SUMMARY OF FERS AND CSRS

This appendix summarizes the main features of FERS and CSRS (Office of Personnel Management, 1998).

FERS

FERS became effective on January 1, 1987. Most employees who are hired after December 31, 1983, are covered by FERS. Others have the option to switch to FERS if they meet certain requirements. FERS consists of three components: the Basic Plan, the Thrift Savings Plan, and Social Security.

Basic Plan

The Basic Benefit Plan (or the Basic Plan) vests members at five YOS. Under this plan, individuals contribute the difference between 7 percent of their basic pay and the Social Security OASDI (Old-Age, Survivors, and Disability Insurance) tax rate. In 1998, this percentage was 0.8 percent. Individuals may get a refund of these contributions with interest instead of the retirement annuity when they leave federal service. The contribution rate will rise gradually beginning in 1999 until it reaches 1.3 percent in 2001. However, the increases will be in effect only through December 2002.

The benefit formula under the Basic Plan equals 1 percent of an individual's highest three-year average pay times their YOS. If the individual retires at or beyond age 62 with 20 or more YOS, the formula is 1.1 percent of their highest three-year average pay times YOS.

The normal age of retirement (i.e., the age when an individual can leave service and begin collecting the annuity) depends on the member's YOS. The schedule is shown in Table A.1. For those with five YOS, the normal retirement age is 62. For those with 20 YOS, the normal age is 60. For those with 30 YOS, the normal age is the minimum retirement age. The MRA is between 55 and 57, depending on the employee's date of birth, as shown in Table A.2. Those who have 10 YOS can also retire at their MRA, but their benefit is reduced at the rate of 5 percent for each year that the individual is under age 62 if he or she is not eligible for an immediate annuity.

Table A.1

Normal Age of Retirement Under FERS Basic Plan

Age	YOS
62	5
60	20
MRA (age 55–57)[a]	10
MRA (age 55–57)[b]	30

[a]Reduced benefit.

[b]The allowed normal retirement age depends on date of birth.

Table A.2

Minimum Retirement Age

If date of birth is	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 through 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 or after	57

The Basic Plan also allows for early retirement and for deferred retirement. An early retirement benefit is available for those who are voluntarily separated as part of reduction-in-force (RIF) or, under some circumstances, who are involuntarily separated. To be eligible, the individual must be either age 50 with 20 YOS or any age with 25 YOS. Those who leave before reaching a normal retirement age are eligible to receive a deferred retirement benefit. The deferred retirement age and YOS are the same as those shown in Table A.1. For example, an individual who leaves civil service at age 45 with 20 YOS would not be eligible for either normal or early retirement benefits but would be eligible for deferred retirement. This individual could begin collecting benefits at age 60.[1]

Individuals who meet certain requirements also get a special retirement supplement, which is paid until the individual reaches age 62. This supplement approximately equals the Social Security benefit that the individual earns from being employed in the federal government. To be eligible for the supplement immediately, the individual must retire on or after the MRA with 30 YOS or at age 60 with 20 YOS. Alternatively, the individual can receive the supplement if he or she retires early as part of a

[1]Those with 10 YOS can claim a deferred retirement benefit at their MRA, but their annuity is reduced at the rate of 5 percent for each year that they are under age 62.

RIF and meets the age and service requirements (age 50 with 20 YOS or any age with 25 YOS).

The Basic Plan also gives a cost-of-living adjustment to those age 62 and older and to those who retire on a disability annuity. This adjustment equals the change in the Consumer Price Index (CPI) if the change in the CPI is less than or equal to 2 percent. It equals 2 percent if the change in the CPI is between 2 and 3 percent and equals the percentage change in the CPI minus 1 percent if the change in the CPI exceeds 3 percent.

Thrift Savings Plan

The Thrift Savings Plan is a defined contribution plan that shares many features with the 401(k) pension plans found in the private sector. Under the plan, the government makes automatic and matching contributions to a fund and the employee has several options for investing the fund, including investing it in a government securities fund, a common stock fund, or a fixed income index fund (or some combination of the three). The government's automatic contribution for each member is 1 percent of the member's basic pay for which the employee is vested after three years. The government matches 100 percent of the employee's contribution for the first 3 percent; 50 percent of the employee's contributions for the next 2 percent; 0 percent of the employee's contributions above 5 percent. An individual can contribute a maximum of 10 percent of basic pay each pay period subject to Internal Revenue Service restrictions. Individuals are immediately vested in their own contributions, and their contributions (and earnings from all the contributions) are tax deferred.

The Thrift Savings Plan has several provisions for withdrawing funds. With the exception of age-based in-service withdrawal and financial hardship in-service withdrawal, members can withdraw the balance of their account only if they leave federal service. The withdrawal options depend on whether the member is eligible for retirement benefits under the Basic Plan, as determined by his or her age and completed YOS. If the member is ineligible for an immediate annuity and separates from federal service, he or she must transfer the vested account balance of the TSP to an Individual Retirement Account (IRA) or other eligible retirement plan.[2] There are two cases in which the member can withdraw TSP funds while in service. If the individual is 59.5 or older, he or she can withdraw all or part of the account balance. This is called age-based in-service withdrawal. In the other case, if the individual demonstrates financial hardship, he or she can withdraw his or her own contributions and the earnings on those contributions.

Members have three withdrawal options. First, the employee can transfer the account balance to an IRA. Second, he or she can receive a cash lump sum or a series of equal payments. Finally, those who separate can purchase a life annuity, which can begin at the date of separation or at a later date. If the member chooses the first

[2]This is true if the account balance exceeds $3,500. If the balance is $3,500 or less, the member receives an immediate lump sum cash payment.

option, he or she faces a 10 percent penalty for withdrawing from the IRA before age 59.5. If the member chooses option 2, there is a penalty if the member receives any proceeds before age 55 equal to 10 percent of the amount received before age 59.5.

Social Security Benefits

Individuals covered by FERS also have OASDI coverage and Medicare coverage. (Greater details are provided by the Social Security Administration, 1998). Individuals covered by OASDI are eligible for monthly benefits if they retire and are at least age 62. To be eligible, the employee must pay Social Security taxes for 40 quarters.

The amount of the employee's benefits depends in part on average earnings upon which Social Security taxes have been paid. These average earnings are adjusted for changes in average earnings that have occurred for the American workforce in general. The benefits also depend on the employee's family composition (e.g., whether or not the individual has a spouse that is eligible for benefits) and on CPI changes that occur after the individual becomes entitled to claim benefits. Since taxable earnings on which the benefits are based are subject to a maximum, the benefits are de facto limited as well.

Each year, individuals are required to contribute 6.2 percent of their earnings for OASDI up to a maximum wage base. The contribution is made by way of a payroll tax. The maximum wage base was $68,400 for 1998. It increases each year since average earnings of U.S. workers increase each year. The Medicare portion of Social Security requires an additional contribution rate of 1.45 percent of earnings. These taxes are matched by the employing agency. The Medicare portion is not capped.

CSRS

CSRS consists only of a defined benefit plan. CSRS benefits are vested after five YOS. In 1998, individuals contributed 7 percent of their earnings to CSRS. As a result of the Balanced Budget Act of 1997, the CSRS contribution rate will rise to 7.5 percent by 2001 and will stay at that level through December 2002. An individual who leaves with more than one YOS and fewer than five YOS may get a refund of these contributions with interest instead of the retirement annuity when he or she leaves federal service, if he or she is not eligible for an immediate annuity.

The benefit formula under CSRS equals 1.5 percent of an individual's highest three-year average earnings times his or her YOS for the first five YOS, plus 1.75 percent of the highest-three average earnings times YOS for the next five YOS, plus 2 percent of the highest-three average earnings times all YOS and months over 10. The maximum annuity an individual can receive is 80 percent of the highest-three average earnings. Normally, this is acquired after 41 years and 11 months of credible civilian and military service. Unused sick leave may increase the 80 percent maximum. The CSRS benefit formula provides a greater benefit than does the Basic Plan formula under FERS, holding YOS constant.

The normal ages and YOS for retirement are shown in Table A.3. CSRS does not have an MRA like FERS does. Unlike FERS, individuals under CSRS with 10 YOS can retire only at age 62. Individuals subject to voluntary separation during a RIF or, in some circumstances, involuntary separation are eligible for an early retirement benefit. Early retirement is available to those who are age 50 with 20 YOS or who are any age with 25 YOS. CSRS also offers deferred retirement but only at age 62 for those with at least five YOS. Therefore, an individual who leaves at age 45 with 10 YOS could retire under CSRS at age 62. This deferred retirement age is older than the ages for those covered by FERS.

CSRS annuities are fully inflation protected. The annuitant receives a COLA adjustment each year equal to the change in the CPI.

Table A.3

Normal Age of Retirement Under CSRS

Age	YOS
62	5
60	20
55	30