly Earnings

COLA Cost-of-Living Adjustment

CPI Consumer Price Index

CSRS Civil Service Retirement System

FERS Federal Employees Retirement System

GIC Guaranteed Investment Contract

IRA Individual Retirement Arrangement

MRA Minimum Retirement Age

OASDI Old Age, Survivors, and Disability Insurance

PIA Primary Insurance Amount

TSP Thrift Savings Plan

WEP Windfall Elimination Provision

Examples

The following examples represent projected annual retirement benefits that several hypothetical employees might receive by remaining under CSRS or transferring to FERS. These examples were developed using the 1996 version of the FERS transfer model. The 1998 version should be available through your personnel office. It also is on the U.S. Office of Personnel Management's Internet Web site (http://www.opm.gov/retire/pre/botdg/index.asp). In reviewing these examples, note that the benefits projections are based on certain assumptions about future salary increases, investment returns, and other factors that directly affect your final level of benefits. The economic scenario used in these examples is based on assumptions of 3.5% inflation, 7.5% investment return and 3.5% salary growth. These assumptions are quite conservative because they are projections made over a period that would represent much of an employee's career. However, actual experience may vary. For example, the compound return for the C Fund from 1988 through 1997 was 17.56%, and the compound annual inflation rate for the period was 4%. Thus, the TSP account of an employee who invested heavily in the C Fund during this period would have become a much more valuable part of his or her benefits package than the assumptions used in the examples would indicate.

All benefits are shown in 1996 dollars. Annual benefits have been rounded to the nearest hundred dollars and may not total exactly due to rounding. Because the examples involve projections into the future, the benefit amounts shown should not be taken as estimated benefits. Instead, the amounts should be taken as indicators of which plan may provide the better monetary benefits. You will also see, as you read through the examples, that several of our make-believe employees' decisions turned on other factors such as getting the portability of Social Security coverage or being able to retire earlier.

The decrease in FERS and Thrift Savings Plan benefits that appears by age 75 reflects the fact that FERS benefits do not receive full cost-of-living adjustments and that the TSP option selected provides level payments that are not adjusted for inflation. The TSP does offer an option for an annuity that increases by a specific percentage each year. In that case, the annuity will start at a lower value but the value will not decline as rapidly as a fixed annuity.

Example 1. Bernice

Bernice began her Federal career as a GS 2, Step 1. During the FERS open season in 1987, she chose to stay in CSRS. She recently had a 3-month break in service when the military base where she worked closed.

Bernice is a GS 7, Step 10. She has more than 20 years of CSRS service, a Thrift Savings Plan balance of $5200, and essentially no Social Security-covered earnings. She currently is saving 5% of pay in the Thrift and plans to continue to do so whether she stays in CSRS or transfers.

Bernice plans to retire from Federal service in 2012 when she is age 60. She will have 38.6 years of service. She expects to be a GS 9 at retirement. Bernice looks forward to having time for volunteer work when she retires. If Bernice transfers to FERS and retires at age 60, she will receive the annuity supplement until age 62 when Social Security benefits begin. Since Bernice does not have 30 years of substantial earnings under Social Security, her benefit will be computed under the lower Windfall Elimination Provision. The projection shows Bernice's total future benefits to be very similar under both retirement plans.

Bernice expects that her husband will be transferred to a job in another State in the next year or so. Since she doesn't know how readily she will be able to get another Federal job in that location, she decides to transfer to FERS because it is a more flexible package. She can add to her Social Security benefit no matter whether she remains in Federal service or moves to the private sector. If she doesn't stay in Federal service, she can start receiving FERS benefits at her minimum retirement age, but under CSRS, she would have to wait until age 62.

	Future Employee Contribution	**Annual Retirement Benefits**		
		Year: 2012 **Age:** 60	2014 62	2027 75
Staying in CSRS				
Pension	43,300	26,000	26,000	26,000
Social Security	0	0	0	0
Thrift Plan	30,900	4,100	3,800	2,500
Bal. $52,500				
Total	**74,200**	**30,100**	**29,800**	**28,400**
Joining FERS				
Pension - CSRS	0	13,700	13,700	13,700
Pension - FERS	4,900	5,700	5,400	4,700
Supple or Soc Sec	38,300	4,200	4,900	4,900
Thrift Plan	30,900	7,500	7,000	4,500
Bal. $95,400				
Total	**74,200**	**31,200**	**30,900**	**27,800**

Example 2. Sam

Sam began his civilian career as a GS 5, Step 1. He resigned after 10 years. After a break of more than 1 year, he returned to Federal service as a CSRS Offset employee. During his 6-month opportunity to transfer to FERS, Sam was very busy with work and family obligations, so he never even finished reading the transfer information his agency provided. After another 5 years of service, he now has had another break in service, so he has another opportunity to transfer to FERS.

Sam currently is a GS 11, step 3. Based on his prior service, his Thrift balance is $7,500. He is contributing 5% and plans to continue at that percentage. He has 6 years of military service and has paid his military deposit. He had a total of 10 years of Social Security coverage before he came under the CSRS Offset coverage. Sam expects to retire as a GS 12.

Sam had planned to remain in Federal service until age 62. However, his brother is urging him to leave in 2002 when Sam will be age 58 so that they can go into business together. At that point, Sam would have 27 years of service - not enough for a benefit under CSRS, but more than enough for a FERS MRA+10 benefit.

Sam's dilemma is whether to stick with his original plans to retire at age 62 under CSRS or to transfer to FERS so he can retire earlier and fulfill a longtime dream of going into business with his brother.

Sam is really sorry that he did not pay attention to his earlier opportunity to transfer to FERS. Since CSRS Offset service comes under FERS rules upon transfer, if Sam transfers to FERS now, when he retires, his 5 years of Offset service will be worth 5% of his high-3 average salary rather than the 10% that it is worth under CSRS rules. In addition, he will have lost the opportunity for the agency 1% and matching TSP contributions during his Offset service.

	Future Employee Contribution	**Annual Retirement Benefits** **Year**: 2002 **Age**: 58	2006 62	2019 75
Staying in CSRS				
Pension	2,300	0	16,500	16,500
Social Security	18,100	0	7,200	7,200
Thrift Plan	14,600	0	2,400	1,500
Bal. $25,900				
Total	**35,000**	**0**	**26,100**	**25,200**
Joining FERS				
Pension - CSRS	0	9,000	9,000	9,000
Pension - FERS	2,300	4,000	3,500	3,100
Supple or Soc Sec	18,100	0	7,200	7,200
Thrift Plan	14,600	3,200	2,700	1,800
Bal. $42,400				
Total	**35,000**	**16,200**	**22,400**	**21,000**

Example 3. Frank

Frank began his Federal career as a GS 5, Step 1. During the FERS open season in 1987, he chose to stay in CSRS. He recently had a 6-month break in service when he was unable to transfer with his function when it moved to another location. Since his break in service was less than 365 days, he remains under CSRS coverage rather than coming under CSRS Offset.

Frank is a GS 13, Step 3. He has 18 years of CSRS service. He also has 22 years of Social Security credits from his private sector employment. He recently began participating in the Thrift Savings Plan, with a current balance of $1000. Frank saves 3% of pay in the Thrift Plan but would consider increasing the savings to 5% if he changes to FERS to take advantage of the agency matching.

Frank plans to retire from Federal Service in 2004 when he is age 62. He will have 24.3 years of Federal service. He expects to be a GS 13 at retirement. Frank plans on a life of leisure after retirement, traveling around the country. Since Frank has many years of Social Security credits from previous employment, transferring to FERS would allow him to add enough to his existing credits to avoid the reduction for the Windfall Elimination Provision.

	Future Employee Contribution	**Annual Retirement Benefits** **Year**: 2004 **Age**: 62	 2017 75
Staying in CSRS			
Pension	35,300	27,400	27,400
Social Security	0	5,700	5,700
Thrift Plan	15,100	1,700	1,100
Bal. $18,200			
Total	**50,400**	**34,900**	**34,300**
Joining FERS			
Pension - CSRS	0	17,500	17,500
Pension - FERS	4,000	5,000	4,400
Supple or Soc Sec	31,200	10,300	10,300
Thrift Plan	25,200	5,500	3,500
Bal. $57,800			
Total	**60,400**	**38,300**	**35,700**

Example 4. Reba

Reba began her Federal career as a GS 4, Step 1. She left Federal service after working for 5 years under CSRS to raise her family. During her absence from Federal service, she worked part-time in the private sector while her children were in school. She has 12.5 years of Social Security credits from this employment.

Reba has returned to Federal service now that her children are grown. She is a GS 6, Step 4 and is under the CSRS Offset with an opportunity to transfer to FERS. She currently is saving 3% of pay in the Thrift Plan with a balance of $1000 and plans to continue to do so whether she stays in CSRS Offset or transfers to FERS.

Reba plans to retire from Federal service in 2003 when she is age 62. She will have 12.6 years of service. She expects to be a GS 7 at retirement. Reba looks forward to having time for her grandchildren when she retires. If Reba transfers to FERS and retires at age 62, she will receive a benefit equal to 35% of her final salary, whereas CSRS would provide a benefit of 29%. This is because Social Security replaces a higher portion of the earnings of someone in the lower income level.

	Future Employee Contribution	**Annual Retirement Benefits**	
		Year: 2003 **Age**: 62	2016 75
Staying in CSRS			
Pension	1,600	4,800	4,800
Social Security	12,700	3,800	3,800
Thrift Plan	6,200	800	500
Bal. $8,400			
Total	**20,500**	**9,400**	**9,100**
Joining FERS			
Pension - CSRS	0	0	0
Pension - FERS	1,600	3,400	3,000
Supple or Soc Sec	12,700	5,400	5,400
Thrift Plan	6,200	1,600	1,000
Bal. $17,900			
Total	**20,500**	**10,500**	**9,500**

Example 5. Irene

Irene began her Federal career as a GS 4, Step 1. She had a break in service at the time of the open season in 1987 to spend time with her newborn son. When she returned to Federal service in 1990, she was covered by CSRS Offset having had 15 years of prior CSRS service and a break in service of more than 365 days. She chose to remain under CSRS Offset. She recently had a 2-month break in service when her agency experienced a reduction in force.

Irene is a GS 13, Step 6. She has nearly 23 years of service, of which more than 7 are under CSRS Offset. She currently is enrolling in the Thrift Savings Plan and will save 3% of pay if she stays in CSRS but would consider saving 5% if she transfers to FERS.

Irene wants to retire as soon as she can to go back to school and finish her degree to start her own business. She expects to be a GS 14 at retirement. Since she was born in 1954, under FERS, the earliest she can retire with full benefits is age 56. Under CSRS, she can retire at age 55 with projected benefits of $47,700. As an Offset person, she is accumulating Social Security credits to add to the 10 years Social Security coverage she currently has. If she were to transfer to FERS now, when she retires, her 7 plus years of Offset service will be worth 7% of her high-3 average salary rather than the 14% that it is worth under CSRS rules because Offset service is treated as FERS service when an Offset person transfers to FERS. In addition, she will have lost the opportunity for the agency 1% and matching TSP contributions during her Offset service.

	Future Employee Contribution	**Annual Retirement Benefits** **Year**: 2010 **Age**: 56	2016 62	2029 75
Staying in CSRS				
Pension	15,900	48,500	43,000*	43,000
Social Security	54,700	0	10,000	10,000
Thrift Plan	30,300	3,200	2,600	**1,600**
Bal. $39,700				
Total	**100,800**	**51,600**	**55,500**	**54,600**
Joining FERS				
Pension - CSRS	0	15,700	15,700	15,700
Pension - FERS	8,100	16,300	13,300	11,700
Supple or Soc Sec	54,700	6,600	10,000	10,000
Thrift Plan	50,400	10,500	8,600	5,500
Bal. $132,300				
Total	**113,100**	**49,100**	**47,500**	**42,900**

*CSRS benefit offset because of entitlement to Social Security benefits.

Example 6. Susie

Susie began her Federal service as a GS 5, Step 1. During the FERS open season in 1987, she chose to stay in CSRS. She recently had a short break in service.

Susie currently is a GS 11, Step 1. She has 24 years of CSRS service, a Thrift Savings Plan balance of $10,000, and only 5 years of private sector employment covered by Social Security. She is saving 5% of pay in the Thrift Plan and plans to continue to do so whether she stays in CSRS or transfers to FERS.

Susie plans to retire from Federal service in 2012 when she is age 60. She will have 38 years of service. She expects to be a GS 13 at retirement.

The projections show Susie's total future benefits to be very similar under CSRS and FERS. However, her husband is a highly paid private sector employee who will be entitled to maximum Social Security benefits. Since Susie plans to work for more than 5 years, she would be exempt from the Government Pension Offset if she transfers to FERS. Before she makes a decision about transferring, she should find out if the Social Security spousal benefit would be greater than her own benefit based on her employment.

	Future Employee Contribution	**Annual Retirement Benefits** **Year**: 2010 **Age**: 60	2014 62	2027 75
Staying in CSRS				
Pension	60,400	44,000	44,000	44,000
Social Security	0	0	0	0
Thrift Plan	43,100	6,600	6,200	4,000
Bal. $76,500				
Total	**103,500**	**50,600**	**50,200**	**47,900**
Joining FERS				
Pension - CSRS	0	24,400	24,400	24,400
Pension - FERS	6,900	9,800	9,100	8,000
Supple or Soc Sec	53,300	4,400	6,200	6,200
Thrift Plan	43,100	11,700	10,900	7,000
Bal. $134,700				
Total	**103,400**	**50,300**	**50,700**	**45,700**

CSRS/FERS Special Transfer Rules

Comparison Table

This chart applies to most Federal workers. Those in Special Employee Groups (law enforcement officers, firefighters, air traffic controllers, military reserve technicians, and Customs and Border Protection Officers) should also read the section of this book that discusses these groups.

Item	CSRS	FERS	Transferees
A. Basic Benefit			
1. Regular Annuity	Guaranteed annuity based on service under a single plan.	Guaranteed annuity based on service under the Basic Benefit Plan.	Guaranteed annuity based on years of service under both plans for those who transfer with at least 5 years of creditable civilian service under CSRS (excluding CSRS Offset service).

Item	CSRS	FERS	Transferees
2. When benefits can be received.			
a. Voluntary retirement benefits (unreduced)	Available at the following age and service combinations: • Age 55 with at least 30 years of service • Age 60 with at least 20 years of service. • Age 62 with at least 5 years of service.	Available at the following age/service combinations: • At least the Minimum Retirement Age (MRA)* with 30 years of service or more. • At least age 60 with 20 years of service or more. • At least age 62 with 5 years of service or more. *Minimum Retirement Age If you were born... Your MRA is... Before 1948 55 in 1948 55 and 2 months in 1949 55 and 4 months in 1950 55 and 6 months in 1951 55 and 8 months in 1952 55 and 10 months In 1953-1964 56 in 1965 56 and 2 months in 1966 56 and 4 months in 1967 56 and 6 months in 1968 56 and 8 months in 1969 56 and 10 months In 1970 and after 57	Follow FERS rules.
b. Immediate reduced voluntary retirement benefits	None available.	Available at the MRA with at least 10 years of service. (Benefit is reduced 5 percent a year for each year payment begins before age 62. Receipt of benefits can be postponed until as late as age 62 to lessen or avoid the reduction.)	Follow FERS rules.

Item	CSRS	FERS	Transferees
c. Immediate involuntary early retirement	Available at the following age and service combinations provided separation is not for cause or misconduct: • Age 50 with at least 20 years of service. • Any age with at least 25 years of service. (Benefit reduced 2% a year for each year payment begins before age 55.)	Unreduced benefits available at the following age/service combinations: • At age 50 with 20 years of service or more. • At any age with 25 years of service or more. (Special Retirement Supplement begins at MRA and continues until age 62.)	Follow FERS rules for benefits earned under FERS and CSRS rules for benefit earned under CSRS.
d. Deferred retirement	Available at age 62 to former employees with at least 5 years of civilian service who did not withdraw their retirement contributions after separation from service. If your death occurs after separation but prior to age 62, only a refund of deductions is paid.	Unreduced benefit available at the following age/service combinations: • At age 62 to those who had at least 5 years of civilian service and did not take a refund. • At age 60 with 20 years of service or more. • At MRA with 30 years of service or more. Reduced benefit (at 5% per year under age 62) available at MRA with 10 years of service or more. Receipt of benefits can be postponed until as late as age 62 to lessen or avoid the reduction in annuity.	Follow FERS rules.

Item	CSRS	FERS	Transferees
3. Basic annuity formula a. Salary base	 Average of highest 3 consecutive years of salary.	 Average of highest 3 consecutive years of salary.	 Average of highest 3 consecutive years of salary.
b. Benefit calculation formula (For CSRS Offset employees, the benefit is reduced at age 62 by the amount of their Social Security entitlement attributable to CSRS Offset service.)	General formula equal to: [1] (1½%) X (High-3) X (first 5 years service) + [2] (1¾%) X (High-3) X (second 5 years service) + [3] (2%) X (High-3) X (all service over 10 years).	1.00% x (High-3) x all years of service if retiring before age 62 with less than 20 years of service. 1.10% x (High-3) x all years of service if retiring at age 62 or older with at least 20 years of service.	Benefit is computed based on both formulas: • The CSRS formula applies to years worked under CSRS for employees who transfer with 5 years or more of creditable CSRS civilian service (excluding CSRS Offset service). • The FERS formula applies to years worked under FERS and CSRS Offset. **Note:** Those who transfer with less than 5 years of non-Offset service have all benefits computed according to the FERS formula.
4. Cost-of-Living adjustments (COLA's)	Paid annually to all annuitants beginning the year after retirement. CSRS COLA's equal the rate of inflation as measured by the Consumer Price Index (CPI).	Paid annually to retirees **over 62** years of age, to those who have received disability payments for more than 1 year, and to those receiving survivor benefits The following chart describes FERS COLA's: **Increase in CPI** / **Annual COLA Percentage** Up to 2% / Same as CPI 2% to 3% / 2% 3% or more / CPI increase minus 1%	The portion of the benefit computed under CSRS rules receives CSRS COLA's. The portion of the benefit computed under FERS rules receives FERS COLA's if payable.

Item	CSRS	FERS	Transferees
5. Special Retirement Supplement	Not paid under CSRS.	An approximation of the portion of a full-career Social Security benefit earned while under FERS. Paid to retirees receiving unreduced retirement benefits from Minimum Retirement Age until age 62. (Subject to Social Security Earnings Test.)	Applies to retirees who completed 1 or more calendar years of service covered by FERS (January-December 31). Paid according to FERS rules.
6. Cost to participate	In 2008, 7% of basic pay. CSRS Offset employees also pay 7%, divided between 6.2% to SSA and .80% to CSRS up to the SSA maximum taxable wage base, above tax base, entire 7% goes to CSRS.	In 2008, .80% of basic pay. (The cost of the FERS Basic Benefit plus Social Security taxes generally equals 7%.)	After transferring, employees contribute at FERS rate. Those who transfer with less than 5 years of non-Offset service may request a refund of the difference between the FERS contribution rate and the CSRS rate.
7. Refund options	May choose to withdraw contributions in lump sum when you leave. Will receive no annuity credit unless contribution redeposited after reemployment. Exception: full credit for refunded service will be given without redeposit, subject to an actuarial reduction in annuity, if refunded service ended before October 1, 1990. Contributions refunded without interest if you have 5 years or more of service.	May choose to withdraw contributions in lump sum when you leave. Will receive no annuity. Refunded contributions may not be redeposited. Refunds receive market rate interest.	May withdraw contribution paid under CSRS according to CSRS rules. (CSRS Offset service cannot be redeposited if refunded after employee transfers to FERS.)

Item	CSRS	FERS	Transferees
8. Disability benefits			
a. Definition of disability	An employee must be unable to perform his/her duties and there must be no suitable vacancy in his/her own agency within the same commuting area and at the same grade or pay level as the current position.	Same as for CSRS.	Follow FERS rules.
b. Eligibility requirements	An employee must have 5 or more years of civilian service. CSRS Offset employee who applies for CSRS disability benefits must also apply for Social Security disability benefits or show that they are not eligible for them.	An employee must have 18 months or more of civilian service. Those who apply for FERS disability benefits must also apply for Social Security disability benefits or show that they are not eligible for them.	Follow FERS rules.

Item	CSRS	FERS	Transferees
c. Disability benefit formula	Disability benefits are the **higher** of two computations: [1] the annuity computed using the employee's years of service and High-3 under the general formula; or [2] the **lesser** of the following: a) 40% of the High-3; or b) annuity computed according to the general formula after increasing the length of service as if the employee had worked to age 60. If the employee has at least 21 years and 11 months of service, or is age 60 or older, the annuity is computed under [1]. For CSRS Offset employees, the benefit is reduced by the amount of Social Security disability entitlement attributable to CSRS Offset service.	The formula used to determine FERS disability benefits differs depending on how many years an employee is disabled. During the first year of disability, FERS pays 60% of an employee's high-3 (average pay if less than 3 years service) minus 100 % of any Social Security benefits received. No COLA's are paid during this year. During the second and any additional years of disability until an employee reaches age 62, the employee will receive 40% of his/her high-3 average pay minus 60% of any Social Security benefits received. COLA's are paid for these years, at the same rate as noted under FERS in Item 4 above. FERS disability benefits are recomputed at age 62. The employee then receives a nondisability FERS retirement benefit that includes credit for years in receipt of disability annuity.	Follow FERS rules. **Note:** FERS disability benefits are never less than an employee's earned benefit, including the benefit earned under CSRS that was transferred to FERS.

Item	CSRS	FERS	Transferees
9. Survivor benefits			
a. Eligibility requirements	Survivor benefits are payable to eligible survivors of an employee who was contributing to the CSRS on the date of death with at least 18 months of civilian service.	Same as CSRS.	Follow FERS rules.
b. Who may receive survivor benefits.	Under CSRS, survivor benefits can be paid under various conditions to current and former spouses and to children. Survivors must meet certain age and length of marriage requirements in order to qualify for benefits.	Same as CSRS. In addition, under FERS, a survivor's age can affect the amount of benefits he/she may receive.	Follows FERS rules.
c. Survivor benefit payments			
1.) Spouses of deceased employees	An eligible spouse of an employee who dies while a Federal employee will receive 55% of the disability annuity that would have been payable if the employee had retired on the date of death. For CSRS Offset employees, the benefit is reduced by the amount of Social Security survivor benefit entitlement attributable to CSRS Offset service when the SSA benefit becomes payable.	FERS pays the eligible spouse of an employee who dies while a Federal employee a lump sum payment of $15,000, adjusted for inflation, plus 50% of the employee's final basic pay (or average pay, if higher). The $15,000 portion has increased to $28,093.53 with the 2008 COLA. In addition to the above lump sum, FERS pays the eligible spouse of an employee who has 10 years of service or more an annuity equal to 50 percent of the employee's accrued Basic Benefit.	Follow FERS rules.

Item	CSRS	FERS	Transferees
2.) Spouses of deceased annuitants	An eligible spouse of a retiree will receive 55% of the retiree's unreduced annuity amount (or a lesser amount if jointly elected by the retiree and spouse).	FERS will pay the eligible spouse of a FERS retiree 50% of the retiree's annuity amount (or 25% if that lesser amount was jointly elected by the retiree and spouse), plus a Special Retirement Supplement if the spouse is younger than age 60 and not yet eligible for Social Security benefits.	Follow FERS rules.
3.) Spouses of employees who die after leaving Federal service, but before deferred annuity payments begin	A lump-sum death benefit consisting of the deceased's unrefunded retirement contributions is payable unless the deceased designated another person as beneficiary.	FERS will pay a benefit to the spouse of an employee who has 10 or more years of Federal service, leaves the Federal workforce, and dies before his/her annuity payments begins. The benefit is payable if the employee did not take a refund of his/her contributions. If the employee had not reached the MRA when separated, the survivor annuity will begin when the employee would have reached age 62 (age 60 if employee had 20-29 years of service; or employee's MRA if he/she had 30 or more years of service). The annuity can begin sooner if the spouse elects a reduced benefit. If the employee had attained the MRA when separated (and had at least 10 years of service), the spouse receives ½ of employee's accrued annuity beginning the day after death.	Follow FERS rules.

Item	CSRS	FERS	Transferees
4.) Death benefits paid to children.	CSRS pays an annuity to the eligible children of employees or retirees who die. The annuity varies depending on the number of children and whether or not there is a surviving spouse or former spouse who is a parent of the children. The benefits of children of CSRS Offset employees are offset for Social Security benefits in the same way that spousal benefits are offset.	FERS pays the eligible children of employees or retirees who die an annuity that varies depending on the number of children and whether or not there is a surviving spouse or former spouse who is a parent of the children. The annuity is reduced by any Social Security benefits the children may be receiving.	Follow FERS rules.
a. Cost of survivor benefits for retired employees	Unless waived by the retiree and the spouse, the annuity is reduced in order to provide a survivor benefit. The first $3,600 of the retiree's annual benefit will be reduced by 2.5%. The remaining annuity benefit is reduced by 10%. For most career retirees, this amounts to a 7-8% reduction. **Note:** the 55% spouse's benefit is based on the amount of the annuity before this reduction is made.	Unless waived by the retiree and the spouse, the annuity is reduced to provide a survivor benefit. This reduction amounts to 10% (or 5% , if elected) of the annual benefit. **Note:** The 50% (or 25%) spouse's benefit is based on the amount of the annuity before this reduction is made.	Follow FERS rules for all of benefit, including the benefit earned for the years covered by CSRS.
b. Survivor benefits Cost-of-Living Adjustments (COLA's)	CSRS survivor benefits receive full CSRS COLA's equal to the rate of inflation.	FERS survivor benefits receive FERS COLA's at any age.	Follow FERS rules.

<table>
<tr><th>Item</th><th>CSRS</th><th>FERS</th><th>Transferees</th></tr>
<tr><td>B. Thrift Savings Plan

1. Participation</td><td>

CSRS employees may use this plan at their option.</td><td>

FERS employees automatically have an amount equal to 1 percent of pay contributed to their Thrift Savings Plan account by the Federal Government. Additional contributions may be made at the option of the employee. If made, the Government increases its contributions, also.</td><td>

Follow FERS rules.</td></tr>
<tr><td>2. Employee Contributions</td><td>CSRS employees may contribute up to the IRS Deferral Limit which is $15,500 for 2008.</td><td>FERS employees may contribute up to the IRS Deferral Limit which is $15,500 for 2008.</td><td>Follow FERS rules.</td></tr>
<tr><td>3. Government contributions</td><td>None available.</td><td>The Federal Government automatically contributes an amount equal to 1% of basic pay into each FERS employee’s Thrift Savings Plan account each pay period.

If employee makes contributions, the Government also provides matching.

<table>
<tr><th>If you save</th><th>The Government will add</th><th>Total</th></tr>
<tr><td>0%</td><td>1%</td><td>1%</td></tr>
<tr><td>1%</td><td>2%</td><td>3%</td></tr>
<tr><td>2%</td><td>3%</td><td>5%</td></tr>
<tr><td>3%</td><td>4%</td><td>7%</td></tr>
<tr><td>4%</td><td>4.5%</td><td>8.5%</td></tr>
<tr><td>5%</td><td>5%</td><td>10%</td></tr>
<tr><td>6-10%</td><td>5% (max)</td><td>11-15%</td></tr>
</table></td><td>Follow FERS rules.</td></tr>
</table>

Item	CSRS	FERS	Transferees
4. Catch-up Contributions	The limit on catch-up contributions for 2008 is $5,000. If you are at least age 50 (or will become age 50 during the calendar year) and if you have made or will make the maximum amount of employee contributions for the calendar year (e.g., $15,000 in 2008), you may also make catch-up contributions to your TSP account.	Same as CSRS	Follow FERS rules.
5. Plan Options a. Investment choices	 Employees may invest any portion of their Thrift Savings account in any of the six investment Funds: • G Fund—Government Securities Investment Fund • C Fund—Common Stock Index Investment Fund • F Fund—Fixed Income Index Investment Fund • S Fund—Small Capitalization Stock Index Investment Fund • I Fund—International Stock Index Investment Fund • L Fund—Lifecycle Funds	 Same as CSRS.	 Follow FERS rules.
b. Opportunities to change investment amounts and choices.	CSRS employees can start, change, stop or resume Thrift Savings Plan contributions at any time.	Same as CSRS.	Follow FERS rules.

Item	CSRS	FERS	Transferees
C. Social Security Benefits **1. Applicability**	Not a part of the CSRS plan. For most CSRS employees, applies only if they have enough covered service outside the Federal Government. CSRS Offset employees, are however, covered by Social Security.	Employees covered by Social Security.	After transferring, employee will accumulate Social Security credits to be added to any past or future credits earned.

Item	Social Security	Transferees
2. When benefits can be received		
a. Eligibility	To qualify for Social Security benefits, an employee born after 1928 must have paid Social Security taxes for at least 10 years (or 40 "credits") of employment. Those born before 1929 need fewer years of coverage to qualify.	Follow Social Security rules.
b. Unreduced Social Security retirement benefits.	Available to eligible retirees at age 65. (Starting in the year 2000, this age will gradually increase to 67.)	Follow Social Security rules.
c. Reduced Social Security retirement benefits.	Available to eligible retirees at age 62. (Benefit reduced 20% for those born before 1938. Reduction gradually increases to 30% for those born in 1970 or later.)	Follow Social Security rules.
3. Social Security benefit formula.	Social Security benefits are based on a three-part formula applied to career earnings. Other factors, such as whether or not an employee's spouse is covered by Social Security, age at retirement, and earnings after retirement, also affect benefit amount. Windfall Elimination Provision may apply. (See Social Security Section on page 41.)	Follow Social Security rules.
4. Cost-of-Living Adjustments (COLA's)	Social Security COLA's equal the rate of inflation.	Follow Social Security rules.

Item	Social Security	Transferees
5. Cost to participate	Social Security taxes are a percentage of salary up to the maximum taxable wage base. In 2008 this is $102,000. Social Security taxes are paid on earnings up to and including this amount, but not on earnings above this level. Benefits are not paid on earnings above this amount. The rate currently is 6.20 percent. (The FERS Basic Benefit contribution decreases as the Social Security tax rate increases. In general, contributions to these items will total 7% of pay in 2008.)	Follow Social Security rules.
6. Disability benefits		
a. Eligibility requirements	To qualify for Social Security disability payments, an employee must have earned enough Social Security credits (generally 40 "credits"), and have earned a specified number of quarters just before becoming disabled (generally 5 out of their last 10 working years).	Follow Social Security rules.
b. Definition of disability	To be eligible for Social Security disability benefits, an employee must be unable to perform any job.	Follow Social Security rules.
c. Disability benefits calculation	Social Security benefits are based on a three-part formula applied to earnings in the same way as the Social Security retirement formula.	Follow Social Security rules.

Item	Social Security	Transferees
7. Survivor benefits		
a. Eligibility requirements	Social Security provides survivor benefits to the eligible survivors of a worker who met the minimum Social Security eligibility requirements. The number of Social Security credits required depends on the employee's year of birth and age at death. The minimum number of credits required is 18 months (or 6 "credits").	Follow Social Security rules.
b. Who may receive survivor benefits?	Under Social Security, survivor benefits can be paid under various conditions to current and former spouses, children, and dependent elderly parents. Survivors must meet certain age and length of marriage requirements in order to qualify for benefits. Also under Social Security, a survivor's age can affect the amount of benefits he/she may receive.	Follow Social Security rules.

Item	Social Security	Transferees
c. Survivor benefit payments i. Benefits paid to a spouse of an employee who dies	Social Security benefits payable to a surviving spouse who was married to the employee at least 9 months (3 months if death was accidental), or is the parent of the employee's child, and meets one of the following age requirements: • Any age with entitled child in care (75% of employee's full benefit), • Age 65 (100% of employee's full benefit), • Age 60-64 (permanently reduced benefits), • Age 50-59 and disabled (permanently reduced benefits).	Follow Social Security rules.
ii. Benefits paid to a former spouse of an employee who dies	Social Security benefits are payable to the surviving former spouse (married to employee at least 10 years), as follows: • Age 60 or over (reduced benefits if entitled prior to age 65), • Age 50-59 and disabled (permanently reduced benefits).	Follow Social Security rules.
iii. Benefits paid to children of an employee who dies	Social Security pays survivor benefits to eligible children, as follows: • Under age 18 and unmarried (50% of employee's full benefit), • Attending school full-time at age 18 or over, who was disabled before age 22 (50% of employee's full benefit).	Follow Social Security rules.

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