



Nonappropriated Fund (NAF) Instrumentality Service

Working for America

UNITED STATES OFFICE OF PERSONNEL MANAGEMENT



Message from the President

“Every military installation is a strong and caring community. You look out for each other and you accept the sacrifices of service to America. Our whole nation is grateful to our military families.”

- George W. Bush



Message from the Director



“When you confront difficult policy issues that seem difficult to resolve, consider the possibility that Thomas Jefferson might have already solved it for you two hundred years ago.”

- Kay Coles James

What is NAF?

- **Service with a Nonappropriated Fund Instrumentality of the Department of Defense or U.S. Coast Guard**
- **Service that supports the comfort, pleasure, contentment, and mental and physical improvement of armed forces personnel**
- **Generally not considered “Federal” service for retirement purposes**

NAF Employers

- **U.S. Army**
- **U.S. Air Force**
- **U.S. Marine Corps**
- **Bureau of Naval Personnel**
- **Naval Exchange Service Command (NEXCOM)**
- **Army and Air Force Exchange Service (AAFES)**
- **U.S. Coast Guard**

NAF Laws

11/10/86

11/05/90

02/10/96

12/28/2001



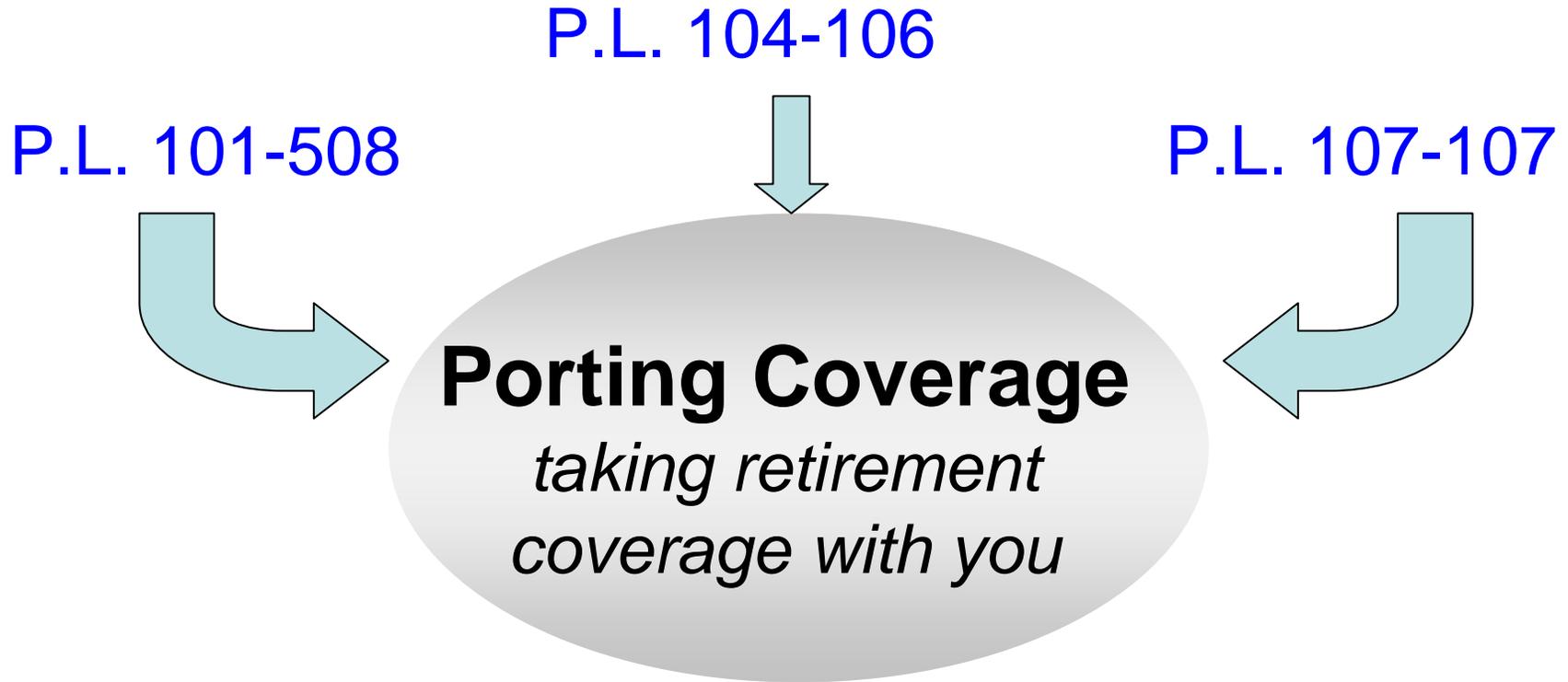
P.L. 99-638

P.L. 101-508

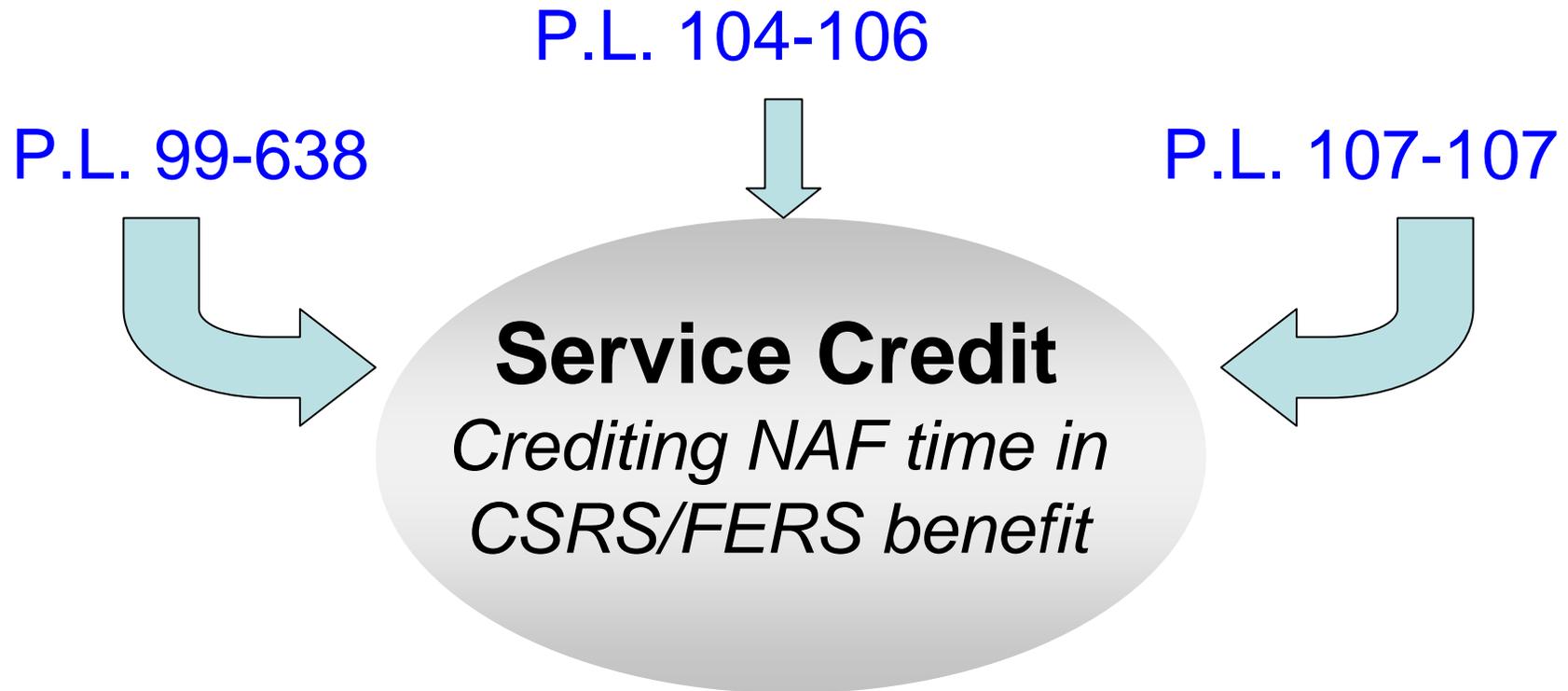
P.L. 104-106
*(regulations effective
8/10/96)*

P.L. 107-107

NAF Laws



NAF Laws



Porting Coverage – P.L. 101-508

12/31/86



Applies to first move after 12/31/86 from covered NAF service with DoD or Coast Guard to CSRS or FERS position with DoD or Coast Guard (or vice versa) where employee:

- is vested in the retirement plan of the position he or she is leaving, and
- moves from one position to the other without a break of more than 3 days

Porting Coverage – P.L. 101-508

12/31/86



Individual had 30 days after move to elect to keep the retirement coverage associated with the position he or she is left *(or until May 6, 1991, if the election period would have expired before that date)*

See 5 U.S.C. 8347(q) and 8461(n)

Porting Coverage – P.L. 104-106

08/10/96



Applies to first move on/after 8/10/96 from covered NAF service with DoD or Coast Guard to CSRS or FERS position with any Federal agency (or vice versa) where employee:

- is vested in the retirement plan of the position he or she is leaving, and
- moves from one position to the other without a break of more than a year

Porting Coverage – P.L. 104-106

08/10/96

- 
- Employee had 30 days after making move to elect to keep the retirement coverage associated with the position he or she left
 - This law doesn't apply if individual had a previous opportunity to port coverage

*See 5 U.S.C. 8347(q) or 8461(n), and
BAL 96-107 (8/20/1996)*

Porting Coverage – P.L. 104-106

Retroactive Provisions

12/31/65

08/10/96



Applies to first move after 12/31/65 and before 8/10/96...

- **from a CSRS or FERS position with any agency to a covered NAF position with DoD or Coast Guard, or**
- **From a covered NAF position with DoD or Coast Guard to a covered FERS position with any agency**

Porting Coverage – P.L. 104-106

Retroactive Provisions

12/31/65

08/10/96



Individuals must have

- been vested in the retirement plan of the position they left,
- moved from one position to the other without a break of more than a year,
- worked continuously in the position they moved to without a break of more than 3 days

Porting Coverage – P.L. 104-106 Retroactive Provisions

12/31/65

08/10/96



02/10/96

If individuals made such a move after 12/31/65 and before 2/10/96, they could elect the retirement coverage associated with the position they left as long as they did not have a previous opportunity to port their coverage

Porting Coverage – P.L. 104-106 Retroactive Provisions

12/31/65

08/10/96



02/10/96

If individuals made such a move on or after 2/10/96 and before 8/10/96, they could elect the retirement coverage associated with the position they left as long as they did not previously elect to port their coverage

Porting Coverage – P.L. 104-106

Retroactive Provisions

12/31/65

08/10/96



08/11/97

An election of coverage under the retroactive provisions had to be made by August 11, 1997, but

Time limit must be waived if an eligible employee did not receive timely notice of the election opportunity and counseling

Porting Coverage – P.L. 104-106 Retroactive Provisions

12/31/65

08/10/96



08/11/97

See BAL 96-108 (9/06/96)

Porting Coverage – P.L. 107-107

(Section 1131)

12/28/2001



Applies to first move on/after 12/28/2001 from covered NAF service with DoD or Coast Guard to CSRS or FERS position with any Federal agency (or vice versa) where employee:

- ~~is vested in the retirement plan of the position he or she is leaving, and~~
- moves from one position to the other without a break of more than a year

Porting Coverage – P.L. 107-107

(Section 1131)

12/28/2001

- 
- **Employee has 30 days after making move to elect to keep the retirement coverage associated with the position he or she left**
 - **This law doesn't apply if individual had a previous opportunity to port coverage**

*See 5 U.S.C. 8347(q) or 8461(n), and
BAL 02-102 (5/01/2002)*



Porting Coverage – Key Points

- **Elections are irrevocable and permanent**
- **Effective date of election is day employee entered into the new position**
- **An employee who elects to continue NAF coverage may keep FEHB and FEGLI coverage**
- **A NAF employee who elects to continue CSRS or FERS coverage is not eligible for FEHB or FEGLI**
- **An employee who elects to continue NAF coverage cannot participate in TSP**

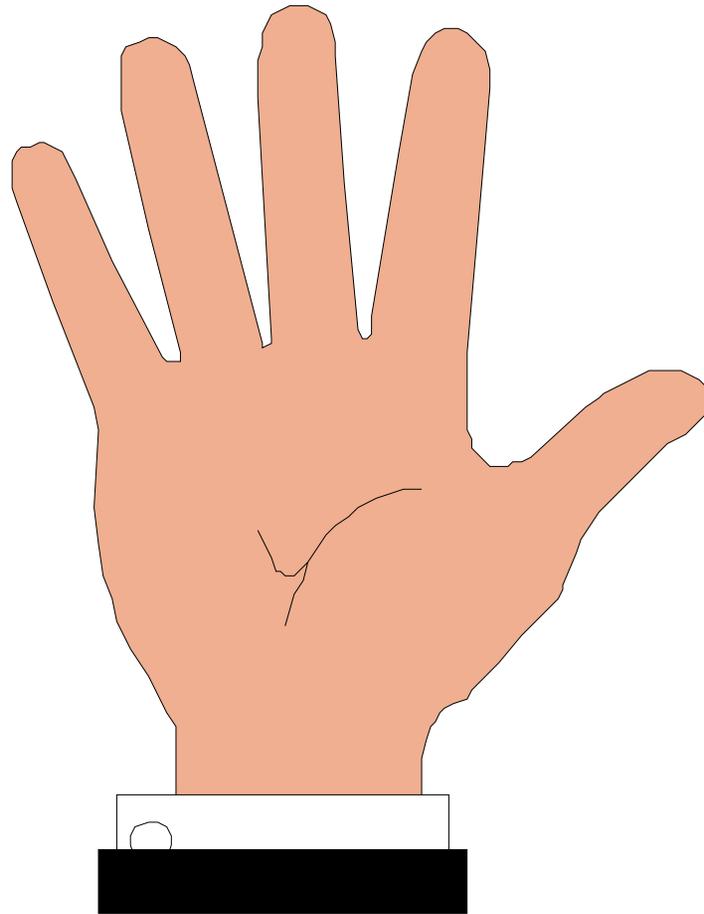


Porting Coverage – References

- **Benefits Administration Letters:**
 - 96-107 – August 20, 1996**
 - 96-108 – September 6, 1996**
 - 02-102 – May 1, 2002**

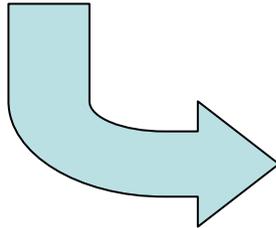
- **Regulations**
 - 5 CFR, part 847**

Porting Coverage Questions/Comments

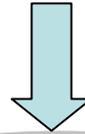


NAF Laws

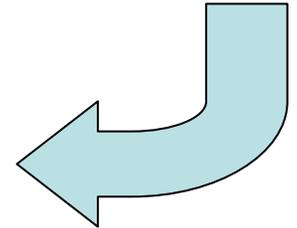
P.L. 99-638



P.L. 104-106



P.L. 107-107



Service Credit
*Crediting NAF time in
CSRS/FERS benefit*



Service Credit – Normal Rules

- **NAF service subject to CSRS or FERS deductions following a portability election counts as regular covered service**
 - **NAF service creditable under P.L. 99-638 counts as regular non-deduction service**

Service Credit – P.L. 99-638

6/18/1952

01/01/1966



11/09/1986

- Service after 6/18/52 and before 1/1/66
- Conducting arts and crafts, drama, music, library, service club, youth activities, sports, or recreation programs (including any outdoor recreation program) for personnel of the armed forces, or...

Service Credit – P.L. 99-638

6/18/1952

01/01/1966



11/09/1986

- **Managing or supervising all details directly relating to the programs enumerated or to the individuals who actually conducting such programs**
- **Individual must have been working in a CSRS covered position on 11/9/86**
- **Service can't be used in a NAF benefit**

Service Credit – P.L. 99-638

6/18/1952

01/01/1966



11/09/1986

- Service may be verified by records available at NPRC or from the NAF retirement plan
- Verified service should be entered on the individual's Individual Retirement Record with Public Law 99-638 cited as authority



Service Credit – A New Approach

- **NAF service creditable under P.L. 104-106 and P.L. 107-107 must be fully financed and cost neutral to the Federal Government**
 - **Compare present value of benefit including credit for NAF service with present value of benefit excluding credit for NAF service**
- **Generally, employee is responsible for the difference**



Service Credit – A New Approach

Example

Present Value of Benefit With NAF credit:	\$394,095
Present Value of Benefit Without NAF credit:	\$203,771
Difference:	\$190,324



Service Credit – A New Approach

Under P.L. 104-106

- Employee and employer contributions to the NAF plan are transferred to the CSRS retirement and applied to the difference in present values**
- Employee is responsible for the “deficiency” (the difference remaining after applying the NAF funds)**
- Employee doesn’t pay a deposit to cover the deficiency -- the deficiency is paid with an actuarial reduction to the employee’s retirement benefit**



Service Credit – A New Approach

P.L. 104-106 Example

**Present Value of Benefit
With NAF credit: \$394,095**

**Present Value of Benefit
Without NAF credit: \$203,771**

Difference: \$190,324

**Value of Funds Transferred
from NAF System: \$6,340**

Deficiency: \$183,984

Service Credit – A New Approach

P.L. 104-106 Example *(continued)*

Deficiency: \$183,984

FERS PVF: 170.9

Actuarial Reduction to Annuity: \$1,077

Monthly Annuity With NAF Service before Reduction: \$2,306

Monthly Annuity Payable: \$1,229



Service Credit – A New Approach

Under P.L. 107-107

- NAF money is not transferred to the CSRS retirement**
- Employee is responsible for the entire difference in present values**
- Employee doesn't pay a deposit to cover the difference -- the difference is paid with an actuarial reduction to the employee's retirement benefit**

Service Credit – A New Approach

P.L. 107-107 Example

**Present Value of Benefit
With NAF credit: \$394,095**

**Present Value of Benefit
Without NAF credit: \$203,771**

Difference: \$190,324

FERS PVF: 170.9

**Actuarial Reduction to
Annuity: \$1,114**



Service Credit – A New Approach

P.L. 107-107 Example *(continued)*

**Actuarial Reduction to
Annuity: \$1,114**

**Monthly Annuity With NAF
Service before Reduction: \$2,306**

**Monthly Annuity Payable
after (NAF) Reduction: \$1,192**



Service Credit – A New Approach

- **Primary advantage for electing NAF credit under P.L. 104-106 and P.L. 107-107 --- it allows employee to retire earlier**
- **Under P.L. 104-106, NAF service credit generally will only enhance the amount of the annuity if the employee qualifies for immediate retirement without the NAF service**
- **Under P.L. 107-107, NAF service credit will never enhance the amount of the employee's annuity**

Service Credit Under P.L. 104-106 Retroactive Provisions

12/31/65

08/10/96



**Applies to first move after 12/31/65 and
before 8/10/96 from a covered NAF
position with DoD or Coast Guard to a
covered FERS position with any agency
(or a covered CSRS Interim position
which becomes covered under FERS on
1/1/87)**

Service Credit Under P.L. 104-106 Retroactive Provisions

12/31/65

08/10/96



Individuals must have

- been vested in the retirement plan of the position they left,
- moved from one position to the other without a break of more than a year,
- worked continuously in the position they moved to without a break of more than 3 days
- not made a NAF portability election

Service Credit Under P.L. 104-106 Retroactive Provisions

12/31/65

08/10/96



If individuals made such a move they
could elect to credit their NAF service in
their FERS annuity

Service Credit Under P.L. 104-106 Retroactive Provisions

12/31/65

08/10/96

08/11/97

An election of service credit under the retroactive provisions had to be made by August 11, 1997, but

Time limit must be waived if an eligible employee did not receive timely notice of the election opportunity and counseling

Service Credit Under P.L. 104-106 Retroactive Provisions

12/31/65

08/10/96



08/11/97

If a FERS employee elects FERS credit for earlier NAF service, any un-refunded employee contributions to the NAF retirement plan, and any government contributions, must be transferred to the Civil Service Retirement Fund

Service Credit Under P.L. 104-106 Retroactive Provisions

12/31/65

08/10/96



08/11/97

If a FERS employee elects FERS credit for earlier NAF service, any earlier refunded FERS service becomes creditable

➤ *The amount the employee owes for the earlier refunded FERS service (the FERS “Redeposit”) is added to the deficiency before the actuarial reduction is computed*

Service Credit Under P.L. 104-106 Retroactive Provisions

12/31/65

08/10/96

08/11/97

References:

- *CFR 847.421-423*
- *5 CFR part 847, subpart F*
- *BAL 96-108 (9/06/96)*

Service Credit Under P.L. 107-107

12/28/2001

- 
- Applies to NAF service not creditable under any other provision of law
 - CSRS and FERS employees who qualify for a deferred retirement without NAF service may elect to credit NAF service to qualify for an immediate retirement
 - NAF service cannot be used in a NAF retirement benefit

Service Credit Under P.L. 107-107

12/28/2001

- 
- **The employee cannot pay a deposit for the NAF service**
 - **No money is transferred from the NAF system to the CSRS Fund**
 - **NAF service credit WILL NOT result in a higher annuity benefit**
 - **NAF service credit WILL NOT result in a higher annuity benefit**

Service Credit Under P.L. 107-107

12/28/2001

- 
- **NAF service credit WILL NOT result in a higher annuity benefit**

Service Credit Under P.L. 107-107

12/28/2001

References:

- *Section 1132 of Public Law 107-107*
- *5 U.S.C. 8332(b)(17) and 8415(j)*
- *5 CFR part 847, subparts H and I*
- *BAL 03-102 (1/22/2003)*



NAF Computations Under P.L. 107-107 and P.L. 104-106

Calculations:

- ***Present value of immediate annuity with NAF service***
- ***Present value of annuity without NAF service (may equal present value of deferred annuity)***
- ***Value of NAF funds transferred to the CSRS Fund (P.L. 104-106 computations only)***
- ***The amount the employee owes for refunded FERS service (the FERS “Redeposit Balance”) (P.L. 104-106 computations only)***

Present Value of Immediate Annuity with NAF Service

Age 55



*Gross monthly annuity rate multiplied by
appropriate present value factor (PVF)*

Example:

- 55 year old CSRS employee
- 27 years CSRS service; 5 years NAF Service
- CSRS Age 55 PVF = 211.4
- Monthly annuity based on 32 yrs = \$2,500
- Present Value = \$2,500 x 211.4 = \$528,500

Present Value of Annuity without NAF Service



Note: annuity without NAF service usually won't begin until a later date

Example:

- 55 year old CSRS employee
- 27 years CSRS service; 5 years NAF Service
- Annuity without NAF time: deferred retirement beginning at age 62

Present Value of Annuity without NAF Service



Present Value of Deferred Retirement (annuity without NAF service) equals:

- *Gross monthly annuity rate of deferred retirement, multiplied by*
- *Present value factor (PVF) based on age when deferred retirement begins, multiplied by*
- *Discount factor based on amount of time between when immediate retirement begins and when deferred retirement begins*

Present Value of Annuity without NAF Service



Present Value of Deferred Retirement (annuity without NAF service) example:

- *Monthly Annuity based on 27 years CSRS Service: \$2,085*
- *CSRS present value factor for age 62: 177.9*
- *Discount factor for 7 years: .633031*
- *Present value of deferred retirement:
 $\$2,085 \times 177.9 = \$370,921.50 \times .633031 =$
 $\$234,804.80$*

Present Value of Annuity without NAF Service

MRA

Age 60

Age 62



Present Value of Deferred Retirement (annuity without NAF service) notes:

- *Present value factors and discount factors periodically change. Always use the factors in effect at the time the immediate retirement begins.*
- *For FERS employees, use the earliest date a FERS deferred retirement could begin unless the employee has 20 years or more of FERS service, then use the first of the month after the employee turns age 60.*

Present Value of Annuity without NAF Service

Same commencing date



Sometimes an employee who elected NAF credit under P.L. 104-106 might qualify for an immediate retirement without NAF service

- *Multiply monthly annuity without NAF credit by the present value factor based on employee's age at retirement*
- *Do not apply the discount factor*

Present Value of Annuity without NAF Service

52



Discount factor unnecessary - example:

- 52 year old FERS employee
- 21 years FERS service; 8 years NAF Service
- Voluntary early retirement
- Monthly annuity without NAF: \$875.00
- FERS PVF for age 52: 168.0
- Present value of annuity without NAF:
 $\$875 \times 168.0 = \$147,000$

Value of NAF Funds Transferred to CSRS Fund (P.L. 104-106 only)

7/1/97

1/1/2005



Amount of employee and employer funds transferred from NAF to CSRS Fund is increased based on the variable interest rates

Example

- *Assume \$15,000 was transferred on 7/1/1997*
- *Annuity begins 1/1/2005*
- *Value of NAF funds on 1/1/2005 equals \$22,699*

FERS Redeposit Balance (P.L. 104-106 only)

7/1/1992

1/1/2005



Amount of employee's FERS refund
increased by the variable interest rates

Example

- *Assume \$2,000 of FERS deductions was refunded to employee on 7/1/1992*
- *Annuity begins 1/1/2005*
- *FERS redeposit balance on 1/1/2005 equals \$4,236*



**P.L. 107-107
Computations**

P.L. 107-107 Computation



- *Present value of immediate annuity with NAF service, minus*
- *Present value of deferred annuity (without NAF service), equals*
- *Cost of crediting the NAF service, divided by*
- *The present value factor corresponding to the employee's age when annuity begins, equals*
- *NAF reduction*

P.L. 107-107 Computation



Example:

- 55 year old CSRS employee
- 27 years CSRS service; 5 years NAF Service
- Monthly Annuity with NAF time (before NAF reduction): \$2,500
- Monthly deferred annuity (without NAF time) at age 62: \$2,085

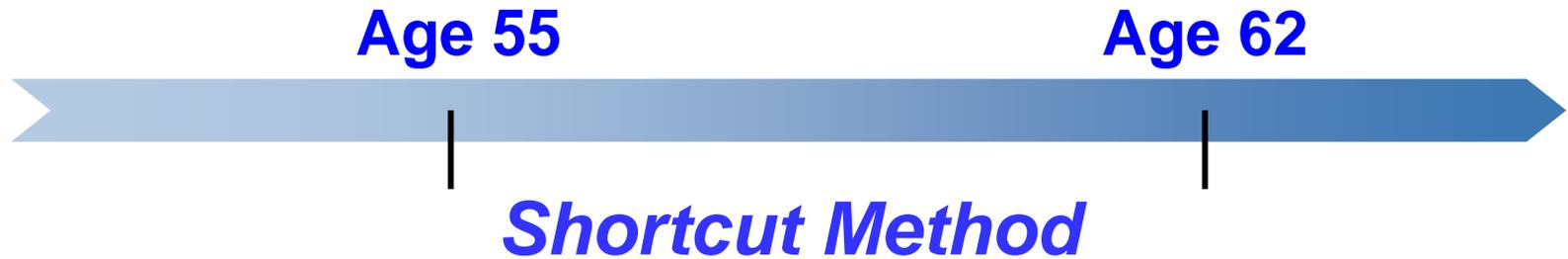
P.L. 107-107 Computation



Example:

- PV of immediate annuity: \$528,500
- PV of deferred annuity: \$234,804.80
- Cost of NAF service: \$293,695.20
- PVF (age 55): 211.4
- NAF reduction: \$1,390
- Monthly annuity payable
at age 55: $\$2,500 - \$1,390 = \$1,110$

P.L. 107-107 Computation



Present value of deferred annuity (without credit for NAF service)

Divided by

Present Value Factor corresponding to the employee's age when annuity actually begins

Equals

Monthly Annuity Payable

P.L. 107-107 Computation



Shortcut Method - Example

Present value of deferred annuity
(without credit for NAF service): \$234,804.80

Divided by

Present Value Factor
corresponding to age 55: 211.4

Equals

Monthly annuity payable at age 55: \$1,110.00

P.L. 107-107 Computation



Another Perspective:

**Immediate annuity with NAF service
equals**

**The amount of the deferred annuity
without NAF service, reduced because
it starts early**



**P.L. 104-106
Computations**

P.L. 104-106 Computation

- *Present value of immediate annuity with NAF service, minus*
- *Present value of annuity without NAF service, equals*
- *Cost of crediting the NAF service, minus*
- *Value of NAF funds, plus*
- *FERS redeposit balance, divided by*
- *The present value factor corresponding to the employee's age when annuity begins, equals*
- *NAF reduction*

P.L. 104-106 Computation

52

Example:

- 52 year old FERS employee
- 21 years FERS service; 8 years NAF Service
- Voluntary Early Retirement
- Monthly Annuity with NAF
time (before NAF reduction): \$1,208
- Monthly annuity without
NAF time at age 52: \$875
- Current Value of NAF Funds: \$22,699

P.L. 104-106 Computation

52

- PV of annuity with NAF: \$202,944
- PV of annuity w/o NAF: \$147,000
- Cost of NAF service: \$55,944
- Current Value of NAF Funds: \$22,699
- Deficiency: \$33,245
- PVF (age 52): 168.0
- NAF reduction: \$198
- Monthly annuity payable
at age 52: $\$1,208 - \$198 = \$1,010$

P.L. 104-106 Computation

52

Short cut

- Only applies if employee is eligible for immediate retirement without NAF service and employee doesn't have refunded FERS service
- Monthly annuity without NAF service
plus
(value of NAF funds divided by PVF)

P.L. 104-106 Computation

52

Short cut - Example

- Monthly Annuity without NAF service: \$875
- Value of NAF Funds: \$22,699
- PVF for age 52 168.0
- Monthly Annuity Payable:
$$\begin{aligned} & \$875 + (\$22,699 \div 168) = \\ & \$875 + \$135 = \end{aligned}$$
 \$1,010



Service Credit – A New Approach

Miscellaneous Notes:

- The FERS annuity supplement is not payable to retirees who use NAF time under P.L. 107-107 to qualify for retirement
- In agency reorganizations and reductions in force, employees with prior NAF service may be able to use their NAF time to qualify for a discontinued service retirement

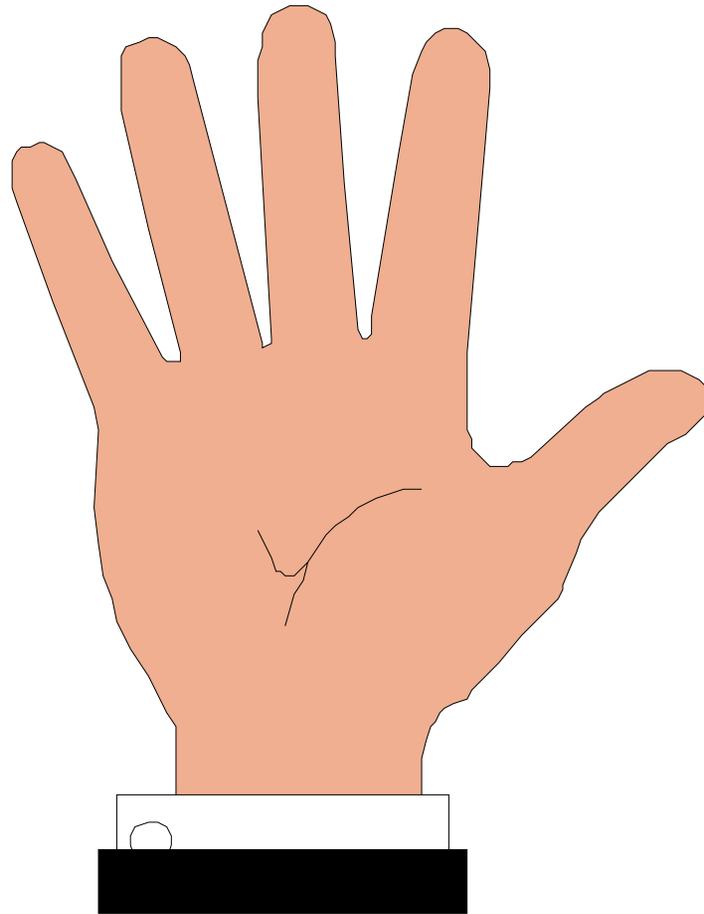


Service Credit – A New Approach

Miscellaneous Notes:

- **Present value factors and discount factors are changing effective 10/01/2004**

Service Credit Questions/Comments



Reduction in Force

1/1/1966



Employees are entitled to credit for NAF service if they move on or after January 1, 1966, from a DoD or Coast Guard NAF position to a DoD or Coast Guard civil service position without a break of more than 3 days

5 U.S.C. 3502(a)(4)(C)

P.L. 101-508 as amended by P.L. 104-106

Within Grade Increases

1/1/1987



Employees are entitled to credit for NAF service if they move on or after January 1, 1987, from a DoD or Coast Guard NAF position to a DoD or Coast Guard civil service position without a break of more than 3 days

5 U.S.C. 5335(f)

5 CFR 531.406(b)(4)

P.L. 101-508

Annual Leave

1/1/1987



Employees are entitled to credit for NAF service if they move on or after January 1, 1987, from a DoD or Coast Guard NAF position to a DoD or Coast Guard civil service position without a break of more than 3 days

5 U.S.C. 6312(a)(2)

P.L. 101-508



Transfer of Leave

Annual and sick leave of NAF employees transfers to the civil service position if they move from a DoD or Coast Guard NAF position to a DoD or Coast Guard civil service position that is subject to annual and sick leave without a break of more than 3 days

5 U.S.C. 6308(b)

A vertical strip of an American flag is visible on the left side of the slide, showing the stars and stripes.

Nonappropriated Fund (NAF) Service

**That's all folks –
Thanks for listening and thanks for your
time!**