



**Retirement and Insurance Service
 Benefits Administration Letter**

Number: 03-102

Date: January 22, 2003

Subject: Crediting Service with a DoD or Coast Guard Nonappropriated Fund Instrumentality for CSRS or FERS Immediate Retirement Under Public Law 107-107, the National Defense Authorization Act for Fiscal Year 2002

Section 1132 of the National Defense Authorization Act for Fiscal Year 2002, Public Law 107-107, changed how service with a Department of Defense (DoD) or Coast Guard Nonappropriated Fund (NAF) Instrumentality is credited under the Civil Service Retirement System (CSRS) and the Federal Employees Retirement System (FERS). Section 1132 gives CSRS and FERS employees the opportunity to elect to credit DoD or Coast Guard NAF service for the sole purpose of establishing eligibility for immediate retirement benefits. In this Benefits Administration Letter (BAL), we describe how employees make an election to credit NAF service to qualify for immediate retirement, and we describe how to compute the retirement annuity when employees make such an election.

Who can elect to credit their NAF service to qualify for immediate CSRS or FERS retirement under Public Law 107-107?

CSRS, CSRS Offset, and FERS employees may elect to credit NAF service to qualify for immediate retirement provided:

- they have at least 5 years of creditable non-NAF civilian service and qualify for a deferred retirement, and
- they do not already qualify for an immediate retirement based on their non-NAF service.

Attachment 1 of this BAL provides examples describing situations where employees are eligible to elect NAF service to qualify for immediate retirement as well as situations where employees are not eligible to make that election.

What type of NAF service can employees use to qualify for CSRS or FERS immediate retirement under Public Law 107-107?

Employees can use any service with a DoD or Coast Guard NAF component that is not already creditable for CSRS or FERS retirement under other provisions of law. This includes service covered by a NAF retirement plan as well as service not covered by a NAF retirement plan. FERS employees may even elect to credit NAF service performed after 1988. However, NAF service used to qualify for CSRS or FERS immediate retirement cannot be used to qualify for, or increase the amount of, a NAF retirement benefit.

<i>Civil Service Retirement System</i>	<i>Federal Employees' Group Life Insurance Program</i>	<i>Federal Employees Health Benefits Program</i>	<i>Federal Employees Retirement System</i>	<i>Long Term Care Insurance Program</i>
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(Chapter 20, Part 20A2 of The CSRS and FERS Handbook for Personnel and Payroll Offices and BAL 96-108, dated September 6, 1996, describe when NAF service can be credited under CSRS and FERS under other provisions of law.)

Do employees have to elect to credit all of their NAF service if they only need a few years of NAF service to qualify for CSRS or FERS immediate retirement?

Employees must elect complete periods of service with an NAF employer. For example, a CSRS employee who worked 6 straight years under a covered appointment for a DoD NAF must elect to credit the entire 6 years even if the employee only needs 2 years of service to qualify for a CSRS immediate retirement.

A complete period of service with an NAF employer is the period from the date of appointment to the date of separation. If an employee moves directly from an NAF appointment excluded from NAF retirement coverage to an appointment subject to NAF retirement coverage with the same NAF employer, the move from non-covered employment to covered employment is considered to be a separation. For example, a CSRS employee needs 2 years of service to qualify for an immediate CSRS retirement. The employee had worked for an NAF for 6 straight years – 2 years under an appointment excluded from NAF retirement coverage and 4 years under an appointment covered by an NAF retirement plan. The 2 years of NAF service not subject to NAF retirement coverage is considered a complete period of service, and the employee may elect to credit only that 2 years of NAF service for CSRS retirement purposes.

Do employees have to pay a deposit for the NAF service used to qualify for CSRS or FERS immediate retirement, or do NAF deductions covering the service need to be transferred to the CSRS or FERS retirement fund?

Employees cannot pay CSRS or FERS deposits to cover the NAF service, and NAF retirement deductions withheld for any of the NAF service cannot be transferred to the CSRS or FERS retirement fund. Instead, the annuity will be computed with an actuarial reduction to offset the additional cost to the retirement fund resulting from the employee using NAF service to qualify for immediate retirement.

If an employee elects to use NAF service to qualify for an immediate CSRS or FERS retirement, will that service also be used to increase the amount of the retirement annuity?

No. CSRS and FERS employees may only elect to credit NAF service for the sole purpose of establishing eligibility for immediate retirement benefits. Public Law 107-107 requires that the crediting of NAF service not result in a long term cost to the retirement fund. Therefore, NAF service cannot be used to increase the amount of CSRS or FERS retirement benefits.

The annuity of an employee electing to credit NAF service to qualify for immediate retirement must be reduced so that it equals the present value of the deferred annuity that would be payable to the employee assuming the employee:

- separated from service on the actual date of retirement; and
- elected not to credit the NAF service to qualify for immediate retirement.

In Attachment 2, we explain in detail how to compute the annuity of an employee who elects to credit NAF service to qualify for immediate CSRS or FERS retirement.

FERS employees electing to use NAF service to qualify for immediate retirement are not eligible for the FERS retirement supplement.

When do employees need to make their election to use NAF service to qualify for immediate CSRS or FERS retirement?

Employees should wait until they have decided to retire to make their election. Agency Benefits Offices should provide the employees with the NAF service credit election form (Attachment 3) along with the rest of the retirement application package. Employees should complete Part 2 of the election form and return it with their retirement package to their Benefits Office.

What else do employees need to know about electing to use NAF service to qualify for immediate CSRS or FERS retirement?

It is important for employees to consider not only the amount of the retirement benefit they would receive by using NAF service to retire, but also the amount of benefits they could receive by continuing to work until they qualify for retirement without using NAF service. So, before deciding they want to use NAF service to qualify for immediate retirement, employees should contact their agency's Benefits Office for assistance. Benefits Office staff will compute annuity estimates allowing employees to compare the amount of the benefit they would receive if they use NAF service to retire to the benefit they would receive if they continued to work until they qualified for immediate retirement without using NAF service.

Benefits Office staff will also obtain proper verification of the NAF service from the appropriate NAF employer(s). This verification will include information about whether or not the employee will have to give up any NAF benefit in order to credit the NAF service to qualify for CSRS or FERS retirement. That information is another factor employees should consider before electing to use NAF service to retire under CSRS or FERS.

If an employee eligible to elect to use NAF service to qualify for immediate retirement simply leaves Federal service without submitting a retirement application and without electing to credit NAF service, can the individual submit a retirement application and make the NAF election after she or he leaves the Government?

Employees who simply separate from the Government without electing to use NAF service to qualify for immediate retirement are not allowed to make that election and submit an application for immediate retirement after they separate.

What do agency Benefits Offices need to do to help employees who want to use NAF service to qualify for immediate CSRS or FERS retirement?

Agency Benefits Offices need to:

- tell the employee how much NAF service is needed to qualify for immediate retirement;
- contact the appropriate NAF employer(s) to obtain verification of all NAF service the employee wants to use to qualify for immediate retirement (remember, employees must elect complete periods of service);
- compute an annuity estimate following instructions in Attachment 2 to show the employee how much the annuity will be if the employee uses NAF service to qualify for immediate retirement;
- compute an additional annuity estimate to show the employee how much the annuity will be if the employee continues to work until he or she qualifies for an immediate retirement without using NAF service (or if the employee does not have the option to continue working, compute a deferred retirement annuity estimate without credit for NAF service); and
- complete part 1 of the NAF service credit election form and then give the form to the employee.

We've included a model letter agency Benefits Offices can use to request verification of NAF service, along with the addresses of the NAF employers in Attachment 4.

What additional documentation do agency Benefits Offices need to include with the retirement application package when an employee uses NAF service to qualify for immediate retirement?

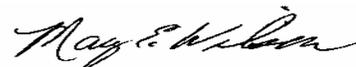
In addition to the employee's election to use NAF service to qualify for immediate retirement, the agency Benefits Office should include the verification of NAF service it obtained from the NAF employer(s) and the flag contained in Attachment 5.

When OPM receives the case, it will not routinely authorize interim payments to the retiree. Because these cases require a special computation, OPM must be careful in authorizing interim payments to ensure that retirees are not overpaid annuity.

Some agencies participate in OPM's automated front end processing program where they send OPM certain retiree information via computer tape along with the retirement package. OPM automatically authorizes interim payments to the retiree as soon as it receives the computer tape. If your agency participates in the front end processing program, we ask that you do not send the retiree information via computer tape for any employee who uses NAF service to qualify for immediate retirement. Simply attach the flag in Attachment 5 to the actual retirement package and OPM will take appropriate action to authorize annuity payments once it receives the package.

Should the agency Benefits Office alert the appropriate NAF employer(s) that the employee elected to use NAF service to qualify for CSRS or FERS immediate retirement?

Yes, the Benefits Office should forward a copy of the employee's election to the appropriate NAF employer(s), using the same address (or addresses) they used to request verification of NAF service, so the NAF system will know not to credit that service in a NAF benefit.



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Attachments

1. EXAMPLES: WHO CAN ELECT TO USE NAF SERVICE TO QUALIFY FOR CSRS OR FERS IMMEDIATE RETIREMENT AND WHO CAN'T
2. COMPUTING ANNUITY ESTIMATES WHEN NAF SERVICE IS USED TO QUALIFY FOR IMMEDIATE RETIREMENT UNDER SECTION 1132 OF PUBLIC LAW 107-107
3. ELECTION TO USE NONAPPROPRIATED FUND (NAF) SERVICE TO QUALIFY FOR IMMEDIATE RETIREMENT UNDER THE CIVIL SERVICE RETIREMENT SYSTEM (CSRS) OR THE FEDERAL EMPLOYEES RETIREMENT SYSTEM (FERS) IN ACCORDANCE WITH 5 U.S.C. 8331(B)(17) AND 8411(B)(6)
4. MODEL REQUEST FOR VERIFICATION OF NAF SERVICE, NAMES AND ADDRESSES OF NAF EMPLOYERS, AND VERIFICATION OF NAF SERVICE FORM
5. NAF SERVICE CREDIT FLAG
6. CHARTS NEEDED TO COMPUTE THE ANNUITY WHEN NAF SERVICE IS USED TO QUALIFY FOR IMMEDIATE RETIREMENT