# Federal Employees Retirement System

# Transfer Handbook

## *A Guide to Making Your Decision*

Name and telephone number of contact person in Agency Personnel Office to direct any questions:

( )

*Name* *Telephone number*

**Current Retirement Coverage**

- Civil Service Retirement System (CSRS)
- Civil Service Retirement System Offset (CSRS Offset)
- Social Security (FICA) Only

United States
Office of
Personnel Management

Retirement &
Insurance
Service

Theodore Roosevelt Building
1900 E Street, NW
Washington, DC 20415-0001

RI 90-3
Revised September 1996

Previous editions are not usable.

***Note:*** The material in this publication is based on the law in effect at the time it went to publication. However, there were a number of proposals then pending to change the retirement law, including an increase in the rate of employee retirement contributions. Information on any change in law would be provided to employing agencies immediately.

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# Introduction

## Why Have I Been Given This Book?

You have been given this handbook because you have an opportunity to 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. Currently, more than 1.3 million employees 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 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.

The most common groups of employees who have an opportunity to elect FERS coverage are as follows:

✔ Employees who are returning to Federal employment after a break in service of more than 3 days, who already have at least 5 years of Federal civilian service and who were previously covered by CSRS. If you are in this group and in a position that provides retirement coverage, you now have CSRS or CSRS Offset coverage.

✔ Certain employees with CSRS coverage who are moving to a senior position that, by law, is also covered by Social Security.

✔ Employees who are converted from an appointment that is excluded from retirement coverage, and whose prior service history precludes automatic FERS coverage. For example, after a break in service, you may have obtained a temporary appointment and have now been converted back to a career appointment.

✔ Employees who have an appointment, such as a term appointment, that is excluded from CSRS coverage, but not from FERS coverage, and whose prior service history prevents automatic FERS coverage. If you are in this group, you have Social Security coverage only.

✔ Annuitants who retired under CSRS or CSRS Offset provisions and who have been reemployed after a break of more than 3 days on other than a temporary or intermittent basis.

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 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 opportunity to elect FERS 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.

Either way, the decision deserves thought. 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. 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 important in CSRS/CSRS Offset and FERS. You may reach a decision early on, but you should still go through the first 19 pages of the handbook because there are some special circumstances that may change your mind. 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 complicated calculations to decide which retirement plan you like better.

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. We have tried to keep the handbook as simple as possible, and your agency should have personnel available who can answer your questions about it. 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. While agency people should be able to answer 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 attempt to understand the differences between the systems in terms of what's important to you, your choice will be easier. If you attempt to master exactly how each system works, your choice 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. Choosing your retirement coverage is an important decision, so set aside some time to read through this handbook and fill out your retirement plan election form.

Your spouse does not need to consent to a decision to transfer to FERS. 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. 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.

## The Choice for People with Only Social Security Coverage

You also have a choice if you were rehired under or converted to an appointment that is excluded from CSRS coverage, but not from FERS. Employees on term appointments are the primary group who are eligible for FERS coverage, but not CSRS coverage. For example, suppose that Bill had 10 years of service under the CSRS, then left the Federal government for 2 years. Today, he is returning to Federal service under a term appointment. Because of the amount of previous CSRS-covered service Bill has, he is excluded from automatic FERS coverage, and has only Social Security coverage. He can choose to have FERS, or to remain under Social Security coverage.

Right now, you too can choose to stay under only Social Security, or to change to FERS. You need to decide if FERS fits your needs. If so, you should choose it now. However, if you believe that the CSRS/CSRS Offset plan fits your needs better, you also need to think about whether you believe that, in the future, you will get a career-type appointment that would provide CSRS or CSRS Offset coverage. Most people would probably join FERS because of the unknown career future, and the continuing of Social Security coverage, plus added TSP benefits.

## 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.

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 to FERS.

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 the first time they appear, and are also included in the Glossary Section in the back of the book.

## What Things Do You Need to Make Your Choice?

This handbook should give you enough information to decide which retirement plan you like better without doing any calculations. You will need only a pen to fill out the retirement plan election form.

If you want to do calculations, there is a computer program available on disk (check with your agency personnel office) that allows employees, like yourself, who have an opportunity to transfer to FERS, to enter data about future career expectations to compare CSRS and FERS benefits. However, since this program is a projection into the future that requires making assumptions that may or may not turn out to be accurate, the numbers produced by the program should not be taken as estimates of future benefits. Instead, the results allow employees to evaluate the relative benefits of the two retirement systems as they apply to the data provided. This program is also available on OPM's electronic bulletin board, OPM Mainstreet. The Mainstreet telephone number is 202-606-4800.

In addition, this handbook provides only an overview of the Thrift Savings Plan (TSP). Since TSP is a key component of FERS, you should ask your employing agency for the booklet, *Summary of the Thrift Savings Plan for Federal Employees*, published by the Federal Retirement Thrift Investment Board. The booklet contains detailed information about the Thrift Savings Plan.

If you have already earned some Social Security credits, but are not sure how many, you should request this information from the Social Security Administration, using Form SSA-7004, *Request for Earnings and Benefit Estimate Statement*. Your personnel office may have the form or you can request it by calling 1-800-SSA-1213.

# 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 more detail in **Retirement Facts** pamphlets that can be obtained from your agency personnel office.

# Federal Employees Retirement System (FERS)

## 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 percent 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 by itself later.

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 26.

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 17.

## 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 under FERS 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 7 for more information about the supplement. | |

### Postponing Your Benefits

If you retire at your Minimum Retirement Age with only 10 years of service or less than 30 years of service or less than 20 years of service if age 60, you can wait until age 62 for full benefits and get a **postponed annuity**, or you can begin receiving reduced benefits any time before age 62. Your monthly benefits will be reduced 5/12 of 1 percent for each month (up to 5 percent 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 percent.

### 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 page 5, 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 percent 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 **"quarters"**) over the course of your lifetime. (This 40-quarter rule applies if you were born after 1928. If you were born before 1929, you need fewer quarters 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 percent from the full benefit amount you'd receive if you waited until age 65. (This gradually increases to a 30 percent 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 quarters of 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.<br><br>*(Exception:* If you are age 62 or older and have at least 20 years of service when you retire, you will receive 1.1 percent 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 percent of your high-3 pay. If you retire at age 62 with 30 years of service, you would get 33 percent 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 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 percent for each year of service 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 29 for more information on this topic.)

More information about Social Security is presented on page 26 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 COLA's match the rate of inflation when the increase in the **Consumer Price Index (CPI)** is up to 2 percent. (The CPI is a monthly survey that measures changes in consumer prices.) If the increase in the CPI is between 2 and 3 percent, the COLA will be 2 percent. If the CPI increases 3 percent or more, the COLA will be the rate of increase in the CPI minus 1 percent. This means that FERS COLA's are sometimes less than the rate of inflation.

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

The 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** for 1996 is just .8 percent of the total **basic pay** (basic pay, not including such things as overtime, bonuses, etc.) you earn in a pay period. In contrast, your agency pays 11.4 percent 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.

### 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 1996 is $62,700. 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, in 1996 is 6.2 percent 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 in 1996 is 7.0 percent. However, FERS will cost you less than 7.0 percent if you earn more than the $62,700 maximum taxable wage base because the Social Security tax stops when your earnings reach this amount. In other words, the FERS employee contribution rate is .80 percent. This is different from CSRS Offset which for 1996 is 7.0% minus Social Security taxes. If FERS salary exceeds the Social Security maximum wage base, contributions stay in 1996 at .80%; thus take-home pay goes up. However, if CSRS Offset salary exceeds the Social Security maximum wage base, when Social Security deductions stop, 1996 retirement contributions go up to 7.0% - thus take-home pay is unchanged.

## 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 percent of your basic pay. This money is called your Agency Automatic (1 percent) 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 percent 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 percent you save each pay period will be matched dollar for dollar, and
- The next 2 percent 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 associated with these contributions belong to you right away. There is no waiting (vesting) period. You are vested in the Agency Automatic (1 percent) Contributions and associated 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 three investment funds: the Government Securities Investment (G) Fund, the Common Stock Index Investment (C) Fund, and the Fixed Income Investment (F) Fund. The C and F Funds are riskier than the G Fund but have the potential for earning higher rates of return. For example, during the 9-year period 1986 through 1995, the C Fund's compound annual rate of return was 14.86%.

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 1996, the limit is $9,500; 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 associated earnings until you withdraw your TSP account. You cannot withdraw your account until 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 (IRA) or other eligible retirement plan when you leave Federal service, 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 IRA or other eligible retirement plan.

Although you may not withdraw money from your TSP account while you are working for the Government, you can borrow from it for specific limited reasons: purchase of a primary residence, medical expenses, education expenses, and financial hardship. 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 and F Funds. 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 TSP funds. This is available from your agency.

## 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 FERS benefits will continue to grow. You'll probably earn more Social Security credits wherever you work next. Also, your contributions and associated earnings, Agency Matching Contributions and associated earnings, and if vested, the Agency Automatic (1 percent) Contributions and associated earnings, in your Thrift Savings Plan account can be transferred to an IRA 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 FERS 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 percent 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 7.0 percent 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 percent) does not completely make up for inflation if the increase in the Consumer Price Index is more than 2 percent. Also, FERS cost-of-living adjustments do not start until you are age 62, even if your 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 (page 32) as you go from 20 to 30 years of service under FERS. The reduced COLA's also have less effect if you retire later.

# Civil Service Retirement System (CSRS)

## Overview

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 percent of your basic pay each pay period and receive a tax break today. (CSRS, including CSRS Offset employees, receive no agency contributions to their TSP 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 16. It tells you what is different under the offset rules. Also available is *Retirement Facts 13, CSRS Offset Retirement*, RI 83-19, which explains retirement rules for offset employees.

## When You Can Receive Retirement Benefits

*If You Stay Until Retirement Age*

With CSRS, you can retire with full benefits as soon as you reach age 55 and have 30 years of service. Or, you can retire when your age and years of Federal service match one of the other 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.

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 to CSRS 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 3 highest consecutive years of basic pay and your length of service (the number of years and months you worked for the Federal Government). 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** | |
|---|---|
| *Years 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**<br>1.75 percent of your high-3 average pay for each year, or 8.75 percent more for a total of 16.25%. |
| For all years of service over 10 | **Plus**<br>2 percent of your high-3 average pay for each year. |
| 10 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. |

**Note:** The maximum benefit you can receive from CSRS is 80 percent 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 percent 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 COLA 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 CPI.

For example, if the increase in the CPI is 2 percent, CSRS retirement checks will increase by 2 percent. If the increase in the CPI is 5 percent, the COLA will also be 5 percent.

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 CSRS deduction in 1996 is 7.0 percent of the total basic pay you earn in a pay period. Your agency pays 7.0 percent 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 5 percent of your basic pay per pay period on a before tax basis to your Thrift Savings Plan account. CSRS employees do not receive Agency Matching or Automatic (1 percent) Contributions.

The Thrift Savings Plan investment options, withdrawal and tax information are the same for both CSRS and FERS employees. See page 9 for this information.

## Voluntary Contributions for CSRS

CSRS employees also may make voluntary contributions. Total contributions may not exceed 10 percent 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 COLA's. 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 during the previous fiscal year. The interest rate payable for 1996 is 6.875 percent. Interest accrues to the date of the refund calculation, separation, or transfer to a position not subject to CSRS, whichever is earliest. Employees who transfer to FERS may retain a voluntary contributions account, but may not add to it after transferring to FERS.

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 IRA 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. Voluntary contributions are administered by OPM. This program is **not** part of the Thrift Savings Plan.

## Important Conclusions About CSRS

CSRS was designed for a work force 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 CSRS 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 CSRS 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 COLA's 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 percent of pay for Social Security plus 7.0 percent for CSRS, the Social Security tax is subtracted from, or offset, from the 7.0 percent for CSRS. The amount you pay for CSRS in 1996 is .80 percent of your basic pay. If your total pay in a year exceeds the maximum amount that is subject to Social Security taxes ($62,700 in 1996), the Social Security deduction stops and your CSRS deduction increases to 7.0 percent of your basic pay. Thus, you pay the same 7.0 percent 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 CSRS annuity, see page 33 for instructions.

**Note:** 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 COLA's, 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.

**Note:** If you transfer to FERS, your Offset service becomes subject to FERS rules. See page 18 for more information.

# Special Transfer Rules: CSRS to FERS

## Overview

For most people, transferring to FERS does not mean giving up CSRS completely. Instead, you may take advantage of the features of both retirement systems. (The exception is if you have less than 5 years of creditable civilian non-Offset CSRS service at the time you transfer. All of your CSRS Service will be switched over to FERS and any excess contributions can be returned to you.)

All 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.

## When You Can 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 5) 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 5) with 10 years or more of combined service.

**Example:** If you have 12 years of CSRS service when you transfer and you spend 8 more years under FERS, 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 percent 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 10 years of service, you'll receive combined FERS and CSRS benefits that are 35 percent 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 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 COLA will usually be 1 percent 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 won'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.

## 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 FERS rules. 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 if 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:** 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 1992, she was covered under the CSRS Offset provisions. She transferred to FERS in November 1992. 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.

**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. 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 subject to FERS rules. Bob is also entitled to a refund of the extra money he paid for CSRS if he didn't previously receive a refund.

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. This is because when you retire, all your Offset service is computed under the less generous FERS formula and you have lost the opportunity for a Government match on your TSP account for that service.

## Cost to Participate

For most employees, the cost to participate is essentially the same under CSRS, CSRS Offset, and FERS — in 1996, 7.0 percent of your basic pay. However, if you are a high salaried employee, earning more than the $62,700 maximum 1996 taxable wage base, FERS will cost less than 7.0 percent because the 6.2 percent for OASDI drops out at $62,700 leaving only the .80 percent for the FERS basic benefit. This is different from CSRS Offset which is 7.0 percent even when Social Security taxes drop out. If FERS salary exceeds the maximum taxable wage base, contributions in 1996 stay at .80 percent; 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 7.0 percent - 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 percent reduction in your benefits to provide survivor benefits for your spouse; (2) a spousal benefit defined as either 25 or 50 percent of your benefit; (3) survivor annuity COLA increases generally equal to the CPI increases minus 1 percent; 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 the Government match for your Thrift Savings 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 CSRS or FERS 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 CSRS and FERS 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 three groups according to your current age and how far from retirement you are now. You should read all three 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"**.

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 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 than you did 10 or 15 years ago, makes the choice between CSRS and FERS 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 COLA, is generally better than the FERS retirement benefit under these circumstances. FERS doesn't pay a COLA until age 62. Then it's generally 1 percent less than the CPI inflation rate. CSRS pays COLA's immediately after you retire, regardless of age.

- For someone who isn't under CSRS Offset, 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.

*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 quarters) 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.

- 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 percent 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 COLA. The portion of the benefit computed under FERS rules will not receive a COLA until you are age 62. Then the COLA will be 1 percent less than the inflation rate whenever inflation is 3 percent or more a year.

- You will have 30 years of service before your 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 full 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. The retirement value of the Thrift Savings Plan account increases with age as the account balance grows and the number of years you will be retired lessens. This happens more dramatically under FERS because Government contributions make the Thrift Savings Plan account a bigger part of your overall benefit.

### 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 into FERS 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 Funds contributed by your agency, and, if vested, the Agency Automatic (1%) Contribution made by your agency) to an 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 CSRS and FERS, 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 (in 1996, .80 percent of pay versus 7.0 percent 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 FERS 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 COLA rules if you stay until retirement. However, if you don't stay until retire-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 30) 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 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 provides 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 TSP account. If you can contribute 5 percent of your basic pay each pay period, the Agency Matching Contributions plus the Agency Automatic (1 percent) Contributions you receive will add to your account an amount equal to another 5 percent 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. You will also gain the flexibility to choose to receive benefits earlier under FERS 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 to FERS 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 percent 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 COLA's, as well as the advantage of Social Security coverage. 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 TSP 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 FERS Minimum Retirement Age (55-57, depending on when you were born). Your benefit will be reduced 5 percent 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

Switching to FERS can be a mistake if you are not able to earn the 10 years or 40 quarters 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.

There is a case where switching to FERS and not being able to **"lock up"** your Social Security benefit is to your advantage. This would be if 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 33 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.

### 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 to FERS 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 percent of your basic pay each pay period. To get that rate of agency contribution, you know you have to contribute at least 5 percent 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 percent 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 FERS 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 quarters or 18 months.

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

Survivor benefits are discussed further in the Social Security section starting on page 26.

### 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 quarters needed to qualify for Social Security benefits;
- Switching to FERS 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.

# 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 OASDI Program Is Financed

The primary sources of OASDI financing are the Social Security taxes paid by employees and their employers and by the self-employed. In 1996, employers and employees each contribute 7.65 percent of the employee's wages, which includes 1.45 percent for Medicare hospital insurance (HI). The maximum amount of earnings taxed for Social Security purposes ($62,700 in 1996) is subject to automatic adjustment under a formula related to the increase in wages.

### Qualifying for OASDI 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 (QC). In 1996, a QC is earned for each $640 in covered annual earnings up to a total of four quarters ($2,560) for the year.

The minimum requirement is 6 QC's for death and disability benefits and the maximum is 40 QC's. An employee who has accumulated the required number of QC's 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 OASDI 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 percent of employee's full benefit).

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

     c. Age 62-64 (50 percent 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 percent of employee's full benefit).

     b. Age 62-64 (50 percent 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 percent 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 percent of employee's benefit).

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

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

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

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

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

  2. Two surviving parents (75 percent 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 30.)

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 percent and benefits for spouses entitled at age 62 are reduced by 25 percent. 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 percent for employees entitled at age 62 and to 35 percent 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 percent).

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 percent to 188 percent of the employee's PIA in retirement and survivor cases. In disability cases, it ranges from 100 percent of the PIA to 150 percent 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 Public 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 33.)

Social Security benefits are increased automatically each year whenever the cost of living, as measured by the Consumer Price Index (CPI), 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 $34,000 for a single taxpayer; $44,000 for a married couple filing a joint tax return; and zero for a married person filing a separate tax return. If the appropriate limit is exceeded, up to 50 percent 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 FERS 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 1996, the annual exempt amount of earnings is $8,280 if you're under 65, and $12,500 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 $8,280 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 Is the Windfall Elimination Provision

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 1996, the amount of substantial coverage is $11,625. In contrast, the amount needed to earn four quarters of coverage in 1996 is $2,560.) 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 less 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 31.

If you do not earn at least 10 years (or 40 quarters) 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, 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 percent. The second by 32 percent, and the third by 15 percent. 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 percent, 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 percent instead of 90 percent. For each year of coverage over 20 years the percentage increases by 5 percent increments (e.g., 45 percent for 21 years, 50 percent 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**<br>426 x .90 = 383.40<br>574 x .32 = 183.60<br>567.00 | **2nd worker**<br>426 x .40 = 170.40<br>574 x .32 = 183.60<br>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.

The following table shows how the PEBES benefit estimate for a person reaching age 62 in 1996 or later can be adjusted to reflect the WEP in most cases by subtracting a specified amount from the age-62 or age-65 benefit estimate. The amount to be subtracted depends on the number of years of "substantial" Social Security earnings (see Glossary) the worker will have acquired by the time he or she begins to receive Social Security benefits.

| Years of Substantial Earnings | Retirement at Age 62 | Retirement at Age 65 |
|---|---|---|
| 30 or more | $0 | $0 |
| 29 | 18 | 22 |
| 28 | 36 | 45 |
| 27 | 54 | 67 |
| 26 | 71 | 89 |
| 25 | 89 | 112 |
| 24 | 107 | 134 |
| 23 | 125 | 156 |
| 22 | 143 | 179 |
| 21 | 161 | 202 |
| 20 or less | 179 | 224 |

These amounts apply only to PEBES benefit estimates generated in 1996. To use PEBES generated in subsequent years, these amounts need to be adjusted by the increase in average wages in the economy—currently estimated to be about 5 percent per year. Thus, **to use with PEBES generated in 1997 and later, increase the amounts shown by about 5 percent for each subsequent year after 1996.**

You can obtain the PEBES request form (SSA-7004) by calling 1-800-SSA-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 32).

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 one-fortieth 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.

## Public Pension Offset

(AKA 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 Public Pension Offset.

### What Is the Public Pension Offset

Under the Public 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 Public Pension Offset. In addition, CSRS employees who transfer to FERS must serve 5 years in FERS before becoming exempt from the offset.

The Public 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 percent) 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 percent) of the amount your spouse receives.

**Example:** Your spouse receives a monthly check from Social Security in the amount of $300. 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 $150. If you begin receiving your spousal benefit at age 62, you will receive a monthly check from Social Security in the amount of $112.50.

## How the Public 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 $150 Social Security spousal benefit, suppose you were also receiving a CSRS benefit that amounted to $300 a month. The Public Pension Offset would be two-thirds of your monthly $300 CSRS benefit, or $200. Since the offset amount is larger than your $150 Social Security benefit, your Social Security benefit would be eliminated.

## What Is the Effect of Transferring to FERS

Employees who transfer to FERS and work at least 5 years under FERS before retiring are exempt from the Public 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 19).

## Special Employee Groups

This section covers four types of employees; law enforcement officers, firefighters, air traffic controllers, and military reserve technicians.

### 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 (in 1996, 7.5 percent 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 percent of your high-3 average pay for each of the first 20 years of law enforcement/firefighter service, and 2 percent 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 percent of your high-3 average pay for each of the first 20 covered years of FERS service, and 1 percent of pay per year of service thereafter. The FERS COLA will begin at retirement instead of at age 62, the age when most FERS retirees begin to receive COLA’s. 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.

### 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 percent credits, and the full CSRS COLA payable on those credits. (You must retire under the special provisions to get the 2.5 percent credits.)

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

- All of your covered (law enforcement/firefighting) service that was subject to the 7.5 percent 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 percent 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 percent 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 to FERS.

### 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 percent rate, plus Social Security and the Thrift Savings Plan, generally provide more basic value than the regular 2 percent 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 to FERS, 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/firefighters provisions. They will be treated the same as any other employee under CSRS or FERS.

### Air Traffic Controllers (ATC's)

The definition of an ATC is the same under CSRS and FERS.

### CSRS

Under CSRS you can retire at age 50 after 20 years of service as a ATC, or at any age after 25 years as an ATC. While there is no special benefit formula for an ATC, there is a guaranteed benefit after at least 20 years of ATC service. The guarantee is 50 percent of your high-3 average pay. If you retire after 25 years, it works out to earning 2 percent 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 ATC's.

### FERS

While FERS has the same rules as CSRS for when an ATC can retire, FERS doesn't have a guaranteed benefit for ATC's. Instead, FERS provides the same special benefits that are provided to law enforcement and firefighting personnel, discussed on the previous page. FERS also requires ATC's to pay a half a percent more for the special benefits, as must law enforcement and firefighting personnel.

### Special Transfer Rules

There are no special rules for ATC's who transfer to FERS.

### Transfer Considerations for ATC's

When an ATC transfer to FERS, the regular CSRS formula is used to calculate the CSRS credit that the ATC will receive under FERS, and the guaranteed benefit is completely disregarded. In cases where an ATC 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:** An ATC who has between 20 and 25 years of ATC service has earned the CSRS guaranteed benefit of 50 percent of average pay. When that service is transferred to FERS, its value will be computed using the regular CSRS formula; 36 percent for 20 years and 46 percent for 25 years. This results in a loss of 4 to 14 percent of average pay compared to the value of the service under CSRS. Unless the ATC expects to perform many years of service, the special formula for ATC's 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 (MRT's)

A military reserve 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

An MRT is treated the same as any other employee under CSRS. An MRT 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 percent for each year the employee is under 55 years of age.

An MRT 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.

### FERS

Under FERS, an MRT 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, MRT's are not eligible for the 1.1 percent 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 choose from any of the Thrift Savings Plan withdrawal options. Your options are: transfer your Thrift Savings Plan account balance to an IRA or other eligible retirement plan; receive a lump-sum payment or a series of equal monthly payments; or request an annuity.

If you retire before the year in which you reach age 55 and withdraw your account balance in a lump sum or equal monthly payments before you reach age 59, you will incur a tax penalty that is in addition to the normal taxes due. There is no tax penalty if you transfer your account balance to an IRA or other eligible retirement plan, or if you select an annuity. You may wish to consult a tax advisor for details about your individual tax situation.

# 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, 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 OPM 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 7 percent 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 percent through 1947, 3 percent 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 | 8.375% |
| **1989** | **9.125%** |
| 1990 | 8.75% |
| **1991** | **8.625%** |
| 1992 | 8.125% |
| **1993** | **7.125%** |
| 1994 | 6.25% |
| **1995** | **7.0%** |
| 1996 | 6.875% |

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 percent through 1947, and 3 percent 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 these funds, and the period covered by the refund will not be creditable for the purposes of entitlement or computation of your annuity. 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 (expect 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 CSRS 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 CSRS 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 percent 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 percent through 1984 and an annually variable rate beginning in 1985 (see table on page 38). 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 the Civil Service Retirement System (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 percent 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 percent 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. **Note:** Any military service performed after your transfer to FERS 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 percent deposit and the 3 percent 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.

# Glossary

**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 throughout 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 percent 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 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 COLA's provide an increase that is equal to the rate of inflation as measured by the Consumer Price Index (CPI). CSRS COLA's are provided to retirees at all ages.

**COLA, FERS—**FERS 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 percent or less. When the inflation rate is between 2 and 3 percent, the COLA will be 2 percent. When the inflation rate is 3 percent or more, FERS COLA's are 1 percent less than the rate of inflation. FERS COLA's under the Basic Benefit Plan are not provided until a retiree reaches age 62, except for disability and survivor benefits.

**Common Stock Index Investment Fund (Fund C)—**One of the three Thrift Savings Plan 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 CPI 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 CPI. (See COLA 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.

**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.

**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 ($8,280 in 1996). 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 (Fund F)—**One of the three 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 Securities Investment Fund (Fund G)—**One of the three 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.

**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 1996, the interest rate is 6.875 percent.

**Maximum Taxable Wage Base—**The maximum amount of an employee's wages subject to Social Security taxes. In 1996, the maximum taxable wage base is $62,700. 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 percent up to the maximum taxable wage base. The **total** Social Security tax also includes 1.45 percent 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.)

**Public 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 "Government 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.

**Quarters of Coverage ("Quarters")—** A measurement used to credit work covered by Social Security. In 1996, earnings totaling $640 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.

**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 under FERS.)

**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 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.

**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 1996, $11,625 in earnings subject to Social Security taxes are considered to be "substantial." In contrast, the amount needed to earn four quarters of coverage for the year is $2,560.) (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 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.

**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

**IRA** Individual Retirement Account

**MRA** Minimum Retirement Age

**OASDI** Old Age, Survivors, and Disability Insurance

**PIA** Primary Insurance Amount

**QC** Quarters of Coverage

**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 FERS transfer disk which should be available in your personnel office. 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 real interest rate [interest rate earned (14.86%) minus rate of inflation (3.35%)] of the Thrift Plan's C Fund from 1986 to 1995 was 11.51%. 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 that 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 Plan benefits that appears by age 75 reflects the fact that FERS benefits do not receive full COLA's 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 nearly 22 years of CSRS service, a TSP balance of $5200, and essentially no Social Security-covered earnings. She currently is saving 5% of pay in the TSP and plans to continue to do so whether she stays in CSRS or transfers to FERS.

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 CSRS and FERS.

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 | 000000 | 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 TSP 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 has 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 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 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**<br>**Year:** 2002<br>**Age:** 58 | 2006<br>62 | 2019<br>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 | 000000 | 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 16 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 TSP, 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**<br>**Year:** 2004<br>**Age:** 62 | <br>2017<br>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 | 000000 | 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 TSP 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**<br>**Year:** 2003<br>**Age:** 62 | <br>2016<br>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 | 000000 | 000000 | 000000 |
| 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 1988, she was covered by CSRS Offset having had 13 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 21 years of service, of which more than 7 are under CSRS Offset. She currently is enrolling in TSP 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 at 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**<br>**Year:** 2010<br>**Age:** 56 | 2016<br>62 | 2029<br>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 | 000000 | 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 22 years of CSRS service, a TSP balance of $10,000, and only 5 years of private sector employment covered by Social Security. She is saving 5% of pay in the TSP 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 that would make her eligible for a Social Security spousal benefit that would be greater than her own benefit based on her employment.

| | **Future Employee Contribution** | **Annual Retirement Benefits**<br>**Year:** 2010<br>**Age:** 60 | 2014<br>62 | 2027<br>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 | 000000 | 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, and military reserve technicians) should also read the Retirement Facts pamphlets on 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:<br>● Age 55 with at least 30 years of service.<br>● Age 60 with at least 20 years of service.<br>● Age 62 with at least 5 years of service. | Available at the following age/service combinations:<br>● At least the Minimum Retirement Age (MRA)* with 30 years of service or more.<br>● At least age 60 with 20 years of service or more.<br>● At least age 62 with 5 years of service or more.<br>*Minimum Retirement Age<br>If you were born... Your MRA is...<br>Before 1948 55<br>in 1948 55 and 2 months<br>in 1949 55 and 4 months<br>in 1950 55 and 6 months<br>in 1951 55 and 8 months<br>in 1952 55 and 10 months<br>In 1953-1964 56<br>in 1965 56 and 2 months<br>in 1966 56 and 4 months<br>in 1967 56 and 6 months<br>in 1968 56 and 8 months<br>in 1969 56 and 10 months<br>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:<br><br>● Age 50 with at least 20 years of service.<br><br>● Any age with at least 25 years of service.<br><br>(Benefit reduced 2 percent a year for each year payment begins before age 55.) | Unreduced benefits available at the following age/service combinations:<br><br>● At age 50 with 20 years of service or more.<br><br>● At any age with 25 years of service or more.<br><br>(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. | Unreduced benefit available at the following age/service combinations:<br><br>● At age 62 to those who had at least 5 years of civilian service and did not take a refund.<br><br>● At age 60 with 20 years of service or more.<br><br>● At MRA with 30 years of service or more.<br><br>Reduced benefit (at 5 percent 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. |
| **3. Basic annuity formula**<br><br>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. |

| Item | CSRS | FERS | Transferees |
|---|---|---|---|
| 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:<br><br>[1] (1½%) X (High-3) X (first 5 years service) +<br><br>[2] (1¾%) X (High-3) X (second 5 years service) +<br><br>[3] (2%) X (High-3) X (all service over 10 years). | 1.00 percent x (High-3) x all years of service if retiring before age 62 with less than 20 years of service.<br><br>1.10 percent 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:<br><br>● The CSRS formula applies to years worked under CSRS for employees who transfer with 5 years or more of creditable civilian service (excluding CSRS Offset service).<br><br>● The FERS formula applies to years worked under FERS and CSRS Offset.<br><br>**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 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.<br><br>The following chart describes FERS COLA's:<br><br>**Increase** / **Annual COLA**<br>in CPI / Percentage<br>Up to 2% / Same as CPI<br>2% to 3% / 2%<br>3% or more / CPI increase minus 1% | The portion of the benefit computed under CSRS rules receives CSRS COLA's.<br><br>The portion of the benefit computed under FERS rules receives FERS COLA's. |

| 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.<br><br>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 one or more calendar years of service covered by FERS. Paid according to FERS rules. |
| **6. Cost to participate** | In 1996, 7.0% of basic pay. CSRS Offset employees contribute 6.2 percent to SSA and .80% to CSRS to equal 7.0% total. | In 1996, .80% of basic pay. (The cost of the FERS Basic Benefit plus Social Security taxes generally equals 7.0%.) | 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 inter-est if you have 5 years or more of ser-vice. | 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.) |
| **8. Disability benefits**<br><br>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. |

| Item | CSRS | FERS | Transferees |
|---|---|---|---|
| b. Eligibility requirements | An employee must have 5 or more years of civilian service.<br><br>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.<br><br>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. |
| c. Disability benefit formula | Disability benefits are the **higher** of two computations:<br><br>[1] the annuity computed using the employee's years of service and High-3 under the general formula; or<br><br>[2] the **lesser** of the following:<br><br>a) 40% of the High-3; or<br><br>b) annuity computed according to the general formula after increasing the length of service as if the employee had worked to age 60.<br><br>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].<br><br>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 percent of an employee's high-3 (average pay if less than 3 years service) minus 100 percent of any Social Security benefits received. No COLA's are paid during this year.<br><br>During the second and any additional years of disability until an employee reaches age 62, the employee will receive 40 percent of his/her high-3 average pay minus 60 percent 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.<br><br>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.<br><br>**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.<br><br>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 percent of the employee's final basic pay (or average pay, if higher). The $15,000 portion has increased to $20,734.01 as of the March 1, 1996, 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 percent of the retiree's annuity amount (or 25 percent 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.<br><br>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.<br><br>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. | 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. | 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. |
| c. 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 percent reduction. **Note:** the 55 percent 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 percent (or 5 percent, if elected) of the annual benefit. **Note:** The 50 percent (or 25 percent) 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. |
| d. 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. |
| **B. Thrift Savings Plan** | | | |
| **1. Participation** | CSRS employees may use this plan at their option. | 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. | Follow FERS rules. |

| Item | CSRS | FERS | Transferees |
|---|---|---|---|
| **2. Employee Contributions** | CSRS employees may contribute up to 5 percent of basic pay each pay period. | FERS employees may contribute up to 10 percent of basic pay each pay period. | Follow FERS rules. |
| **3. Government contributions** | None available. | The Federal Government automatically contributes an amount equal to 1 percent of basic pay into each FERS employee's Thrift Savings Plan account each pay period.<br><br>If employee makes contributions, the Government also provides matching.<br><br>**The Government**<br>If you save / will add / Total<br>0% / 1% / 1%<br>1% / 2% / 3%<br>2% / 3% / 5%<br>3% / 4% / 7%<br>4% / 4.5% / 8.5%<br>5% / 5% / 10%<br>6%-10% / 5% (max) / 11-15% | Follow FERS rules. |
| **4. Plan Options** | | | |
| a. Investment choices | Employees may invest any portion of their Thrift Savings account in any of the three investment Funds:<br><br>● G Fund—Government Securities Investment Fund<br><br>● C Fund—Common Stock Index Investment Fund<br><br>● F Fund—Fixed Income Index Investment Fund | Same as CSRS. | Follow FERS rules. |

| Item | CSRS | FERS | Transferees |
|---|---|---|---|
| b. Opportunities to change investment amounts and choices. | CSRS employees have two opportunities each year to change the amount and investment of future Thrift Savings Plan contributions. They may also elect to begin making contributions or to stop making contributions during these periods.<br><br>CSRS employees may change the investment of their existing account balance in any month they choose. | Same as CSRS. | Follow FERS rules. In addition, transferees have 30 days after their date of transfer to enroll in the Thrift Savings Plan or change the amount or investment of future contributions. |
| **C. Social Security Benefits**<br><br>**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 “quarters”) 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 percent for those born before 1938. Reduction gradually increases to 30 percent 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 26.) | Follow Social Security rules. |
| **4. Cost-of-Living Adjustments (COLA’s)** | Social Security COLA’s equal the rate of inflation. | Follow Social Security rules. |
| **5. Cost to participate** | Social Security taxes are a percentage of salary up to the maximum taxable wage base. In 1996 this is $62,700. 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 7.0 percent of pay.) | Follow Social Security rules. |

| Item | Social Security | Transferees |
|---|---|---|
| **6. Disability benefits** | | |
| a. Eligibility requirements | To qualify for Social Security disability payments, an employee must have earned enough Social Security credits (generally 40 “quarters”), 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. |
| **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 “quarters”). | 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.<br><br>Survivors must meet certain age and length of marriage requirements in order to qualify for benefits.<br><br>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<br><br>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:<br><br>● Any age with entitled child in care (75 percent of employee's full benefit),<br><br>● Age 65 (100 percent of employee's full benefit),<br><br>● Age 60-64 (permanently reduced benefits),<br><br>● 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:<br><br>● Age 60 or over (reduced benefits if entitled prior to age 65),<br><br>● 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:<br><br>● Under age 18 and unmarried (50 percent of employee's full benefit),<br><br>● Attending school full-time at age 18 or over, who was disabled before age 22 (50 percent of employee's full benefit). | Follow Social Security rules. |