



United States
Office of Personnel Management
Retirement and Insurance Service

Benefits Administration Letter

Number: 98-112

Date: September 17, 1998

Subject: FERS Transfer Model

Background

The FERS Transfer Model on our Web site (www.opm.gov/fers_election) was developed to help employees make decisions whether to remain in the Civil Service Retirement System (CSRS) (including CSRS Offset) or to transfer to the Federal Employees Retirement System (FERS). Easy access to the FERS Transfer Model on our Web site has produced several frequently asked questions that are addressed in this Benefits Administration Letter. This letter also reviews how to interpret the results produced by the FERS Transfer Model.

Introduction

Eligible employees may elect to transfer to FERS during the FERS open season, which covers the period from July 1, 1998, through December 31, 1998. FERS provides benefits from three different sources: a Basic Benefit Plan, Social Security, and the Thrift Savings Plan, whereas the CSRS provides benefits primarily from a Basic Benefit Plan.

The *FERS Transfer Handbook* provides employees with extensive information about the features of the two plans. Many employees are able to make a decision whether or not to transfer on the basis of the information in the *FERS Transfer Handbook*. However, when a review of the differences between the plans doesn't indicate that one clearly fits an employee's needs better than the other, it may be helpful to use the FERS Transfer Model to obtain a projection of the employee's future income under CSRS and FERS. The Transfer Model can also be helpful by confirming an employee's understanding of potential benefits under CSRS and FERS.

Using the FERS Transfer Model

The FERS Transfer Model uses information an employee provides about past employment history and expectations for the future to create a comparison of projected benefits under CSRS and FERS. The objective of the Transfer Model is to provide employees with an overall indication of which plan, FERS or CSRS/CSRS/Offset, may provide better monetary benefits, not to calculate retirement benefits. Employees who are actually planning to retire

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within the near future should contact their agency benefits officer for an estimate of their benefits.

Using the Transfer Model is just one aspect of the decision-making process. Employees should not make a decision to transfer to FERS solely on the results of the Transfer Model. The decision to transfer usually involves several different considerations and should be based on a comparison of the overall benefits of FERS versus CSRS and not just simply on the estimated dollar differences. In many cases, employees' decisions to transfer are properly based on other factors, such as whether they expect to retire from Federal service or to leave before retirement.

Employees should understand that this product, and similar products, all are based on certain assumptions about future investment return, inflation, and salary growth that may, in reality, turn out to be different than what was assumed. The FERS Transfer Model uses the assumptions that are being used by the our Board of Actuaries for long term projections for the Civil Service Retirement and Disability Fund, and it is always true that actual data may be different.

A detailed explanation of the Transfer Model, including specific instructions on how to use it and how to read and interpret the reports from the model, is contained in the FERS Transfer Model User's Guide. The User's Guide is available on the FERS Election Opportunities web page at the address given above.

If a user chooses to see benefits before age 62, the Transfer Model will show benefits at the age chosen (if eligible for a FERS benefit at that time), age 62, and age 75. These ages are used so that the user can see projected income upon retirement, when Social Security would become payable (if eligible) and some years later to gauge the effect of inflation on different components of the benefit package.

When interpreting the results from the Transfer Model, keep in mind that all dollar figures are shown in current 1998 dollars and have been rounded to the nearest hundred dollars. The totals shown may not be exact due to rounding. The term "current dollars" simply means that values are stated in terms of today's purchasing power. For example, if someone were to tell you that your CSRS benefit in the year 2020 would be \$40,000.00 per year, you have no way of determining whether this is barely enough to live on or an amount that would allow you to comfortably maintain your current standard of living. Stating the results from the Transfer Model in today's dollars allows users to relate the purchasing power to what we know -- what our money buys today.

An example of the effect of showing the results in 1998 dollars is the comparison of the CSRS and FERS basic annuities. The CSRS benefits remains constant while there is a decrease shown in the FERS benefit. The decrease in FERS benefits at age 62 and 75 reflects the fact that FERS benefits do not receive full cost-of-living adjustments while the CSRS benefits do. Thus, the purchasing power of the FERS benefit declines somewhat, while the purchasing power of the CSRS benefit remains the same.

The TSP annuity option as shown in the FERS Transfer Model provides a level payment that does not receive any cost-of-living adjustment. However, it should be noted that the Thrift Plan does offer payment options that include a cost-of-living adjustment, but these options are not included in this comparison Model.

Version 2.0

The current version of the FERS Transfer Model is Version Model 2.0. It is available to download from the FERS Election Opportunities web page and is on the FERS Election Opportunities CD-ROM. This version offers several improvements over previous versions. The output has been refined to make it more precise and the report has been expanded to provide more explanation. The program has been tested by the Office of Personnel Management, the Thrift Savings Investment Board, and the Social Security Administration.

Employees should use the latest version of the Transfer Model. With the exception noted below for people born in 1939, previous versions of the model provided correct relative comparisons between benefits under CSRS and FERS, but the absolute values were not as accurate as those produced by current model. All employees for whom the benefits projection is an important consideration in making a decision may want to rerun any estimates they did using earlier versions of the model.

Special Note for Employees Born in 1939

Version 1.0.3 of the Transfer Model produced an erroneous estimate of the Social Security benefit for people born in 1939. This error was corrected in Versions 1.0.4 and 1.0.5. Anyone born in 1939 who made a transfer decision should be notified of this error and given the opportunity to, review the election, and void it if desired.

Differences Between This Model and Other Products

Every model that projects benefits out into the future uses assumptions about salary growth, inflation, and return on investments. Every model also uses certain shortcuts to limit the amount of information an employee needs to enter to make the model more user friendly. Since every designer of a projection model may use somewhat different default assumptions for the future and do data entry and rounding differently, it is to be expected that different models will produce different dollar values.

Actions to Take

If you have older versions of the model on agency computer systems, you should update them with the new version. We recommend you inform employees that a new version of the FERS Transfer Model is available and they can update projections if they desire. In addition, any employees born in 1939 **who submitted elections to transfer to FERS** should be given the opportunity to review their election, and void them if desired.

We strongly recommend that you regularly check the FERS Election Opportunities web page for news and information about the open season. We will continue to update it as needed with new Frequently Asked Questions, news of satellite broadcasts, and new publications. Save the FERS Election Opportunities web page (www.opm.gov/fers_election) as a favorite or bookmark on your browser and visit it often.

A handwritten signature in black ink that reads "Mary Sugar". The signature is written in a cursive style with a large, stylized initial "M".

Mary M. Sugar, Chief
Agency Services Division
Retirement and Insurance Service