

3. Electing NAFI Credit for Retirement Eligibility

A new subpart H in 5 CFR part 847 outlines the rules relating to electing NAFI credit to qualify for immediate CSRS or FERS retirement.

CSRS or FERS employees leaving Federal service on or after December 28, 2001, who have DoD or Coast Guard NAFI service not otherwise creditable under CSRS or FERS, may use that service to qualify for immediate retirement. To be able to use their NAFI service in this way, employees must already be eligible for CSRS or FERS deferred retirement benefits based on their non-NAFI service. Employees already eligible for immediate retirement benefits based on their non-NAFI service cannot make an election under 5 CFR part 847, subpart H, to credit their NAFI service for CSRS or FERS retirement purposes.

Employees may elect to credit any service they performed as an employee paid from nonappropriated funds of an instrumentality of DoD or Coast Guard. This includes NAFI service that was covered by an NAFI retirement plan as well as NAFI service that was not covered by an NAFI plan. FERS employees may even elect to credit NAFI service performed after 1988. Employees cannot pay CSRS or FERS deposits to cover the NAFI service, and NAFI retirement deductions withheld for any of the NAFI service cannot be transferred to the CSRS or FERS retirement fund.

There is one limitation affecting elections to credit NAFI service to qualify for immediate CSRS or FERS retirement. NAFI service used to qualify for CSRS or FERS immediate retirement cannot also be used under an NAFI retirement system for any purpose.

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

A complete period of service with an NAFI employer is the period from the date of appointment to the date of separation. If an employee moves directly from an NAFI appointment excluded from NAFI retirement coverage to an appointment subject to NAFI retirement coverage with the same NAFI 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 has 6 consecutive years of NAFI service—2 years under an appointment excluded from NAFI retirement coverage and 4 years under an appointment covered by an NAFI retirement plan. The 2 years of NAFI service not subject to NAFI retirement coverage is considered a complete period of service, and the employee may elect to credit only that 2 years of NAFI service for CSRS retirement purposes.

Employees wanting to elect to credit NAFI service to qualify for immediate CSRS or FERS retirement must do so when they retire. They need to submit their election, on a form specified by OPM, to their employing agency before their actual retirement date. They must also notify the appropriate NAFI retirement plan of their election and obtain verification of their NAFI employment from the NAFI retirement system.

4. Computing the Annuity When NAFI Service Is Used for Retirement Eligibility

A new subpart I in 5 CFR part 847 outlines the rules OPM will use to compute the annuity of employees who elect to use NAFI service to qualify for immediate CSRS or FERS retirement.

Electing to credit NAFI service to qualify for immediate CSRS or FERS retirement will not increase the amount of the annuity. The amount of annuity including NAFI service must be reduced by the amount necessary to ensure that the present value of the annuity payable to the employee is actuarially equivalent to 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 NAFI service to qualify for immediate retirement.

Present value is a financial term. As used in retirement, present value is the sum of money required at the present time to fund a future stream of payments. It is computed using an actuarial model that incorporates appropriate assumptions as to inflation and interest rates.

To ensure that the present value of the immediate annuity with credit for NAFI service equals the present value of the deferred annuity without credit for NAFI service, the gross monthly rate of the immediate annuity must be reduced by an amount derived using the following formula:

(the present value of the immediate annuity minus the present value of the deferred annuity) divided by the present value

factor corresponding to the employee's age at retirement.

The present value of an immediate annuity is the sum of money required at the commencing date of the annuity to fund the annuity. It is calculated by multiplying the monthly rate of annuity by the present value factor corresponding to the employee's age as of the commencing date of the annuity. A present value factor is a factor calculated by OPM's actuary using generally accepted actuarial standards and on the basis of assumptions used by the Board of Actuaries of the Civil Service Retirement System.

The present value of a deferred annuity is the sum of money required at the commencing date of the immediate annuity to fund the future deferred annuity. It is calculated by multiplying the monthly rate of the deferred annuity by the present value factor corresponding to the employee's age as of the commencing date of the deferred annuity, and then multiplying the result by a discount factor. The discount factor is a factor derived from the assumed rate of investment return earned by the Civil Service Retirement and Disability Fund, and the amount of time between the commencing dates of the immediate and deferred annuities.

(Currently, the rate of investment return on the Civil Service Retirement and Disability Fund is 7 percent. However, on May 9, 2002, OPM published a notice in the **Federal Register** announcing a change in the FERS normal cost percentages. In that notice, OPM also announced that the rate of investment return on the Civil Service Retirement and Disability Fund will change to 6.75 percent beginning October 1, 2002.)

The gross monthly rates of annuity used in the present value calculations are computed under the appropriate annuity formula applying the proper reductions for age, survivor elections, unpaid deposits and redeposits, and alternative annuity elections. In computing the gross monthly rate of the deferred annuity, interest on any deposit or redeposit balances does not accrue beyond the commencing date of the immediate annuity. In addition, the present value factors used in the reductions for unpaid redeposit and alternative annuity election correspond to the employee's age as of the commencing date of the deferred annuity.

If a FERS employee has at least 10 years of creditable (non-NAFI) service, the gross monthly rate of the deferred annuity is computed as of the first day of the month after the employee reaches