

Benefit Changes Likely

There are several benefit changes which will likely occur in this Congress (not necessarily this calendar year). The first is one which FERS employees have championed since the inception of FERS: credit for unused sick leave at retirement. Under the current law, when a FERS employee retires, any unused sick leave on the books on date of retirement simply disappears. This has resulted in a “FERS flu” epidemic among those employees nearing retirement. This results in the agency paying the employee’s full salary and benefit package, including the matching on the Thrift Savings Plan (TSP) contribution. By allowing credit for the unused sick leave balance in the FERS benefit computation, “cost” will be equal to 1 percent of the High-3 Average Salary for each full year (2087 hours) of unused sick leave. At present, FERS employees/retirees cannot donate unused sick leave, nor do they get paid for it, nor is it converted to creditable service. If the current bills make it through Congress, the treatment of unused sick leave at time of retirement for FERS employees would become the same as for CSRS:

- \$ Unused sick leave cannot make an employee eligible to retire;
- \$ Once eligible to retire, the unused sick leave is converted to creditable service and added to length of service in computing the annuity; and
- \$ Credit is calculated on the basis of the 2087 hour work year.

For all FERS retirees, this will increase the benefit by 1 percent of the High-3 Average Salary for each 2087 hours of unused sick leave, one twelfth of 1 percent for each 174 hours. Unused sick leave is added to actual work days and all benefits are computed in whole month increments.

174 hours	equals 1 month	which equals	1/12 of 1%
348 hours	equals 2 months	which equals	1/6 of 1%
522 hours	equals 3 months	which equals	1/4 of 1%
696 hours	equals 4 months	which equals	1/3 of 1%
870 hours	equals 5 months	which equals	5/12 of 1%
1044 hours	equals 6 months	which equals	1/2 of 1%
1271 hours	equals 7 months	which equals	7/12 of 1%
1391 hours	equals 8 months	which equals	2/3 of 1%
1565 hours	equals 9 months	which equals	3/4 of 1%
1739 hours	equals 10 months	which equals	5/6 of 1%
1913 hours	equals 11 months	which equals	11/12 of 1%
2087 hours	equals 12 months	which equals	1%

A second much sought after change would be the addition of a Roth 401(k)-type investment option to the TSP. The Federal Retirement Thrift Investment Board supports the addition of the 401(k) and Congress has pushed for this type of investment option.

A Roth 401(k) is similar to the traditional TSP, except it is funded with already taxed dollars and it grows tax-free rather than tax-deferred.

Any individual who is in a low tax bracket (usually those starting their careers) benefits from funding a Roth 410 (k) by paying taxes when the money is invested and they are in the lower tax

bracket, thereby avoiding taxes later on when they will be in a higher tax bracket or when all tax brackets will be higher.

The down side is that employees who decide to participate in a Roth type 410(k) within the TSP are paying more taxes now in order to receive a bigger tax advantage later. This is routinely a good strategy, however, it does mean that employees will take home less money in the immediate future than if they had invested in the traditional TSP option.

If the TSP Roth 401(k) becomes law, it will be one to two years before it is available. Further, this option will result in considerable costs to implement:

- \$ \$1.3 million to modify TSP's record keeping, accounting, and payroll systems to accept and track Roth contributions and distributions.
- \$ \$5 million to change TSP enrollment and loan forms, tax notices, and communications materials.

Additionally, participants would likely need financial and tax advice. The TSP doesn't currently offer this type of investment advice, and providing the service would cost between \$4 million and \$6 million in the first year, and between \$1.5 million and \$2.5 million annually thereafter.

Two other TSP proposals are:

- \$ Allowing a survivor spouse of a deceased TSP participant to maintain the TSP account.
- \$ Adding a mutual fund option that would allow participants to direct their TSP funds to private-sector mutual funds.

While there is support for the first proposal, the second proposal is likely to be stripped from the bill.

An additional TSP change is already in the works – a dramatically redesigned web site. The new site will feature updated interfaces for tracking transactions online and interfund transfers, as well as a hub for managing personal information.

The Deputy Director of External Affairs for the Federal Retirement Thrift Investment Board said one of the goals of the redesign was to make the web site more comprehensive as investors look for more information on the Internet.

Further, there will be online training materials developed for benefits and payroll officers so they will be prepared to support participants as the new site rolls out. An aggressive campaign to educate employees about the changes will also be mounted.