treatment of the lump sum option has not been determined by Congress.)

Disability Benefits

To qualify for disability retirement benefits, an employee must be disabled and have at least 18 months of creditable civilian service. For the first year, the amount of the annuity is 60% of the "high-3" average pay minus 100% of any Social Security disability benefits. After the first year and up to age 62, the amount is 40% of the "high-3" average pay minus 60% of the initial Social Security disability benefit payable. The annuity is increased by COLAS (see section on COLAS).

Thrift Savings Plan Investment Options

The Thrift Savings program consists of three separate funds representing a range of possible investments for employees:

FUND A—Special Government Securities,
FUND B—Fixed-Income Securities, and
FUND C—Common Stock Investments.

The Funds are administered by the Federal Retirement Thrift Investment Board. In 1987, all funds will be invested in Fund A, but this requirement steadily reduces over time. By 1992, no funds from EMPLOYEE CONTRIBUTIONS will be required to be placed in Fund A, and after 1996, no funds at all will be required to be so held.

Beginning in 1988 a loan program will be available so that employees may borrow against their own contributions to the Thrift Plan for reasons such as hardship, medical or educational expenses, or for the purchase of a primary residence. The Board will be establishing the details of these systems.

When You May Enroll in the Thrift Savings Plan

Employees have an opportunity to alter the amount and/or the Fund in which they invest their Thrift Savings at least twice a year. New employees must wait until the second enrollment period after entrance on duty to participate in the Thrift Savings program. Notice of each enrollment period will be provided to employees along with instructions for enrollment and other informational material.

If You Leave Federal Employment Before Retirement

Basic Earned Annuity

Employees may withdraw their contributions to the Basic Annuity Plan at separation from Federal service; however, receipt of the refunded contributions PERMANENTLY voids any annuity rights based on service covered by the refund. *There is no provision* under the FERS system for redeposit of amounts refunded.

Thrift Savings Plan

Employees are "vested," or become entitled to their contributions to the Thrift Savings Plan and the agency's matching contributions immediately. The automatic 1% government contribution vests after 3 years for career employees, and after 2 years for non-career SES members and political appointees. Separated employees who are entitled to an annuity under the Basic Annuity Plan may elect to receive the balance of their thrift account in one of the following forms:

1. As an annuity for life or for a fixed term,
2. As a single lump sum, or
3. As a rollover to an Individual Retirement Account (IRA) or other qualified plan.

If taken as a lump sum, the funds will be subject to taxation upon receipt.

For More Information

Please contact your Personnel Office if you would like more information about the topics discussed.

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September 1986

PERSONNEL NOTES #6

THE FEDERAL EMPLOYEES' RETIREMENT SYSTEM (FERS)

The effective date of the new Federal Employees' Retirement System (FERS) is January 1, 1987. All new permanent Federal employees hired after December 31, 1983 are covered under FERS. Also, all permanent Federal employees hired after December 31, 1983, and who are fully covered by Social Security, who have less than 5 years of previous service under the Civil Service Retirement System (CSRS), are automatically covered under FERS.

Other permanent employees not automatically covered by FERS (those under CSRS AND those fully covered by Social Security and having more than 5 years of previous service under CSRS) will have a one-time opportunity to transfer into FERS beginning July 1, 1987 and ending December 31, 1987. Once a decision is made, it cannot be changed. (Congress is currently considering changing the July 1 date to an earlier date, but no action has been taken as of September 1986.)

Employees covered by FERS are subject to full Social Security coverage and taxes (for 1986–87 taxes are 7.15%; for 1988–89, 7.51%; and 1990, 7.65%), and contribute a percentage of their basic salary (1.3% in 1987; .94% in 1988 and 1989; and .8% after 1989) toward an earned annuity. For 1987, FERS employees pay a total of 8.45% of their basic salary for Social Security and basic annuity protection.

THREE-PART RETIREMENT PLAN

FERS has three separate parts that combine to form the retirement plan for Federal employees and their families. The three parts are:

- Social Security—since they pay the full tax, FERS employees are entitled to Social Security benefits on the same basis as employees in the private sector.

- Basic Annuity Plan—equal to 1% of the employee's highest three years ("high-3") average pay times the years of service. If the employee retires after age 62 and has 20 or more years of service, the factor increases to 1.1% of the "high-3" average pay.

- Thrift Savings Plan—the agency automatically contributes 1% of pay into each employee's Thrift Savings account, even if the employee contributes nothing. Employees may contribute up to 10% of pay with the agency matching as follows:

  First 3% of pay . . . $1.00 per $1.00
  Next 2% of pay . . . $. 50 per $1.00
  Next 5% of pay . . . No match

  Through FULL participation in the tax deferred* Thrift Savings Plan, an employee may invest 15% of his or her basic salary each year—5% of that being paid by the agency and not a deduction from salary.

  *The actual amount that is tax deferred is subject to the Internal Revenue Service's non-discrimination rules for 401(K) Plans which are dependent upon the average contribution rate of all employees.

Basic Annuity Plan

Retirement Eligibility

An employee is vested after 5 years of creditable civilian service. No credit will be allowed for service for which FERS contributions were refunded. There is no provision for redeposit of refunded funds under FERS. Eligibility requirements for an unreduced annuity are similar to those currently under CSRS. FERS added a reduced benefit for those with as few as 10 years of service; however, employees must take a 5% reduction in their annuity for every year they are under age 62. Employees transferring into FERS, and having more than 5 years of service under CSRS, will have all service credited towards retirement but will have two annuity computations: one under CSRS rules using all CSRS time and one under FERS rules, using all FERS time.

Supplement Payable to Age 62

Social Security benefits are not available until an individual reaches age 62, so an employee retiring after the Minimum Retirement Age (see chart) with 30 years of service, or at age 60 with 20 years of service, receives a special annuity supplement designed to take the place of the expected Social Security payment. Employees retiring under the discontinued service option receive the annuity supplement beginning at the applicable minimum retirement age until age 62. The supplement equals the estimated Social Security benefit earned by the employee while in Federal service. It is subject to an earnings test similar to that applied to Social Security payments received prior to age 65. The supplement is reduced by 1/2 of the retiree's annual earned income above an exempt amount ($5,760 in 1986, wage-indexed).

Type of Retirement	Minimum Retirement Age	Minimum Service Requirements (years of service)	
OPTIONAL	62	5	
	60	20	
Year of Birth:		ANNUITY UNREDUCED	REDUCED
BEFORE 1948	55	30	10 but less than 30
1948	55 & 2 mos	30	" "
1949	55 & 4 mos	30	" "
1950	55 & 6 mos	30	" "
1951	55 & 8 mos	30	" "
1952	55 & 10 mos	30	" "
1953–1964	56	30	" "
1965	56 & 2 mos	30	" "
1966	56 & 4 mos	30	" "
1967	56 & 6 mos	30	" "
1968	56 & 8 mos	30	" "
1969	56 & 10 mos	30	" "
1970 and AFTER	57	30	" "
EARLY RETIREMENT & DISCONTINUED SERVICE		ANNUITY UNREDUCED	
	50	20	
	ANY	25	
DEFERRED RETIREMENT		ANNUITY UNREDUCED	REDUCED
	62	5	
	60	20	
	Minimum Retirement Age	30	10 but less than 30

Cost-of-Living Adjustments (COLAS)

Regular retirees receive a COLA if they are age 62 or older. Disability retirees and survivor annuitants are eligible for the COLA at any age. The amount of the annual COLA percentage is based on the increase in the Consumer Price Index (CPI) as follows:

Increase in CPI	Annual COLA Percentage
Up to 2%	Same as CPI increase
2% to 3%	2%
3% or more	CPI increase minus 1%

Death (Survivor) Benefits Payable Under FERS

Coverage under FERS includes death benefits payable upon the death of a married employee, provided the employee had at least 18 months of civilian service. The surviving spouse receives:

1. A lump sum equaling $15,000 (indexed to the CPI) plus ½ of the employee's annual rate of pay (or ½ of the "high-3" average pay, if higher). The spouse may elect payment in the form of an annuity.

   AND—

2. An annuity equal to 50% of the employee's accrued annuity, if the employee had 10 years of service.

These benefits are paid in addition to any Social Security, group life insurance or Thrift Savings Plan death benefits. The program also includes provisions for children's benefits, optional post-retirement death benefits, special provisions for surviving former spouses, and termination of survivor annuities.

Annuity Options

FERS gives retiring employees the option of withdrawing their personal contributions to the basic earned annuity and receiving a reduced annuity. Other alternative forms of annuities will be offered by the Office of Personnel Management. (Note: As of September 1986 the tax