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FERS, FERS-RAE, FERS-FRAE… What Does All This Mean?

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The alphabet soup of government acronyms got a couple new ingredients over the past year and a half: the FERS (Federal Employees Retirement System) was joined by FERS-RAE in January 2013 and by FERS-FRAE in January 2014. What are these new acronyms and what changes do they indicate?

Rest assured that for most employees, nothing changed. In fact, most employees breathed a sigh of relief that the changes did not even affect current employees. But newly hired employees and those returning to service with only a few years of government service in their past will be subject to new FERS provisions which require larger employee contributions to FERS than in the past.

A little background: FERS provisions started on 1/1/1987 and were applied to employees who were newly hired in retirement-covered positions from that point on. The new FERS provisions also applied to most employees first hired between 1/1/1984 and 1/1/1987, and to employees who were reinstated on or after 1/1/1987 who didn't have at least 5 years of service that was creditable under the old Civil Service Retirement System (CSRS).

The standard employee contribution rate for FERS (the amount employees must pay for coverage under the FERS Basic Benefit pension plan) settled at .8%, after excursions to 1.3% and .94%, so for many years employees have paid less than 1% of their gross pay into FERS. "Special group" employees such as law enforcement officers, firefighters, air traffic controllers, and Congressional employees, pay a rate that is one-half percent higher, settling at 1.3%. For simplicity, I'll refer to only the standard rate here; special rates are always .5% higher.

The standard FERS employee contribution rate changed with passage of the Middle Class Tax Relief and Job Creation Act of 2012. Under this Act, a new category of FERS employees was created: FERS-RAE. This stands for FERS-Revised Annuity Employees. The standard FERS-RAE employee contribution is 3.1%, an increase of 2.3%. (Special group rates went up the same amount.) However, the new rate was to apply only to employees who are newly hired on or after

1/1/2013, or rehired with less than 5 years of civilian service that is potentially creditable under FERS.

That seems fairly clear so far: current employees weren't affected, but newer employees have to pay more. Ok, we've got that. HR offices have to make good decisions about what FERS code to use (K or KR) and payroll offices have to make programming changes to provide for proper deduction of the additional new coverage type. That's doable. (No increase in retirement benefits, by the way.)

But that's not all! Along comes the Bipartisan Budget Act of 2013, which created yet another category of FERS employees thanks to a different employee contribution rate, and FERS-FRAE was born. The new category – FERS-Further Revised Annuity Employees – has a standard contribution rate of 4.4% of gross pay, and applies to employees newly hired on or after 1/1/2014, or rehired with less than 5 years of civilian service that is potentially creditable under FERS.

The fact that this Act was signed on December 26, 2013, just six days before it was to be effective increased the potential for problems. Although they may have known that such a change was possible, payroll and HR offices were caught short by this very last minute change. In fact, OPM's Interim Guidance concerning the new Act was not even issued until 1/30/2014, 30 days after the new FERS category was effective.

So here are the current FERS retirement coverage categories in table format:

Retirement Coverage	Affected Individuals	Standard Retirement Coverage Code	Standard Employee Contribution Rate
FERS	Employees first hired on/after 1/1/19871	K	.8%
FERS-RAE	Employees first hired on/after 1/1/20132	KR	3.1%
FERS-FRAE	Employees first hired on/after 1/1/20142	KF	4.4%

1. *Or rehired after that date with less than 5 years creditable or potentially creditable service under CSRS*

2. *Or rehired after that date with less than 5 years creditable or potentially creditable service under FERS*

It's easy to see the potential for errors here. Brand new federal employees aren't a problem, but rehires are. HR offices usually have to make retirement coverage determinations before they have access to a rehired employee's complete employment history. That means they must make the retirement coverage decision based on information provided by the employee, which may not show exact, full dates of previous federal employment, or may not include all periods of previous service. Incomplete or erroneous service histories could cause employing agencies to put new employees in FERS-RAE or FERS-FRAE when they actually belong in FERS or (heaven forbid!) CSRS.

We've been through this before. When FERS hit the scene in 1987, errors in coverage between CSRS and FERS were made. In fact, thousands upon thousands of retirement coverage errors were made – and they are still being made. OPM's solution to the problem was the Federal Erroneous Retirement Coverage Correction Act of 2000 (FERCCA), which provided options for affected individuals and instructions for correcting errors. But FERCCA corrections are so difficult, time-consuming, frustrating, and confusing that finding an error that requires FERCCA action is cause for general mourning, dimmed lights, heavy drinking, and heartfelt sympathy cards.

So will we need FERCCA: The Sequel to correct errors in retirement coverage among FERS, FERS-RAE, and FERS-FRAE? I don't think so. Oh, there will be errors in coverage, but they will be inherently less complicated because all of these coverage types include the same players: FERS and Social Security. Only the amount of the FERS deduction is different, which should be fairly easy to fix. Nonetheless, it would benefit employees who are new or rehired since 1/1/2013 to check their retirement coverage and ask questions sooner rather than later.