



PAYROLL OFFICE LETTER

U. S. Office of Personnel Management

Number: P-96-06

Date: November 5, 1996

Subject: *Elections of Retirement Coverage by Employees of Nonappropriated Fund Instrumentalities*

Since 1990, when qualified Department of Defense (DoD) and Coast Guard employees moved from a position with a Nonappropriated Fund Instrumentality (NAFI) to one covered by the CSRS or FERS, they have had the opportunity to remain in the NAFI retirement plan. Conversely, certain employees who take a job with a NAFI have been allowed to remain in CSRS or FERS. Public Law 104-106, Section 1043, has amended these provisions. Now, certain employees covered by FERS -- and not necessarily only those working in the DoD or for the Coast Guard -- have a one-year period, beginning August 10, 1996, to make an election to either remain in FERS or change their retirement coverage to a NAFI plan. The purpose of this letter is to provide you with guidance when such elections are made. If you would like additional details about the provisions of Section 1043, please see Benefits Administration Letters Number 96-107 and 96-108, which are available from your personnel officer or via *OPM Mainstreet*.

An employee's election to stay in FERS will have little impact on payroll office procedure. However, there will be a rather significant impact when an employee elects to change back to a NAFI retirement plan, which has the effect of removing the employee from FERS and covering him/her retroactively under the NAFI retirement plan.

ELECTION TO MOVE TO A NAFI RETIREMENT PLAN

Terminate FERS Deductions. When an election to change to a NAFI plan is made, you must terminate payroll deductions for FERS (and the Thrift Saving Plan) as of the last day of the pay period in which the employing agency received the employee's election. You will learn of the date of the election from your personnel office(s) via an SF 50 (with a Nature of Action "803/Change in Retirement Plan"). You will also receive from your personnel office: a copy of the employee's election form (Enclosure 1) and the original of the "Verification of NAFI Service, Vesting, and Contributions" form (Enclosure 2). If you learn of the election after you have made FERS deductions for the pertinent payroll period, you will need to adjust both the employee's pay and remittances to OPM via the Retirement and Insurance Transfer System (RITS) or the hard-copy SF 2812, retroactive to the effective date. If the employee has made military deposit payments and the payment has not been submitted to OPM, refund the payments to the employee since the military service credit does not transfer to the NAFI retirement plan.

Initiate NAFI Deductions. You must initiate deductions for the NAFI retirement plan that will cover the employee as of the first day of the pay period after your agency received the employee's election. Each individual NAFI plan may have a different employee withholding rate. We ask that non-DoD payroll offices contact the Coast Guard (for the Coast Guard Exchange System) or the Defense Finance and Accounting Service (for all other NAFIs) to discuss the specifics of the particular NAFI plan and to make arrangements for remitting deductions. We have provided contacts on Enclosure 3A. DoD payroll offices should contact the NAFI plans directly; your contact points are provided on Enclosure 3B.

Close-out FERS Individual Retirement Record. When you terminate FERS deductions, you must generate an Individual Retirement Record (SF 3100) closing-out the employee's FERS coverage. Show, in the "Remarks" section: "Retroactive election of NAFI coverage under P.L. 104-106." You will then certify the SF 3100 and send it, with a Register of Separations (SF 3103), with a copy of the employee's election form and the original "Verification of NAFI Service, Vesting, and Contributions" form, to:

Office of Personnel Management
Retirement Operations Center
P.O. Box 45
Boyers, PA 16017-0045

Upon receipt, OPM will complete the required transfer of FERS contributions to the appropriate NAFI retirement plan.

Provide Pre-election Guidance. When an employee changes coverage to a NAFI retirement plan, OPM will transfer cumulative employee and employer FERS contributions (plus interest on the employee contributions) to the NAFI retirement plan. Many employees, who are contemplating this election, will request of you the amount of money that would be so transferred. You will need to be able to estimate the amount and we have provided with this letter the following tools to assist you:

- o Enclosure 4 provides the interest rates for the calculation of interest on cumulative FERS deductions.
- o Enclosure 5 provides the factors to be used to calculate agency contributions to FERS.
- o Enclosures 6A and 6B provide sample calculations of interest and agency contributions.

If you have any questions on this letter, please call us on 202-606-0666.

/s/
Robert A. Yuran, Chief
Financial Management Division
Retirement and Insurance Service

Enclosures - Please Note - Enclosures 1 & 2 and the sample calculations for Enclosures 6A & 6B are not

available on OPM Mainstreet or FMS Inside Line; you may call above number to request a hard copy.
Enclosure 3A

CONTACT LIST FOR NON-DOD PAYROLL OFFICES TO USE

Non-DOD payroll offices should contact the Defense Finance and Accounting Service (DFAS) in Texarkana listed below for instructions on remitting retirement funds to any DOD NAFI payroll office. Contact the Coast Guard office directly for instructions on remitting retirement funds to the Coast Guard NAFI.

NAFI Payroll Office	Address
Defense Finance and Accounting Service (DFAS) Contact: Kay Allen (903) 334-3720	NAF Financial Services Attn: Retirement Portability Desk P.O. Box 6111 Texarkana, TX 75505-6111
U.S. Coast Guard Contact: Christopher Bozeman (202) 267-6566	U.S. Coast Guard Exchange System 2100 Second St. SW Rm 5502 Code G-WPC-2 Washington, DC 20593-0001

CONTACT LIST FOR DOD PAYROLL OFFICES TO USE

NAFI Payroll Office	Address
Department of the Army Contact: Kay Allen (903) 334-3720	NAF Financial Services Attn: Retirement Portability Desk P.O. Box 6111 Texarkana, TX 75505-6111
Department of the Air Force Contacts: Retirement: Jenny Brook (210) 652-2834/35 401(k): Marnie Owens (210) 652-2834/35	HQ AFSVA/SVR 10100 Reunion Place, Suite 406 San Antonio, TX 78216-4138
U.S. Marine Corps Contact: Terry White (703) 784-3879	Morale, Welfare and Recreation Support Activity P.O. Box 751564 Charlotte, N.C. 28275
Department of the Navy, Bureau of Naval Personnel (BUPERS) Contact: Eucile Lanier-Ballenger (901) 874-6715	Bureau of Naval Personnel Detachment Memphis Naval Support Activity Memphis 7800 3rd Ave. Bldg 457 Millington, TN 38054
Naval Exchange Service Command (NEXCOM) Contacts: Retirement: Willette Brown (804) 631-3607 401(k): Linda Moore (804) 631-3791	Navy Exchange Service Command Attn: Employee Entitlement and Services 3280 Virginia Beach Blvd. Virginia Beach, VA 23452
Army and Air Force Exchange (AAFES) Contact: Mimi Sauers (214) 312-3965	Headquarters, Army and Air Force Exchange Service FA-T (Benefits) P.O. Box 660202 Dallas, TX 75266-0202
U.S. Coast Guard Contact: Christopher Bozeman (202) 267-6566	U.S. Coast Guard Exchange System 2100 Second St. SW Rm 5502 Code G-WPC-2 Washington, DC 20593-0001

INTEREST RATE TABLE

This table lists the interest rates which should be used to calculate interest on FERS employee withholdings.

Year	Interest Rate
1984	11.00% *
1985	13.00%
1986	11.125%
1987	9.00%
1988	8.375%
1989	9.125%
1990	8.75%
1991	8.625%
1992	8.125%
1993	7.125%
1994	6.25%
1995	7.00%
1996	6.875%

* Note: Although the CSRS and FERS Handbook, Chapter 32, does not include a FERS interest rate for 1984, the interest rate used for calculating FERS refunds in 1984 was 11%.

AGENCY CONTRIBUTION FACTORS FOR FERS EMPLOYEES

This table lists the FERS agency contribution factors by CPDF code and the effective date of the agency contribution rate. These "factors" were derived by dividing the agency contribution rate by the employee withholding rate. For your convenience, we have calculated the factors for you. For example, a FERS regular (code K) employee's withholdings totaled \$282.54 in 1988. By multiplying the employee withholdings by the factor for 1988 (13.68), you get the agency contributions for 1988 (\$3,865.15).

CPDF Code	10/1/94	10/1/91	1/1/90	1/1/88	10/1/87	1/1/87	1984-1986
K FERS reg	14.25	16.13	16.25	13.68	9.62	11.38	5.38
N Military reserve	14.13	15.63	16.13	13.57	9.54	11.31	5.38
L Air traffic controllers	16.85	19.15	20.85	18.72	14.78	17.50	5.38
M Law Enforcement/ firefighters	18.69	21.00	19.54	17.54	13.83	16.33	5.77
Congressional employees	13.0	14.46	14.54	13.03	10.22	12.22	5.77
Members	13.69	15.00	15.08	13.51	10.61	12.06	6.15

Instructions for Calculating Interest on Employee Withholdings

Please refer to the sample calculation in Enclosure 3A. Construct a spreadsheet to calculate the interest. Set up a column for "Year"; "Employee Withholdings" (a); "Interest Rate" (b), "Interest Rate divided by 2" (c); "Time Factor" (d); "Current Interest" (e); "Ending Balance Interest" (f).

1. Under the "Year" column, enter the years that employee deductions were made. Provide two lines for all years except the first year. The first line will be used to calculate the interest on the ending balance for withholdings from the prior year. The second line will be used to calculate interest on withholdings for the current year.
2. Under column a, "Employee Withholdings," enter the ending balance for the withholdings from the prior year on the first line and the withholdings for the current year on the second line. In the sample calculation, for 1985, interest is calculated on the ending balance for withholdings (\$10.55) and interest is calculated on the current year's withholdings (\$20.00).
3. Under column b, "Interest Rate," for the ending balance lines, enter the rates shown in the Interest Rate Table (Enclosure 1) for each year on your spreadsheet.
4. Under column c, "Interest Rate/2," for the current year lines, enter the interest rate for each year divided by 2. This column will be used to calculate the interest on the average balance for the current year.
5. Under column d, "Time Factor," enter "1" for a full year and the appropriate fraction for less than a full year. In the sample calculation, 9/12 (.75) was entered for 1996. For the last year of deductions, round up fractional months.
6. Under column e, "Current Interest," multiply the current year's withholdings (a); by the interest rate divided by 2 (c); by the time factor (d). In the sample calculation for 1985, withholdings (\$20.00) are multiplied by interest rate/2 (.065) by time factor (1) for current year interest (\$1.30).
7. Under column f, "Ending Balance Interest," multiply the ending balance (a); by the interest rate (b); by the time factor (d). In the sample calculation for 1985, withholdings (\$31.85) are multiplied by interest rate (.11125) by time factor (1) for ending balance interest (\$3.54).

Instructions for Calculating Agency Contributions

Please refer to the sample calculation in Enclosure 3B. Construct a spreadsheet to calculate the agency contributions. Set up columns for "Year", "Employee Withholdings" (a); "Rate Factor" (b); "Time Factor" (c); and "Agency Contributions" (d).

1. Under the "Year" column, enter the years that employee withholdings were made. Provide two lines for 1987, 1991, and 1994 to allow for changes in agency rates at October 1.
2. Under column a, "Employee Withholdings," enter the amount of withholdings for each year. For the years with rate changes, enter the total withholdings on both the first and second lines because the time factor will adjust for partial years.
In the sample calculation for 1987, \$40 is entered for both 1/1/87-9/30/87 and for 10/1/87-12/31/87.
3. Under column b, "Agency Rate," enter the appropriate agency contribution factor from the table in Enclosure 2. Be sure to use the correct factor based on the effective date shown in the table. For CSRS interim service between 1984 and 1986, the agency share is based on the CSRS agency rates, i.e. 7%, 7.5%, or 8%.
4. Under column c, "Time Factor," enter the factor based on the number of months in the time period. In the sample calculation for 1/1/87-9/30/87, the time factor (.75) represents the time period for 9 months. For 10/1/87-12/31/87, the time factor (.25) represents the time period for 3 months.
5. Under column d, "Agency Contributions," multiply employee withholdings (a) by agency contribution factor (b) by time factor (c) to obtain the amount of agency contributions for the time period.
6. To calculate the total amount to be transferred to the NAF retirement plan, add the employee withholdings, interest on withholdings, and agency contributions.