

# CONGRESSIONAL AND FEDERAL PENSION REVIEW

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Y 4. G 74/9: S. HRG. 104-293

Congressional and Federal Pension R...

## HEARINGS

BEFORE THE

SUBCOMMITTEE ON POST OFFICE AND  
CIVIL SERVICE

OF THE

COMMITTEE ON  
GOVERNMENTAL AFFAIRS  
UNITED STATES SENATE

ONE HUNDRED FOURTH CONGRESS

FIRST SESSION

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MAY 15, 1995

CONGRESSIONAL PENSION REVIEW

MAY 22 AND JUNE 19, 1995

FEDERAL PENSION REVIEW

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Printed for the use of the Committee on Governmental Affairs



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# CONGRESSIONAL PENSION REVIEW

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MONDAY, MAY 15, 1995

U.S. SENATE,  
SUBCOMMITTEE ON POST OFFICE AND CIVIL SERVICE,  
OF THE COMMITTEE ON GOVERNMENTAL AFFAIRS,  
*Washington, DC.*

The Subcommittee met, pursuant to notice, at 2:08 p.m., in room SD-342, Dirksen Senate Office Building, Hon. Ted Stevens, Chairman of the Subcommittee, presiding.

Present: Senators Stevens, Pryor, and Dorgan.

## OPENING STATEMENT OF SENATOR STEVENS

Senator STEVENS. Good afternoon. Today and next Monday, this Subcommittee will be taking a first look at the important topic of Federal employee pension plans. Today's hearing will focus on the mechanics of Federal pension plans, looking at the Congressional features of the Federal pension plans and contemplating whether there should be a modification to those Congressional features. The focus at next Monday's hearing will be on Federal pension plans generally, how they compare to private sector pension plans, and whether Congress should be looking at any Legislative initiatives to modify any of those plans.

We have also set aside June 19 to hear from representatives of Federal employees, as well as Federal retiree representatives.

Now, let me say at the outset that many of us are aware that there has been considerable media coverage recently regarding pensions of former Members of Congress who retired voluntarily or were involuntarily retired by their constituents last November. I emphasize that they all retired under the old system, the Civil Service Retirement System, and not the system that I helped author, the Federal Employees Retirement System.

I anticipate that these retired Members' benefits are extreme examples of Congressional pension coverage. The average Member of Congress and Congressional employees are not nearly as fortunate as those who retired after so many years of service. I would also point out that when it comes to Federal employees other than Members of Congress, I do believe that as Members we have an obligation to the taxpayers to do our best to attract the best qualified people and to cultivate their talents in the Federal system at a reasonable cost.

Part of the attractiveness of employment, whether it is Federal or in the private sector, is what kind of a future an individual can build toward. This future has as its foundation a retirement program. When people are attracted to the Federal service, I believe

we owe it to them to provide a retirement system that is adequate for their retiring years and competitive with that provided in the private sector.

I hope that this hearing today will review Congressional pension coverage for Members and Congressional staff, and help draw some conclusions as to the appropriateness of the Federal pension coverage.

I am pleased that you are here today, Senator Bryan. You were the one to make the first comments on the floor concerning the Federal pension system. It was pursuant to your suggestion that Senator Dole indicated that we would hold this hearing and we are holding the hearing to follow up on the Majority Leader's commitment to you.

Following Senator Bryan, we will hear from Congressman Jim Moran, of Virginia. Following Congressman Moran's testimony, we will hear from Ed Flynn, Associate Director for Retirement and Insurance of the Office of Personnel Management. Our final witness will be Johnny Finch, the Assistant Comptroller General for the Government Accounting Division, and accompanying Mr. Finch will be Bob Shelton, the Assistant Division Director for Resource Management Issues of the General Government Division of GAO.

That said, Senator, we are happy to hear your statement.

I might ask if my friend, Senator Dorgan, has an opening statement of any kind.

Senator DORGAN. No, Mr. Chairman. I am anxious to hear Senator Bryan, and I appreciate your calling this hearing.

### **TESTIMONY OF HON. RICHARD H. BRYAN,<sup>1</sup> U.S. SENATOR FROM THE STATE OF NEVADA**

Senator BRYAN. Mr. Chairman, let me just preface my comments by expressing my appreciation to you for convening this hearing.

By way of background, I became involved in this issue about a year ago at a town hall meeting. A constituent rose to say, look, why is the pension system that Members of Congress—why is it so much more generous than other Federal civil service employees. My initial response was that I did not know that that was the case, but that if it were, I would introduce legislation to provide some compatibility and equity between those positions.

So it is with that background, Mr. Chairman, that I have introduced Senate bill 228, which is designed to restore equity in the Congressional pension system. To accomplish this objective, Congressional retirement benefits are placed on a parity with the pensions of other Federal civil servants.

Under current practice, Members of Congress and their staffs receive a more generous retirement benefit which, in my view is not defensible and it is not acceptable. Under the present retirement system, Members of Congress pay slightly more into their Federal pension plans than do other Federal workers, but even taking consideration the additional contribution that is made, the retirement benefit which Members of Congress receive is substantially more beneficial than others that are part of the retirement system.

<sup>1</sup>The prepared statement of Senator Bryan appears on page 125.

This is true, Mr. Chairman, whether one is under the old system, the Civil Service Retirement System, or under the new system, the Federal Employees Retirement System, and I would acknowledge, as you, Mr. Chairman, pointed out, that the new system is considerably less generous than the old. The CSRS, or the Civil Service Retirement System, covers Members of Congress and Federal employees who were employed prior to January 1, 1984. The new system, FERS, as you and Senator Dorgan both know, is designed to cover Members and employees thereafter.

I have constructed a chart there that I think makes the case. The system differs in two substantial ways in terms of the way Members of Congress and their staffs are treated versus other Federal employees. The accrual rate—that is, the amount that one would receive annually—in CSRS for Members of Congress is 2.5 percent a year. So a Member who had 10 years of service under the old system would get 25 percent of his or her average the top 3 years in Congress. Other Federal employees under the old system make a contribution—the accrual rate is 1.5 percent for years 1 through 5, 1.7 percent years 6 through 10, and 2 percent after 10 years of service.

Under the FERS, the Federal Employees Retirement System, the accrual rate is 1.7 percent for years 1 through 20. So in a 10-year period of time, a Member of Congress or his or her staff would get a 17-percent pension of the average high 3 years. The Federal Employees Retirement System accrual rate for those who are part of the civil service under the FERS system is 1 percent under age 62, which under the hypothetical I have just given would be 10 percent, as opposed to 17 percent.

The contribution rate does differ, as I have indicated. CSRS for Members of Congress is 8 percent. For other Federal employees other than Members of Congress and their staffs, it is 7 percent. The FERS contribution rate for Members of Congress and their staffs is 1.3 percent; for other civil service employees, 0.8 percent. But even with that additional contribution made by Members of Congress and their staffs, the system is still substantially more generous.

Two examples, if I might cite them, just to illustrate the point. If a Member of Congress retires in 1996, assuming no increase in salary for Members of Congress in 1996, the average high-3 salary would be \$133,600. That means that a Member of Congress enrolled with the Civil Service Retirement System with 20 years of experience would receive a pension in 1997 of \$66,800. That same civil service employee under the old system would receive for the same number of years of service a retirement benefit of \$48,764 on an annual basis.

Mr. Chairman, I am going to be brief because I know your time is pressing and I do respect the fact that you have other witnesses. To make the point again with respect to the FERS system which has been in effect since 1984, a Member of Congress who would have 20 years of service would receive a pension of \$45,424. That same retirement benefit for other civil service employees with the same 20 years of service would be \$26,720. So the difference under the new system, less pronounced than under the old, is still the difference between \$45,424 and \$26,720.

For me, Mr. Chairman and Members of this Subcommittee, it is simply a matter of fairness. Members of Congress should not receive greater retirement pensions than other civilian Federal employees. Whether a person works in Congress, the Department of Transportation, or the Department of Health and Human Services, all should be treated equally under the system, and my bill is designed to accomplish that purpose.

The bill does three things. First, it provides a retirement cap so that no Member of Congress will receive a retirement benefit that is higher than the Member's final rate of pay before his or her retirement.

Second, it changes the accrual formula under CSRS and FERS so that benefits paid are the same for all Federal employees, including Congress, and let me emphasize that change would be prospective only. Under the provisions of our legislation, that would take place in 1997, there being some question as to whether or not the recent constitutional amendment that was ratified—whether or not it is possible to make a change during any one session of the Congress, and so that is why the January 1997 date.

Third, it changes the percentage contribution paid by Members of Congress into the retirement so that it is equal to all other employees.

Mr. Chairman and Members of this Subcommittee, I believe it is essential to show that Members of Congress are receiving the same treatment as other Federal employees. Earlier in this session of Congress, with bipartisan support, as a carryover from legislation that was introduced in the last session, we enacted the Congressional Accountability Act, which I think makes that declaration of principle. I support that, and I believe that in a similar vein we should have a retirement system that is no more generous than others who are part of the civil service system.

Mr. Chairman, with that, I thank the Chair for indulging me, and I will be happy to respond to any questions.

Senator STEVENS. Well, I just have a few questions. I do expect we are going to have a vote here pretty soon.

It is my understanding that there is a provision here that will limit future compensation of retirees to the final annual rate of pay. Is that right?

Senator BRYAN. That is correct, Mr. Chairman, so that a Member who retires in a given year—presently, \$133,600, I believe, is the number. Prospectively, even with the Cost of Living Adjustments, you would never receive a higher pension than was your average—or, actually, the last year in which you were a Member of Congress. So the Chair is correct.

Senator STEVENS. That is prospective only now.

Senator BRYAN. That is prospective.

Senator STEVENS. Would it cover those who have already retired?

Senator BRYAN. No. This would be designed prospectively. In fact, I think there might be some constitutional—I don't represent myself as a constitutional scholar, Mr. Chairman, but I think retroactively there would be some question.

Senator STEVENS. I agree with you. That was the basis for FERS.

Senator BRYAN. Right.



Senator STEVENS. And we have made that applicable to those who came into Government after 1983 or those who voluntarily went into FERS.

Now, your bill is prospective in nature all the way through, is it not?

Senator BRYAN. Yes, that is correct. All of us that are currently in the Congress have at least—those of us, at least, who have been here for one Congress have accrued benefits. Under the system which I have described, nothing would change with respect to those years that we have accrued. The change would be prospective and, Mr. Chairman, would begin in January of 1997 if this legislation, or a piece of legislation similarly designed, is enacted.

Senator STEVENS. The reason that some of the retirees were able to reach the point where they were receiving more money than they received on the last day that they were employed by the Congress was that for a number of years Congress refused to give itself the Cost of Living Adjustments, but it never failed to give it to the retirees. That meant that while the Congressional salary was standing still, the retirees' salaries were being increased every year by the addition of the COLA's.

I would like to explore with you a basic fairness issue with regard to retirement income. Regarding capping Members retirement pensions, I note that you do not propose that a similar prohibition be placed upon Federal retirees in general.

Senator BRYAN. I do not.

Senator STEVENS. So it would only be Members of Congress and their Congressional employees that would be subject to that limit?

Senator BRYAN. Yes.

Senator STEVENS. I have got to tell you I am going to be forced to question that judgment. If we are going to have equality, we ought to have equality, period.

Senator BRYAN. That is something that certainly ought to be considered, Mr. Chairman. I agree.

Senator STEVENS. Now, Federal service performed before the enactment of your legislation would be computed under the Civil Service Retirement System or the Federal Employees Retirement System as we currently know them, and additional service would be computed, according to your bill, after its effective date?

Senator BRYAN. That is correct, Mr. Chairman.

Senator STEVENS. I think the contribution rates will then change on the effective date, also.

Senator BRYAN. That is correct, so that they would be harmonized with what Federal civil service currently pays either under the old system or the new system, depending upon which one the Member is a part of.

Senator STEVENS. And the Civil Service Retirement System accrual rates of Members and Congressional staff would shift downward for new employees, but not for the older employees. Under their pension plan, they will continue, is that right?

Senator BRYAN. Mr. Chairman, they would be entitled to everything that would be accrued, but after January 1997 they would be subject to the new accrual rates.

Senator STEVENS. Right, but it is not retroactive.

Senator BRYAN. It is not retroactive.

Senator STEVENS. I am just trying to make sure that we are in agreement about this. The Federal Employees Retirement System contribution rate would drop in the defined benefit plan. There are three tiers to FERS—Social Security, the pension plan, and the Thrift Savings Plan—from 1.3 percent for Members and Congressional staff to 0.8 percent, as it is for all Federal employees, correct?

Senator BRYAN. Yes, that is correct, for those who are part of the FERS system, Mr. Chairman. For those who are part of the CSRS system, it would be reduced from 8 percent to 7 percent prospectively.

Senator STEVENS. Right. Now, there is a reduction in Members' benefits under the Civil Service Retirement System if they retire before 60 which does not apply to any other Federal employee. Are you familiar with that?

Senator BRYAN. Mr. Chairman, I am not, and obviously if there is an inequity as a consequence of that, I would be willing to take a look at that as well.

Senator STEVENS. I would like to give consideration to eliminating the benefit reductions Members must take if they retire before the age of 60, if we are going to be consistent. Again, if there is a playing field, there should be a level playing field.

Are you considering making these future benefit changes apply to the Federal judiciary, as well as the Executive and Congressional branches.

Senator BRYAN. Mr. Chairman, I had not, and that is not the scope of the bill. I had not given consideration to that.

Senator STEVENS. Well, let me just ask you one—and I know it is sort of unfair, in a way, but I am going to ask the same thing of Congressman Moran. Do you think there is merit in recognizing the jeopardy of Congressional employees or Members of Congress themselves in terms of their length of service?

There is no protection, as there is in other Federal service employment, for Congressional employees. In order to attract the quality of Congressional employee that we have sought in the past, we did provide an incentive. Albeit, they have to contribute more, but commensurately they do receive more when they retire.

Are you of the opinion that we should develop a career plan for Congressional staff that would restore the incentive if your bill is enacted?

Senator BRYAN. Mr. Chairman, it is my view that whatever the argument may have been historically about the security of tenure with Government employment, whether we are talking about the local level, the State level, or the Federal level, I believe, with all due respect, that can no longer be argued because we have seen in the past year or two—and, indeed, in the budgets that are being contemplated we are going to have a dramatic reduction in the size of the Federal workforce in terms of Federal civil service employees.

So although historically I think Government employees generally had a reasonable right, so long as they were performing satisfactorily, to expect that they might be able to complete their careers for 20 or 30 years in Government service, it is my view, Mr. Chairman, there is no longer that security of tenure. People are being

encouraged, indeed forced, to take buyouts, or nearly forced to take buyouts.

I mean, right now, there is discussion, as you know, before this Congress to eliminate several departments. So I think that the argument that those of us who run and are at risk every 2 years in the House, every 6 years in the Senate, and the risks that our employees who are hired by us also face—I think that that same risk to a certain extent—that is, the absence of security of tenure—now applies to those in the civil service as well.

Nobody really knows today, with the downsizing of Government, how secure their position is going to be, and so I think they are at risk, too. So I would argue, Mr. Chairman, that I don't think there is the differential that there once was to make that case.

Senator STEVENS. Well, I shall try to develop the proposition during these hearings that there still is a differential. The early-out provisions are not applicable to employees of the Congressional branch, and I do believe you are right that we are facing a reduction across the board. We have reduced our own employees' salaries by 15 percent this year. There was no buyout for those people, as there was in the Executive branch.

But I do think, also, that we will have to develop the concepts that went into the prior plans, and I hope that OPM has the statistics that we sought. At the time that we reviewed FERS, we assumed that the Members in the House comes in somewhere in the mid-30's age wise, and in the Senate in the mid-40's, and has left employment that has normally had some opportunity for retirement.

We created the FERS system with very little expense, really, in terms of most Members. Most Members, you know, serve an average of about 12 years. That is the average for Congressional service, about 12 years. I think OPM is here and maybe they will correct me, but that is my memory. As a consequence, we tried to create a system that had great incentive to save in the Thrift Savings Plan, but the pension plan was there for those who wanted to make a career. The pension contribution was added to Social Security to give that extra boost to a retirement plan.

It may be that we should entirely rethink FERS and make it totally a Thrift Savings Plan. I don't know. I have been looking at that, I mean, for Members. In any event, I do hope that we can have your continued advice, Senator. You have started us on a fairly long path. I remember the last time we went down this path, it took a long, long time, and I do hope that if we do it right, we will have a new system which will meet the needs of Federal employees, including Members of Congress, in the next century, and meet them well, in light of the changed circumstances of our economy and the feelings of our people.

Senator BRYAN. Mr. Chairman, let me just say I would look forward to working with you. I think, Mr. Chairman, I do share your view that there is merit in terms of encouraging career service as part of those who support us in performing our duties. As you know, not everyone shares that view.

Senator STEVENS. We don't have bonuses for our Congressional employees. The Federal Executive service does. We don't have a lot of the things that we have used to enhance the career civil service

built into our system here. I believe this is a competitive world and Congress should have an opportunity to obtain service of very well-qualified people.

There is some reward for just being involved in the public spotlight, but I don't think it shines too brightly on those who sit behind us. You know, I think we hog the light, so I really think we have to start thinking now about the future of Congressional employees as we do adjust this for Members of Congress. Most people forget that there is an enhanced retirement based upon an enhanced contribution—it is one-half of 1 percent higher, 1.8 percent for the Federal employee and 1.3 for the Member. I do believe that that no longer has the support of Congress, and we will join you in recommending that it be adjusted.

But at the same time, I think there has to be some question raised about whether there is a level playing field for the Congressional employee as compared to the Federal employee in terms of not only the basic protection for the job, but also for the incentives for high performance. We do not have provisions for high performance in our system and I think we should have.

Senator BRYAN. Mr. Chairman, if I may be permitted to respond, based upon your leadership and others I think that the Federal system is so much better than my experience at the State level. I know that the distinguished Member, the Senator from Arkansas, served as governor, as well.

As you know, we have the ability within a broad span to pay employees on our staff based upon their experience, their value, and our need to compete out there in the private sector to get people of comparable quality and experience. Those of us who had some experience at the State level might be interested to note that every single position in the unclassified service had a set and fixed salary, in which there could be no deviation or departure at all.

So if one of your staff assistants in the governor's office, for example, had an extraordinary background and you wanted to retain him or her in continued service, you could make no adjustment at all in that position. It was a position-by-position classification. I think the system that you and others, Mr. Chairman, have constructed to provide us that flexibility does give us the incentive, and I thank the Chair.

Senator STEVENS. Thank you very much. I just want to see if my colleagues have any questions. There is a vote on.

Senator PRYOR. I think Senator Dorgan was here first, Mr. Chairman, if I might yield.

Senator STEVENS. Yes, he was.

Senator DORGAN. Mr. Chairman, just a couple of quick questions.

First, on the question of Members of Congress versus others, how much additional contribution each year do Members of Congress make that others do not make? You said it was a small amount, but that is the difference between 7 percent and 8 percent. How much would that be in a year?

Senator STEVENS. It is the difference between 1.3 percent and 1.8 percent.

Senator DORGAN. No. It is the difference between—as I understand the points you made earlier, all Federal employees at this

point contribute 7 percent and Members of Congress contribute 8 percent. Is that correct?

Senator BRYAN. That is only partially true, Senator Dorgan.

Senator DORGAN. Under CSRS.

Senator BRYAN. Under CSRS, yes, that is correct. What I am saying is if you calculate that on an actuarial basis, that is—

Senator DORGAN. My question is the traditional pension program up until 1984 in which—there are still CSRS people here.

Senator BRYAN. Yes.

Senator DORGAN. And there are people in the middle system and then there are people in FERS, right?

Senator STEVENS. There are only two systems. One is CSRS and the other is FERS.

Senator DORGAN. There is a transitional group, as well, between the two, as I recall, but we can talk about that later.

My question is the difference between 7 percent and 8 percent is how much a year?

Senator BRYAN. Well, for example, on our salary, that would be about \$13,000 a year, wouldn't it, in terms of contribution—\$1,300 a year, rather.

Senator DORGAN. Thirteen hundred dollars, at 1 percent. Under the old system, under the Civil Service Retirement System, we would be contributing \$1,300 more a year.

So under the old system, Members of Congress were contributing \$1,300 more each year than all other Federal employees?

Senator BRYAN. Yes, than if you had a comparable—I mean, the number of people who make over \$100,000 a year in the Federal civil service would be about one-half of 1 percent, Senator Dorgan. People who would be in that category of over \$100,000 would—take a \$100,000 figure and you can see it would be a \$1,000 difference under the CSRS system.

Senator DORGAN. I am listening to the Chairman. There are three systems. There is the old system, there is FERS, and there is a group of people who—

Senator STEVENS. They came in in the gap between 1984 and 1987.

Senator DORGAN. It is called CSRS Offset, and that was the third alternative that was available as they went to this transition in the mid-1980's.

Senator STEVENS. But only to that limited group of people that came in during that time.

Senator DORGAN. No. It was available to anyone who chose it during that period as they converted to the new system.

Senator STEVENS. What I am saying is no one could select that after 1987.

Senator DORGAN. That is correct.

Senator STEVENS. Fine.

Senator DORGAN. Let me ask another question. You indicated, Senator Bryan—and, incidentally, I think it is a very useful thing to review all of this and make appropriate adjustments. You indicated that some people raised the question of parity or equity or fairness.

Senator BRYAN. Yes.

Senator DORGAN. You come to the Congress with a recommendation with respect only to Members of Congress and staff in the Congress, as I understand it. Why would one leave out the judiciary or others? I mean, in terms of fairness in the Federal system, why would one not want to include all of these?

Senator BRYAN. Well, one might. The reason why I chose, obviously, those of us in the Congress and our staffs is that we have the power, by reason of our Legislative responsibilities, to effect those changes. So the criticism that is directed of us, I think, is, in effect, look, you have created a system for yourselves more generous than other Federal civil service employees. One could argue that the Federal judiciary ought to be treated the same way. I understand the point that you are making.

Senator DORGAN. Would you support generally a wider application of what you are proposing?

Senator BRYAN. I would want to take a look at that, Senator Dorgan. In principle, I don't find any objection to it. I am not that familiar with the Federal judiciary retirement system and would want to become more familiar before making a commitment, but the principle, I think, makes sense.

Senator DORGAN. For example, the application of COLA's has been different in the sense that the last 2 or 3 years, I believe, there have been no COLA's to Members of Congress, but limited COLA's or some kind of COLA's to those in the Federal service. I think the budget proposes 7 additional years of COLA freeze, which would affect not just Members of Congress, but their staffs as well, because that provides a ceiling with respect to staff.

If that occurs and then you have COLA's, for example, in the judiciary or other parts of the Government, would your constituent not then have a concern about different treatment in the Federal service?

Senator BRYAN. Well, I think if the constituent were consistent and intellectually disciplined, he or she would say yes. I think the concern, though, we can't ignore, Senator Dorgan, and I know you are very much aware of this, is that we have the ability to construct and design our own system for our benefit. Indeed, under the law, we are the only body that can do so. Nobody else has the Legislative power.

So I think what we do for ourselves is particularly vulnerable to criticism, some of it manifestly unfair. There are those who take the position that there should be no pensions at all for Members of Congress. I want to disassociate myself from that view. I don't share that view, but I do think that it is much more difficult—and I find it not defensible for us to treat ourselves differently than others in the civil service.

Senator DORGAN. Mr. Chairman, one final question, and I apologize to Senator Pryor.

Just because you have studied this some, generally speaking do you think the Federal worker is now advantaged with a pension that is overly generous? And in answering that, do you know at this point what the average pension is for the average Federal retiree, to the extent that there is an average?

Senator BRYAN. Senator Dorgan, I do not have the answer. I promise to get that. I can tell you that the average salary of a Federal employee is \$38,287. That is the average salary.

Senator DORGAN. What is your impression of the pension system? Do you think the present pension system for the average Federal worker is overly generous?

Senator BRYAN. I don't know the answer. I am sure, as the Chairman indicated at the outset—I am not trying to be equivocal, but I have not compared private sector and public sector retirement benefits, so I don't consider myself sufficiently informed to give the Senator an intelligent response. I don't know the answer to that, Senator Dorgan. I would want to take a look at the record.

I know that the Chairman has indicated that there are going to be some witnesses who will provide us some comparative data on that. I will be happy to get back and respond to the Senator's question.

Senator STEVENS. Gentlemen, there are 6 minutes left on the vote.

Senator DORGAN. Thank you, Mr. Chairman.

Senator STEVENS. Do you want to come back?

Senator PRYOR. May I make one comment? May I put my statement in the record, Mr. Chairman?

Senator STEVENS. Yes, sir.

[The prepared statement of Senator Pryor follows:]

#### PREPARED STATEMENT OF SENATOR PRYOR

Mr. Chairman, I think that it is entirely appropriate to review the Federal retirement system, particularly Congressional pensions, at a time when we are undertaking a fundamental review of the way our Government and its programs function. Senator Bryan's bill to reduce the Congressional rates of accrual and contribution to the retirement system is certainly a worthy part of this review.

Hopefully, this hearing will provide clear explanations of the Federal retirement programs. All too often misinformation serves as the basis for policy discussions. Our witnesses this morning will ensure this is not the case.

However, I am concerned that this review focusing on the Congressional pension plans not create confusion regarding the Federal retirement system applicable to other Federal employees. Congress, thanks in large part to the leadership of the Chairman of this Subcommittee, Senator Stevens, created the Federal Employees Retirement System to address concerns that the Civil Service Retirement System was too costly. FERS mirrors many private sector employer's retirement plans. It is made up of Social Security, a defined benefit plan, and the Thrift Savings Plan. I am concerned that in our zeal to cut costs we will cut a plan that is well-designed and working well.

I am also concerned that we understand the impact of cuts on the people who work for the Federal Government. All of us make plans for the future based on what we expect to happen. Federal employees are no different, particularly those employees who have worked long and hard for the Government. When budget cut choices are made, I hope Congress will remember this.

Mr. Chairman, I thank you for calling this hearing and I look forward to hearing from our witnesses this afternoon.

#### OPENING STATEMENT OF SENATOR PRYOR

Senator PRYOR. Our good friend from Nevada has mentioned our service on the State level. I would like to tell you a word about my service on the State level. When I was governor, my salary was \$10,000 a year. That was the salary in the state constitution and it could not be upped at any time. The people of the State 2 years into my term increased that to \$35,000 a year. When I was making

\$10,000 a year as governor, a survey was taken and about 80 percent of the people surveyed thought I was making too much. I just want to pass that on.

I want to compliment you, Senator Bryan, for bringing this issue forward and discussing it in a rational and a reasonable way. I know it is a concern that we all have to make it better. Thanks.

Senator STEVENS. Well, you have opened this box, Dick. You have opened the box. There are lots of bats in that box. I hope we all realize that.

Senator BRYAN. Well, Mr. Chairman, as you well know, this provision is already incorporated in legislation that the House has passed.

Senator STEVENS. Something similar, but I don't think it really gets to the equality that yours gets to, so we want to make sure—

Senator BRYAN. It is not identical. That is correct.

Senator PRYOR. When does your provision go into effect? I am getting interested in this right now. [Laughter.]

Senator BRYAN. January of 1997. We had the prior modification, so January of 1997. There are some indications, as I told the Chairman, constitutionally.

Senator STEVENS. We will put your charts in the record.

Senator BRYAN. I thank you, Mr. Chairman.

[The charts referred to follows:]

#### Accrual Rates and Employee Contributions

Members of Congress vs. Federal Employees

	Member of Congress		Federal Employee	
	Percent		Percent	
CSRS Accrual Rate .....	2.5		1.5	Years 1-5
			1.75	Years 6-10
			2.0	Years 10+
FERS Accrual Rate .....	1.7	Years 1-20	1.0	Service under age 62
	1.0	Years 20+	1.1	Service age 62 and older
CSRS Contribution .....	8.0		7.0	
FERS Contribution .....	1.3		0.8	

#### Pension as a Percent of High-3 Salary

(Percent)

	CSRS		FERS	
	Members of Congress	Executive Branch Employees	Members of Congress	Executive Branch Employees
10 Years .....	25	16.4	17	10
20 Years .....	50	36.5	34	20
30 Years .....	75	56.3	44	30

Senator STEVENS. Congressman, we will be right back.

[Recess.]

Senator STEVENS. Mr. Moran, my apologies.

Mr. MORAN. No reason to apologize, Mr. Chairman. I appreciate your rushing back as fast as you did.

Senator STEVENS. Proceed, please.



**TESTIMONY OF HON. JAMES P. MORAN, REPRESENTATIVE IN  
CONGRESS FROM THE STATE OF VIRGINIA**

Mr. MORAN. I would be happy to, and I want to start out by thanking you for having these substantive hearings. You may be aware that there were no hearings on the House side. In fact, the idea was never even proposed to the Civil Service Subcommittee, of which I am the ranking minority member, and it was defeated in the full Civil Service Committee—Government Reform Committee, now. So this is really the first opportunity we have been able to discuss these issues on a substantive basis.

I have some very strong feelings about the Congressional pension formula. I was not going to get into that, rather into the somewhat less sensitive issue of the Federal employee retirement changes. But I would be more than happy to address the Congressional pay in response to any question that you might have, Mr. Chairman.

To begin with, with regard to the Federal employee tax increases that the House passed, the provision, as you know, increases every Federal employee's contribution by 2.5 percent a year. Those under the Civil Service Retirement System, instead of paying the current 7 percent, would pay 9.5 percent by 1998, and those under the FERS system, instead of paying 0.8 percent, would pay 3.3 percent by 1998.

In addition to that, there is a reduction in the base annuity pay. Rather than computing it on the basis of the highest 3 years of base pay, you go back to 5 years of base pay. That will further reduce the annuity by 4 percent. In other words, the base upon which retirement is figured will be reduced by that much.

The average Federal employee who makes \$38,000 a year will have to pay more than \$4,500 more than they are paying now over the next 5 years. That is why we consider it to be a tax because essentially it goes into the general fund, and it is a tax whose sole rationale was to afford the tax cut for other Americans.

The Federal employee who retires after 30 years will retire on a base retirement pay that is at least \$1,000 less, but I think that the major changes are going to be in both the morale and the composition of the Federal workforce if this legislation passes because, as I mentioned, it was not done on the basis of careful analysis. It was not done to be able to improve our recruitment or our retention ability. It was simply done to finance the tax cut that was contained in the Contract with America.

We made no effort to determine what the legislation would do in terms of the composition of the Federal workforce, whether it would help or impair our ability to reduce the workforce by 272,900 people, which is our goal. We don't know whether the—well, I won't go into all of the factors because I am preaching to the choir, Mr. Chairman.

All of the questions that we wish had been considered were considered by you and by the Members who looked into the pension system back in 1984. Whereas we had no hearings on this legislation, you undertook a 2-year effort to determine all of the ramifications of a change in the Federal retirement system.

We have gone back and looked at the information that was accumulated. You pulled together every major expert on Federal retirement. There were models that were done, financial and other ana-

lytical models that were done, as to what it would do over the next 20, 30, or 40 years. You compared it to the private sector retirement system, and now, as a result, we have a retirement system that works.

The numbers that you projected are almost exactly what we show today in the composition of CSRS and FERS and in the long-term financing capability. So it was clear that that was the right way to do it. From 1984 to 1986, that foundation was the way in which we could get the support not only of Federal employees, but I think of the Executive and Legislative branch decisionmakers as well.

Of course, what we did was, for the FERS system, bring in Social Security benefits. That made a lot of sense, and that is essentially the basis of retirement pay for most Federal employees now. They contribute 7 percent and when Social Security has cost-of-living increases, those do accrue to the benefit of Federal retirees that are in the FERS system.

We gave them the option of choosing which plan they wanted, but most importantly we gave them a commitment. We told them we are not going to mess with your retirement system again. You choose which system. This is the amount that you are going to have to pay into the system and we are going to stabilize this so that you won't have the kind of anxiety that had existed before you came up with the FERS alternative and the long-term financing mechanism.

We have statements to the effect that there would be no future increase in the percentage of employee contributions. Now, all that, of course, is out the window, and I guess ignorance is bliss. I don't know any of the new Members that are so gung ho to change the system that have actually looked back into all the effort that was done almost 10 years ago to do it right, but I guess as long as they are not aware of that, they shouldn't feel qualms about changing it all.

There has been a suggestion that there is an unfunded liability that we need to correct. That is not true; there isn't an unfunded liability. The liability situation is exactly what you projected and your colleagues projected in 1986. In fact, as CSRS phases out, FERS picks it up. The only way that you would have an unfunded liability is if every current and former Federal employee retired on the same day and we had to pay them all out in cash immediately. It doesn't make sense.

With corporations, you can understand why you need that unfunded liability because corporations can go out of business. They can go bankrupt and their employees shouldn't suffer as a result of it. The same situation does not exist with the Federal Government and we don't need to take the same kinds of precautions. Certainly, if the Federal Government went bankrupt, that certainly wouldn't be our principal worry. We would have a lot more other things to worry about than how to pay off Federal retirees. It is not going to happen, and I think that is clearly a paper tiger argument that can be shot full of holes immediately.

We have 15 years worth of benefits if that were to happen right now, and shortly we are going to have 20 years of benefits. There

was \$60 billion of surplus last year that was paid toward this unfunded liability. I won't go on any more about that.

Another argument is that we ought to be the same as the private sector. I think you are aware, Mr. Chairman, that 97 percent of all employees in medium and large firms in the private sector pay nothing for their retirement plans—97 percent. We were using 95 percent in the House debate, and CSRS did some more numbers-crunching and 97 percent is the more exact figure.

I have got every argument that was detailed, and all of them are silly when you look into the actual facts. There is a static normal cost of the system. Since 1969, that static normal cost has actually gone down. It was 14 percent of payroll. It is now down to 9.5 percent of payroll. That is because we haven't been paying out cost-of-living increases and all the factors that we were anticipating. We were being conservative. Those things didn't happen, so the static cost of the system is actually considerably less than it was. From 14 percent, it is now 9.5 percent of payroll today.

The dynamic cost of the system, when you put every possibility into the projection in terms of increased cost, was 39 percent of payroll in 1979. It is down to 25 percent today. You know, if we were honestly concerned about equity and fairness, those numbers indicate we ought to be reducing the employee contribution to retirement plans because the basis upon which they were originally determined has declined.

We are the Nation's largest employer. We also ought to be the Nation's model employer. We have more than 2 million individuals working for the Federal Government. We are reducing substantially the size of the Federal workforce so that it will be down at the level it was during President Kennedy's time, and all of those employees are going to be dealing with a much more complex Federal responsibility and a much greater population.

But for those employees who will be left, we do have some responsibility, and I know you agree. We have a responsibility to provide a health plan. We have a responsibility to provide a retirement plan, and I think particularly we have a responsibility to keep our word, to be a trustworthy employer, to merit the loyalty and respect of our employees. What we have before us is not a matter of gaining the trust or the respect or the greater efficiency or effectiveness of our employees. It is simply a matter of raising money, raising taxes on Federal employees to provide a tax cut for other citizens.

What I would suggest, Mr. Chairman, is we need the same kind of bipartisan approach that you led between 1984 and 1986. By the time it was finished, everybody was on board. They realized it was fair and equitable, and I think it contributed to retaining the quality of Federal employees we have today.

I strongly urge you to provide the same kind of leadership in the Senate—that is our only hope—to get the same kind of rational approach to Federal retirement that formed the basis back in 1986, and to reject what is a precipitous, poorly thought-out approach that I think does every Federal employee a great injustice and is a disservice to the Legislative branch of the United States Government.

Thank you, Mr. Chairman.

Senator STEVENS. Thank you, Congressman. I don't think our Subcommittee has that bill that passed the House yet for its jurisdiction. I assume we will have it soon, but this hearing is primarily on Senator Bryan's bill. As I indicated, I do think it opens up the door to all of the things you mentioned, and we certainly do intend to go into them in depth.

I am interested in the statement that you made in your written comments that you submitted about the unfunded liability. I am not sure I agree, but we are going to check. It was my understanding that there was an unfunded liability in CSRS, and it comes about primarily because of the retirement rate soon into the next century.

We all know CSRS is a closed plan. No more people can enter it, so I do believe there has to be a way to obtain the funds to pay those people that retire in such great numbers. Now, I am going to check that with OPM and with GAO, and we will keep you informed of what they tell us. It is something that we have to take a look at as we look at this overall plan.

But I do also believe that we have to look to the whole system to deal with what Senator Bryan has mentioned, as I said before. He mentioned allowing the Congressional employees to receive no more than the Federal Executive branch employees, and yet there are substantial benefits out there in the Federal Executive branch that are not available to Congressional employees. We have to determine the extent to which Congress is willing to apply those to Congressional employees if they do make the change.

Mr. MORAN. Mr. Chairman?

Senator STEVENS. Yes, sir?

Mr. MORAN. First of all, with regard to your remark that the only legislation actually before you is Senator Bryan's legislation, I went into the Federal retirement system because I think that is the principal issue that will come before you and you are the Committee and Subcommittee of jurisdiction, and we desperately need you to get involved in that issue, Mr. Chairman, because you understand it. You have the institutional knowledge of how the system was put together and I think it will come to you.

I would trust that they won't leave it to the Senate Finance Committee to make those decisions with regard to the retirement system; that it will, in fact, go to this Governmental Affairs Committee, which is the Committee of jurisdiction. So that is why I raise all this, and it is raised in the context of changing the Congressional pay as well.

With regard to the unfunded liability issue, I am referring primarily to the Congressional Research Service study that was done of the unfunded liability issue. Carolyn Merck is the author of that study, with others. In fact, she is here in the room, and that study gave us the basis for making that statement that we really don't have an unfunded liability problem.

There is another issue, and having been on Appropriations I know you are familiar with the difference between budget authority and actual outlays. All that happens is that budget authority gets moved from one account to another. It doesn't take money from the Federal Government and it doesn't disburse money. It simply moves money from one account to another, but the money

stays there. Since we are in a deficit situation, that money is paid out. It is an accounting mechanism. It is not an outlay, and I think that difference is important to recognize as well. It is a fund transfer and not an outlay with regard to the Federal retirement system. But I am sure you are going to take up all of those issues, and I may not have an opportunity to testify before you on that and that is why I wanted to take this opportunity.

With regard to Congressional pay, can I assume I was asked about that?

Senator STEVENS. I would be happy to hear you.

Mr. MORAN. The system that we have now, in my opinion, ought not be changed. It works, Mr. Chairman. I think it is a mistake to change it now. I think there is an insatiable appetite on the part of the public for self-flagellation on the part of politicians, and that there is nothing that would make some members of the public happy. We could give back all our pay and then some, and they still wouldn't be happy.

I think Congressional pay is more than an issue of how we compensate ourselves; it is how we compensate our families, our children, our wives for not having the time to devote to them that most people in the private sector and, in fact, in the Executive branch have. It is to compensate them for the anxiety level. There is no security up here in the Legislative branch for Members or employees either.

Any Member of Congress or of the Senate who doesn't think that they could be compensated at least twice as much as they are making today, I don't think belongs in the Congress of the United States. So I don't see why we need to be so defensive about a Congressional pay schedule that doesn't come close to what CEO's in the private sector get. Neither pay nor retirement nor benefits come anywhere close. To some extent, if you look at what Forbes had in this current month's issue, it is about 10 percent of what CEO's get.

With regard to the Congressional employees, not Members, but employees, the average length of service for a Congressional employee is 2.5 years. Most of them come here, they get the experience on their resume, and then they go into other careers, some of them cashing in for work in the private sector. I think it is terribly important not just for us who serve in the House and the Senate, but particularly for the American people, that we have a way to retain the best and the brightest Congressional employees.

The ones who stay who don't cash in their experience, knowing that they could be getting twice as much as they are currently getting paid—those people need to be compensated, and those are the people we are talking about. We are not talking about most Congressional staff. Most Congressional staff doesn't stay here long enough to be vested. We are talking about the people who decide they want to do something meaningful and important, and they stay on for 10, or 20 years. We are talking about the people in the clerk's office who, when this came to the floor, came up to some of us, almost in tears, asking, "I have spent almost 30 years here, I am ready to retire, how is this going to affect me?"

We have really a contractual obligation to people like that, and we have a contractual obligation and a moral obligation, it seems

to me, to people who give up substantial compensation to keep their experience and their expertise to the service of Members of the Senate and the House. We need to keep people like that on both sides of the aisle, and if we mess around with pay and we make it clear that nothing is for sure, we are going to lose people like that. They are going to go to the private sector, and we can't blame them.

So I feel very strongly that we ought not be pandering to the public by reducing pay, reducing benefits, and by punishing our employees because there is no limit to their appetite for that and I don't think in the long run it is in their benefit nor ours.

Thank you, Mr. Chairman.

Senator STEVENS. Well, thank you. I am pleased that you came over and I will see to it that we keep you informed. You have a substantial interest in your district, I am sure, in what we are doing here in terms of Federal employees. Thank you for coming.

Mr. MORAN. Thank you, Mr. Chairman.

Senator STEVENS. We are now going to turn to the Associate Director for Retirement and Insurance of the Office of Personnel Management, Mr. William E. Flynn.

Do you have someone you would like to have join you or are you by yourself?

Mr. FLYNN. I am here with a few people, Mr. Chairman, but I think we will try and do it just this way, if that is all right.

Senator STEVENS. That is fine.

#### **TESTIMONY OF WILLIAM E. FLYNN, III,<sup>1</sup> ASSOCIATE DIRECTOR FOR RETIREMENT AND INSURANCE, U.S. OFFICE OF PERSONNEL MANAGEMENT**

Mr. FLYNN. First, Mr. Chairman, on behalf of OPM's Director, Jim King, we appreciate the opportunity to be here this afternoon and to provide some information to you and the Committee on the expressed area of interest that you have indicated for this afternoon, and that is Congressional retirement provisions.

I have provided you with an opening prepared statement that I, with your agreement, will just make a part of the record.

Senator STEVENS. Yes, sir.

Mr. FLYNN. I might just mention a couple of things. As we have heard here this afternoon, the various provisions of retirement systems can get quite complex and quite confusing, and depending upon the degree of detail that we would like to get into this afternoon, that can become even more so.

I will certainly try to do the best I can to provide you with as much information as possible about the Congressional employee retirement system and any comparisons you might like to make with the Executive branch, but I might just beg your indulgence. There may be some areas where we won't have the information here this afternoon and we would be happy to provide it later.

Senator STEVENS. I appreciate that. We have asked some questions and I would very much like to get into some of the statistics that those questions were designed to bring to us.

<sup>1</sup>The prepared statement of Mr. Flynn appears on page 127.

Why don't you proceed and do what you want to do, and then I have some questions for you.

Mr. FLYNN. Just real quickly, Mr. Chairman, the statement that I have provided covers in pretty fair detail the various provisions affecting the retirement system for Members of Congress and staff, and in the interest of time I would be happy to move to the areas that you are interested in.

Senator STEVENS. OK. Let me first then deal with this subject of Members who retire before age 60. You have pointed out they are subject to an annuity reduction amounting to 1 percent a year for each year they are below 60. Do you have the average age for Members' retirement?

Mr. FLYNN. The average age for Members' retirement?

Senator STEVENS. Yes.

Mr. FLYNN. If you would give me a second here.

The average age for Members of Congress retiring from the Civil Service Retirement System, if I have it correctly, Mr. Chairman, is 74.4 years.

Senator STEVENS. Under CSRS?

Mr. FLYNN. Under CSRS. Those are Members who are currently being paid a retirement benefit, and that was as of March—

Senator STEVENS. That is the average age of the current retirees?

Mr. FLYNN. The current retirees, yes, sir.

Senator STEVENS. I wanted to know the average age of retirement. Do we have that? What is the average age that Members have—

Mr. FLYNN. At which they have retired?

Senator STEVENS. Yes.

Mr. FLYNN. OK, let's see here. We have, as you might imagine, a lot of information.

Senator STEVENS. Let's just go through some and you can give them to me later.

Mr. FLYNN. OK.

Senator STEVENS. Do you know the average years of service of Members?

Mr. FLYNN. Yes, sir, we have that here. Again, I am going to be switching from one table to the next.

Senator STEVENS. The provision you noted is applicable for those who have not served 10 years, right, and retired before 60? Is that not right?

Mr. FLYNN. I am sorry. I did not follow that question.

Senator STEVENS. The reduction for Members who retire before age 60 is at 1 percent, unless they have served 10 years, isn't it?

Mr. FLYNN. If you retire before reaching the age of 60, under the Civil Service Retirement System, Mr. Chairman, the reduction is 1 percent per year between the ages of 55 and 60 and 2 percent per year below the age of 55.

Senator STEVENS. But that doesn't apply if they have served 10 years, right? This is a very complicated system, as I recall it. Am I wrong?

Mr. FLYNN. I believe it does apply if they have served 10 years. The 10-year service would not have an effect on that particular provision for an annuity reduction.

You were asking me just a moment ago about the Members of Congress who are on the retirement rolls and their average years of service. I don't have Members' service precisely because the retirement benefit, of course, is computed on total service. But under the Civil Service Retirement System, the average number of years of service—is this total and it is both military and non-military service—is 20.3. Those are, as of March 31 of this year, Civil Service Retirement System members whom we are currently paying an annuity to. Under the Federal Employees Retirement System, Members of Congress have an average of 21.7 years—I am sorry—23.8 years of service.

Senator STEVENS. Those are the people who have already retired?

Mr. FLYNN. Yes, sir, as of March 31 of this year.

Senator STEVENS. That is hard to believe. The system didn't go into effect until 1984.

Mr. FLYNN. Well, you have people who are being paid a FERS benefit who also have a—

Senator STEVENS. Obtaining some benefit under FERS?

Mr. FLYNN. That is correct, sir.

Senator STEVENS. Do you have the figures for the number of employees who withdraw their cash value of pension plans and never get a retirement for both the Federal employees and the Congressional employees?

Mr. FLYNN. If I could just repeat that real quickly, the number of total employees who—

Senator STEVENS. The number of employees who withdraw their contribution from the pension plans and do not obtain any retirement benefits, broken down by Congressional and non-Congressional people. Do you have that?

Mr. FLYNN. Mr. Chairman, I would like to try and provide that for the record, if I might.

Senator STEVENS. All right, sir.

Mr. FLYNN. That is a difficult figure to get a handle on, primarily because the refunds are made annually and we keep track of the types of refunds, but there are also people who don't take a refund immediately upon separation and who have not yet attained retirement eligibility, that we wouldn't have a firm handle on. So if I could, I would like to—

Senator STEVENS. I was just looking at those who have withdrawn. We are trying to see how great is the draw-down on this pension plan from short-term employees. I would appreciate it if you would give us that, too.

Mr. FLYNN. Yes, sir.

Senator STEVENS. Do you have an average for Federal employees when they enter the Executive service? What is the average age for the entry level? For persons who enter the Federal service, what is their average age?

Mr. FLYNN. This is for all Federal employees?

Senator STEVENS. This is just for Executive branch people.

Mr. FLYNN. I am sorry, just for Executive branch people.

Senator STEVENS. I asked you all these things in a letter. It was about 6 months ago, and I am trying to get to those things. I would like to get those answers. I think it is important for us to know.



At the time we did FERS, it was my understanding, as I said before, that the average age of entry into the Executive branch for employees was substantially lower than that of the employees for the Congressional branch, and it was quite a bit lower than Members of Congress in terms of their age at the time they came into Congress, either in the House or the Senate.

Mr. FLYNN. Yes, sir. We have provided the written response to the series of questions that you had asked us a couple of months ago. It did not include entry age into the retirement system. That is something, again, I do not have with me here today and, if you don't mind, I would like to provide for the record.

Senator STEVENS. All right.

INFORMATION SUBMITTED FOR THE RECORD

Q. What is the average age for Members of Congress when they elect to receive retirement compensation?

A. The average age for the 60 Members who retired under the CSRS during fiscal year 1993 was 65.5 years. The average age for the ten Members who retired under the FERS during fiscal year 1993 was 69.2 years.

Q. What is the average time of service of Members of Congress?

A. Members of Congress retiring under the CSRS during fiscal year 1993 on average had 1.6 years of military service credit and 19.2 years of civilian service for a total of 20.9 years of service. Members retiring under FERS had 2.2 years of military service credit and 18.6 years of civilian service for a total of 20.8 years of service.

There were 362 Members of Congress on the CSRS retirement roll as of the end of fiscal year 1994. The average number of years credited for military service was 2.2 years and for civilian service 17.9 years for a total of 20.1 years. The comparable year-end numbers for the 19 Members of Congress covered by the FERS were 2.7 years of military service and 21.1 years of civilian service for a total of 23.8 years.

Q. What percentage of Federal employees withdraw the cash value of their pension plans and don't get a retirement?

A. For a group of new employees, we estimate that 47 percent will separate and elect a refund and 6 percent will separate and elect a deferred annuity. This estimate is based on experience under CSRS where the employee contribution rate is generally 7 percent of basic pay. Under FERS, where the employee contribution rate is generally only 0.8 percent of basic pay, the proportion of separated employees electing to wait for a deferred annuity may very well increase. However, FERS has not been in existence long enough to see if this proves to be the case.

Q. What is the average age of Federal employees when they first participate in the pension plan?

A. The average entry age used in actuarial valuations of the system is 32 years.

Q. What is the average age of Members of Congress when they first participate in the pension plan?

A. The average entry age used in actuarial valuations of the system is 46 years.

Senator STEVENS. Do you have the average age of the Federal Executive employee when they retire?

Mr. FLYNN. Yes, sir, we do. This as of March 31 of this year; these would be employees of the Executive branch who were on the rolls.

Senator STEVENS. I am afraid that is not what I am asking for. That is why I am asking these questions. I would hope that you would help us get the answers to the questions we want so that we may compare the Federal Executive employees, the Federal Congressional employees, and the Members of Congress.

I would like to know what is the average age of the Executive branch employee when they come into Federal service, what is the

average age of the Congressional employee when he comes into Congressional service, and what is the average age of the Members of Congress when they come into the Federal service, because I believe that was the basis for our making these plans dissimilar. If that is no longer valid, then we have a reason to change, as Senator Bryan has suggested. I need to know the average age of Members of Congress when they retire.

Mr. FLYNN. Yes, sir. As of the end of fiscal year 1993, Mr. Chairman, the average age of Members of Congress when they retired was 65.5, and for the Executive branch generally it was 61.6. That is for the Civil Service Retirement System.

Senator STEVENS. That is for CSRS, right?

Mr. FLYNN. That is correct, sir.

Senator STEVENS. Now, do we know, as a comparison, the length of time that those people had worked for either the Executive branch or the Congressional branch?

Mr. FLYNN. Yes, sir, we do. I believe I provided a minute ago the length of service for Members, which was, for the Civil Service Retirement System, a total of 20.3 years.

Senator STEVENS. And 23.8 for the Congressional people, right?

Mr. FLYNN. Pardon me, Mr. Chairman. I didn't hear the question.

Senator STEVENS. I said you gave me a figure I wrote down of 23.8 for the Congressional people, their average service at the time they retired?

Mr. FLYNN. I think the 23.8, Mr. Chairman, was for the Federal Employees Retirement System retirees, and 20.3 for the Civil Service Retirement System employees. The Civil Service Retirement System employee total average service is 27.1 years. Now, I might mention, Mr. Chairman, that that includes categories of disability retirement and early retirement, which is why you see the average being at 27.1.

Just for purposes of comparison, if you were to look at the total average number of years for people who are retiring with normal eligibility, it is 29.7 for the Civil Service Retirement System. But the comparison we are working against right now—on the Civil Service Retirement System side, it is Members of Congress at 20.3 years, compared to 27.4 years for Executive branch employees.

On the Federal Employees Retirement System side, as I mentioned to you earlier, the average number of years is 23.8 for Members, and for employees it is—excuse me one second—28.3, if I am looking at this correctly.

Senator STEVENS. Do you have the numbers of how many people are in each category?

Mr. FLYNN. I am sorry, Mr. Chairman. It is 14.8. Excuse me.

Senator STEVENS. Do you have the numbers for each category of people who are enrolled in CSRS broken down by Executive and Congressional employees and Members, and FERS broken down the same way with Executive, Congressional, and Members?

Mr. FLYNN. When you say enrolled in, do you mean retired from or—

Senator STEVENS. No; enrolled, currently enrolled in them. I want to try to get the comparison between the number of people

that are in the Executive branch as compared to the number of Congressional and Members of Congress before us.

Mr. FLYNN. OK, yes, I do have that.

Senator STEVENS. You answered part of that question for me before. I did not realize it was in this. Congressional staff currently on the rolls of CSRS is 5,004; FERS, 347; former retirees in CSRS, 2,044, and none under FERS from Congressional staff. Now, that was Congressional staff.

Mr. FLYNN. That is correct, Mr. Chairman.

Senator STEVENS. I was trying to compare that to the size of the system as a whole. I will give you this list of questions. I think that would be the best thing to do because I do believe that it is important for us, Mr. Flynn, to keep in perspective the number of employees that are affected by these changes we are making.

If I understand this correctly, at the time of this reply, anyway, there were 2,044 Congressional employees who were receiving retirement pay under CSRS, and none receiving FERS retirement.

Mr. FLYNN. Mr. Chairman, the number of retired employees from the Legislative branch under the Civil Service Retirement System is actually 5,004. The 2,044 figure that you gave us is former retired Members and staff employees who have since been dropped from our retirement rolls.

Senator STEVENS. I misinterpreted that. I am glad you clarified that. There are 5,004 currently on the rolls as retirees?

Mr. FLYNN. That is correct, and 347 under FERS, right.

Senator STEVENS. But the former ones who have been dropped out now—there are none under FERS, as I understand it.

Mr. FLYNN. That is correct.

Senator STEVENS. Let me give you these additional questions and we will try to analyze them along with the answers you have given us so far. What we are looking to try and do is to determine what benefits there are for Federal Executive branch employees that are not available to Congressional employees. Have you ever analyzed that?

Mr. FLYNN. I am sorry, Mr. Chairman.

Senator STEVENS. Have you analyzed the question of what benefits are available to Federal Executive branch employees that are not available to Congressional employees? For instance, I know there are bonus plans and plans for awards and various other considerations.

Mr. FLYNN. And you would be interested in that, Mr. Chairman, across the entire range of compensation?

Senator STEVENS. I would like to see a spread sheet that compares the benefits, yes, because I think we have a request to take away from the Congressional employees certain benefits that were built into the system, but they were built in at the time with knowledge of benefits that the Executive branch employees have that we could not at that time duplicate. Beyond the protection of their employment are a series of things.

We do not have a leave system. We do not have a bonus system. We do not have a medical leave system. There are a series of things that we don't have, and I think if we are going to get to a level playing field and take away these benefits that are built into this system, we ought to look and see what we need to add to them

to give our people the same benefits that exist in the Executive branch. Otherwise, we are not going to keep employees too long. They are going to come to town to work for a Member of Congress and go downtown awfully fast, if they are smart. The systems are not equal if you take away the advantages our people have today, in my opinion.

I think in the interest of time, if you will permit me, I would just like to submit to you these additional questions. We want to have your assistance in helping us understand the differences between the Executive employees and the Congressional employees from the point of view of the total benefits that are available to each, all right?

Mr. FLYNN. Thank you, Mr. Chairman.

Senator STEVENS. I have a series of questions. Some of them may look like they are redundant to what you were already asked. If there are redundancies in your opinion, then just point out where you answered them before.

Mr. FLYNN. Will do.<sup>1</sup>

Senator STEVENS. Thank you very much.

Mr. FLYNN. Thank you.

Senator STEVENS. Our next witness now is Johnny Finch, who is accompanied by Mr. Bob Shelton. Mr. Finch is the Assistant Comptroller General for General Government Programs. Mr. Shelton is the Assistant Division Director for Human Resource Management Issues.

**TESTIMONY OF JOHNNY C. FINCH,<sup>2</sup> ASSISTANT COMPTROLLER GENERAL, GENERAL GOVERNMENT PROGRAMS, U.S. GENERAL ACCOUNTING OFFICE; ACCOMPANIED BY ROBERT SHELTON, ASSISTANT DIVISION DIRECTOR FOR HUMAN RESOURCE MANAGEMENT ISSUES, U.S. GENERAL ACCOUNTING OFFICE**

Mr. FINCH. Good afternoon, Mr. Chairman. I am pleased to be here today to discuss the issue of Congressional retirement benefits, and you have already acknowledged Mr. Shelton who is here with me. He is our expert in GAO.

I have a rather lengthy written statement. I will submit the detailed statement for the record and very briefly summarize it.

Senator STEVENS. I did have that, I thank you for making it available ahead of time. You are very courteous. Thank you.

Mr. FINCH. My statement is based in large part on the report we are issuing today entitled "Federal Retirement Benefits for Members of Congress, Congressional Staff, and Other Employees."

Senator STEVENS. I saw that just now.

Mr. FINCH. It should be still warm, Senator; it just came right off the press, today's date.

The report was prepared in response to requests by this Subcommittee and the House Subcommittee on Civil Service for an analysis of the comparative retirement benefits available to Members of Congress, Congressional staff, and other employees covered by the Civil Service Retirement System and the Federal Employees

<sup>1</sup> The questions and answers appear on pages 350-352.

<sup>2</sup> The prepared statement of Mr. Finch appears on page 127.

Retirement System. The report contains a detailed description of the retirement provisions applicable to each of these groups under each of those systems.

With your permission, I will submit the report to be made part of the record.<sup>1</sup>

Senator STEVENS. Yes, sir.

Mr. FINCH. The previous witness from OPM and the earlier witnesses, as well, described many of the differences in CSRS and FERS provisions for Members of Congress, Congressional staff, and various other groups, so I will not repeat the details of those differences.

What I would like to highlight, though, is that as part of our research we reviewed the Legislative histories of CSRS and FERS in an attempt to identify any reasons that may have been cited for adopting the preferential provisions for Members and Congressional staff. We thought that these reasons might be helpful to you as you deliberate whether there is a continuing need for those provisions.

We found the reasoning for why Members are in the systems, but nothing explaining why Members have the separate provisions. Congressional staff were covered by the same CSRS provisions as general employees until 1954. In that year, a change was made to give Congressional staff the higher Member benefit formula for up to 15 years of service, with the general employee formula applying to any additional service. The explanation for the change was that staff have uncertain tenure and thus may not have the opportunity to establish an adequate annuity based on years of service.

However, in 1960 another change made the Member formula applicable to all the staff members' years of service. In effect, this change allowed staff who worked full careers in Congressional jobs to receive greater annuities than other career Federal employees at comparable salary levels. The Legislative history was silent as to the reason for this change. Similarly, we found no explanation for why the preferential benefits for Members and staff were continued under the FERS pension plan.

As you requested, my written statement includes some options on how the CSRS and FERS provisions for Members and Congressional staff might be changed to accomplish cost savings. In general, these options center around possible ways to achieve greater consistency among Members, staff, and general employee provisions.

Senator STEVENS. Is that in this?

Mr. FINCH. No. It is in my written statement, sir, the detailed statement.

Senator STEVENS. I didn't see that.

Mr. FINCH. It is the last section at the end, sir. It begins on page 11 of the written statement.

Senator STEVENS. Yes, all right.

Mr. FINCH. Did you find it?

Senator STEVENS. Yes, sir. I have to admit I did not see that.

Go ahead.

<sup>1</sup> The GAO report referred to appears on page 135.

Mr. FINCH. The issues here involve policy judgments on inducements for Congressional service and tenure that should best ensue from Congressional deliberations. If the Subcommittee determines that there is no continuing need for the current differences, you may wish to consider these options along with options others may suggest as you proceed with your deliberations.

We would be pleased, Senator, to respond to questions.

Senator STEVENS. Sir, I want to think about your options, and I apologize. I must have missed that in the copy I had.

You don't fall under the Congressional system, do you?

Mr. FINCH. No, sir, GAO does not, and neither does the Congressional Research Service.

Senator STEVENS. But the Congressional Budget Office and Office of Technology Assessment do?

Mr. FINCH. It is our understanding that CBO and OTA do. Those are much newer agencies. I have no explanation as to why they are under the Congressional benefit formula and GAO and CRS are not.

Senator STEVENS. Have you ever compared the judicial salaries, both as to the judges and their employees, to the Executive branch and Congressional branch? Have we had such a comparison in terms of total compensation and retirement systems?

Mr. FINCH. I am not sure that we have done that, no, sir.

Mr. SHELTON. The total compensation or the retirement?

Senator STEVENS. Have you done compensation and retirement?

Mr. SHELTON. We have looked at the retirement system and the judicial benefits compared to the Executive branch.

Senator STEVENS. The members of the judiciary themselves receive their last salary and that is a lifetime benefit.

Mr. FINCH. It depends. Some of them go on to what they call senior judge status, so they get the current pay of the position. Those who leave their judgeships receive the pay at the time they left, but it is full pay.

Senator STEVENS. For life?

Mr. SHELTON. Yes.

Senator STEVENS. And it is not contributory at all?

Mr. SHELTON. That is right.

Senator STEVENS. Now, their employees—what system are they under?

Mr. SHELTON. Most of the employees, as we understand it, work for the Administrative Office of the Courts and are in either CSRS or FERS. There is no separate system for the—

Senator STEVENS. They are under the same as the Executive branch?

Mr. SHELTON. Yes, sir.

Senator STEVENS. There is no disparity there?

Mr. SHELTON. Not that I am aware of. As far as I know, they are covered by the same provisions as general employees.

Senator STEVENS. The law enforcement officers, firefighters, and air traffic controllers came into the system by separate acts, but they came in and they, in effect, are equal to the Congressional system, right?

Mr. SHELTON. Under FERS, yes.

Senator STEVENS. Yes. I thought they were equal to CSRS, too.

Mr. FINCH. No. They are a little below.

Mr. SHELTON. A little below the Members and the Congressional staff in CSRS.

Mr. FINCH. But they are above the general employees.

Senator STEVENS. Have you made any comparisons I was trying to get to with the prior witness in terms of the average age of retirement and the time in service as far as retirement is concerned, and the number of people who enter the system who never retire?

Mr. FINCH. Well, we are working on some of those. We have gotten some data from OPM and we are in the process of trying to crunch the numbers now. I can give just some ball-parks of some of those and we will provide the details later.

Senator STEVENS. Just for an understanding of where we are going.

Mr. FINCH. Sure.

Senator STEVENS. My impression is that at the time I authored FERS we had a higher age at entry in both the Congressional employees and Members than the Executive branch civil service employees, and that was the reason we accelerated the payment, and then also accelerated the amount you would receive upon retirement. So, generally, the people were going to receive about the same amount when they retired after lesser service as far as the Federal Government was concerned. The Congressional employee and the Federal Executive employee were intended to get about the same type of pension at the time they retired. I am not sure whether it has worked out that way or not.

Mr. FINCH. Let me just give you some ball-park figures, if I might, for two or three of those categories, and I will zero in on the key ones that I thought I heard you mention.

Senator STEVENS. All right.

Mr. FINCH. In terms of the average retirement ages for Members of Congress and Congressional staffers and general employees, we don't have those numbers really fine-tuned yet, but the range is 60 to 63. They all kind of fall in that range, and I think the data indicate that the Members fall in the eldest range. They are the 63, and then it works its way down.

In terms of the retirement tenure, CSRS tenure—let me give you that. I don't have that much on FERS yet, but CSRS tenure is about 27 years for general employees, 21 years for the combined number of Congressional staff and Members, but then 20 years for Members only.

Senator STEVENS. Members have an average of 20 years when they retire?

Mr. FINCH. Yes, sir, in terms of that. Let me also give you some—

Senator STEVENS. That is interesting because I believe the number of years the average Member serves is in the 12- to 15-year range.

Mr. FINCH. Well, these are the numbers that we are crunching that are as of October 1, 1994.

Senator STEVENS. And that compares to the 27?

Mr. FINCH. Twenty-seven years for the general employees, 20 years for Members, 21 years for Congressional staff and Members.

We haven't been able to sort that through yet in terms of the number for Congressional staff alone.

Another piece of data you asked for there is the average pension annuities in terms of how much are they getting. Under CSRS—again, these are ball-parks—under CSRS, Members are getting about \$3,800 a month; staff, about \$2,100 a month; everybody else, about \$1,500 a month. Now, these are aggregate—

Senator STEVENS. \$1,500?

Mr. FINCH. Right; everybody else. Everybody else includes the law enforcement and the firefighters and the general employees, and the air controllers as well.

Senator STEVENS. Do you have the air controllers figure?

Mr. FINCH. The air controllers figure is in the everybody-else figure.

Senator STEVENS. I see, all right.

Mr. FINCH. Under FERS, there are only 18 Members that we have been able to identify so far that are—

Senator STEVENS. Are you including military service in this number of years, the 27 and the 20?

Mr. FINCH. Yes, it is.

Senator STEVENS. So that if you had 17 years of Federal service and 3 years of military service, you would show it as 20, right?

Mr. FINCH. Right.

Senator STEVENS. All right.

Mr. FINCH. We will be glad to work with you, Senator, on the other numbers that you need, and fine-tune these numbers and provide the specifics for the record.

Senator STEVENS. What are the figures—are they available, the ones I mentioned, of how many people enter the system who never take benefits from these systems?

Mr. FINCH. I don't have that number presently available.

Mr. SHELTON. I have seen those kinds of statistics several years ago and they were rather surprising. Unless things have changed, over half the people who ever come to work for the Federal Government never collect a cent from the retirement system other than a refund of their own contributions. They will either stay fewer than 5 years, and then when they leave under those circumstances there are no benefits. The only benefit is a refund of their contributions.

Another fairly large percentage will stay longer than 5 years, then quit and decide to, again, have their contributions refunded as opposed to leaving them on deposit for a deferred annuity. It has been a while since we have done those calculations. We could update them, certainly.

Senator STEVENS. That figure I had a minute ago of 5,004 people actually drawing retirement from CSRS from the Congressional side—I think if you look at the total number of Congressional employees and Members in the past, that is a staggeringly small number that we are dealing with in the Congressional system.

Mr. SHELTON. Of the probably hundreds of thousands of people who have worked here over those years, yes.

Senator STEVENS. I think it is because most people don't join—I know a lot of Senators don't even join it. They don't even pay any attention to it. I just wonder about the Congressional employees



and the Senators who are not individually wealthy who come in at a later age—and they are older, as you indicate, at the time of retirement—I was looking at the concept of the differential in the level of their pay because of age as compared to the Executive branch. Not many people retire in the Executive branch at the higher rates from what I understand. Is that right?

Mr. SHELTON. Well, the average retirement age in CSRS, for all employees who go under the optional retirement provisions, non-disability, voluntary retirements, around 61 is the average. I believe under FERS, it is closer to 63, but I would caution that, compared to CSRS, FERS has almost no retirees. There are about 1.6 million retirees under CSRS and only about 40,000 under FERS, so it may be a little harder to see a trend in FERS yet.

Senator STEVENS. We have read examples about the Members of Congress who have retired and received ultimately more money in retirement than they received in pay their last year of Federal service. That was because, as I said before, we denied Members their COLA's for several years but not retirees.

Is there any similar statistic for the Executive branch employees? Are any of them receiving more pay in retirement than their last salary while they were federally employed?

Mr. SHELTON. I don't have any particulars, but it stands to reason, if they retired in the late 1960's, early 1970's, right before periods of high inflation when Federal pay raises were kept down, and been retired a number of years, yes, I am sure there are a number of people who are in that very same situation. Their current annuities today are larger than their salaries when they retired.

Senator STEVENS. Can you compare those in the Executive branch to the number of people in the Congressional branch that receive more than they received while they were federally employed. Not now, but later for the record?

Mr. SHELTON. We can try.

Senator STEVENS. They are the cause celebre that have brought on these demands to reduce these systems.

Mr. SHELTON. And they are certainly not typical.

Senator STEVENS. Well, I would like to compare the number of people in the Executive branch retirement system and those that are exceeding their last salary and the number of people in the Congressional system and the number of those that are exceeding their last salary to give us some perspective of the problem with which we are dealing. And I would also like to see whether the provision in Senator Bryan's bill that limits a Member, not a Congressional employee or an Executive employee, but a Member, to never receiving more than the last salary is fair compared to others in the Federal pension systems. I don't think there are many people out there, in any event, that we are dealing with.

Mr. SHELTON. Probably not.

Senator STEVENS. But it would be nice to see.

Well, I do appreciate your help. I have not had time to study this, and I will read your options tonight and see how we are coming out. I think we will put some of your charts in our record when it is printed because you do have the comparison of CSRS and FERS both in terms of the requirements for a mandatory retire-

ment age retirement and the optional retirement, as I understand it.

Mr. SHELTON. We have every detail we could think of in that report.

Mr. FINCH. We tried.

Senator STEVENS. Well, I think we are going to end up writing a new system, and I have to tell you I think that FERS has got to mature into another system.

I forgot to ask you one thing. Congressman Moran made a statement about the unfunded liability. Do you have a study on the unfunded liability of the Civil Service Retirement System? Did you ever make one?

Mr. FINCH. We have studied the CRS study and we agree with the results of that study.

Senator STEVENS. You agree with the CRS study of the CSRS?

Mr. FINCH. Yes. Lots of acronyms.

Senator STEVENS. All right, that is good. I am glad to have that in the record.

You don't have any options to solve that problem, do you?

Mr. FINCH. No, sir, we don't. While there is an unfunded liability, it has been thought through and the systems that are presently in place take care of that. I mean, it is picked up in the out-years by FERS, so there is not an issue in terms of that unfunded liability being covered.

Senator STEVENS. There is not an issue because of the massive retirement in the period from 2010 to 2017? Those are the figures that I remember. The staggering retirement at that time requires some change because if we pass on to FERS, it happens so fast that it changes FERS. That is not true?

Mr. SHELTON. I don't think so, no.

Mr. FINCH. I don't think so, Senator. We will look at that. We will be back next Monday.

Senator STEVENS. You know the Social Security curve. The CSRS curve is about the same as the Social Security curve, as I understand it.

Mr. FINCH. Right.

Senator STEVENS. It winds down and it comes almost to an end in that decade of 2010 to 2020, as I understand it. There are not too many CSRS employees going beyond that. That is 40-some-odd years from the end of CSRS.

Mr. FINCH. Right.

Senator STEVENS. But when you look at it, the impact of that draw-down is so precipitous that I thought it did cause a problem. If you want to link in FERS money to pay it off, it is going to cause FERS a problem, too. Is that not so?

Mr. FINCH. I don't think so, Senator. We will look at that this week and talk about it again on Monday.

Senator STEVENS. Thank you, sir. Thank you very much, Mr. Finch and Mr. Shelton. We appreciate your courtesy.

Mr. FINCH. Thank you, Senator.

[Whereupon, at 4:02 p.m., the Subcommittee was adjourned.]

# FEDERAL PENSION REVIEW

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MONDAY, MAY 22, 1995

U.S. SENATE,  
SUBCOMMITTEE ON POST OFFICE AND CIVIL SERVICE,  
OF THE COMMITTEE ON GOVERNMENTAL AFFAIRS,  
*Washington, DC.*

The Subcommittee met, pursuant to notice, at 2:00 p.m., in room SD-342, Dirksen Senate Office Building, Hon. Ted Stevens, Chairman of the Subcommittee, presiding.

Present: Senators Stevens, Akaka, and Dorgan.

## OPENING STATEMENT OF SENATOR STEVENS

Senator STEVENS. Good afternoon. This is a second in a series of hearings that our Subcommittee is holding on Federal pensions. Last Monday we looked at the Federal retirement system and how they apply to Members of Congress and our staffs. In our third hearing, scheduled for June 19, we will give employee, management and retiree groups an opportunity to provide their comments and suggestions on the Federal retirement system.

In our hearing today, I would like to focus on the financial soundness, efficiency and quality of the two plans that currently make up the Federal retirement system, the Civil Service Retirement System and the successor, the Federal Employees Retirement System.

Proposals to modify the pensions earned by Federal employees have received a great deal of attention lately. Even today, as a matter of fact, many issues have been raised that I hope we can address in the course of these hearings. Some believe that our Federal employees have overly generous pension benefits. Others argue that the average Federal employee pension is modest compared to many private sector pensions.

Assertions have also been made that changes in the Federal retirement system are necessary to shore up the financial footing of the retirement plans.

In light of the pressures on the budget, Congress does have an obligation to take a serious look at all of these proposals and review the retirement benefits provided to employees. However, as possible changes in the retirement system are considered, I believe Congress should also be mindful of the need to balance those budget pressures with the Government's ability to recruit and retain a skilled workforce.

Early this morning I read these statements. I also read the statements of Senators Kerrey and Simpson.

In addition, I think I would not be out of place to say I am the principal author of FERS. So I do hope to have some substantial number of questions concerning FERS, and its interpretation and the analysis of that plan. It has been in effect for not quite 10 years.

#### PREPARED STATEMENT OF SENATOR STEVENS

Today's hearing is the second in a series this subcommittee is holding on the important topic of Federal pensions. Last Monday, we looked at how the Federal retirement systems apply to Members of Congress and their staffs. In our third hearing, scheduled for June 19, we will give employee, management and retiree groups the opportunity to provide their comments and suggestions on the Federal retirement system. In our hearing today, I want to focus on the financial soundness, efficiency and quality of the two plans that make up the Federal employee retirement system, the Civil Service Retirement System (CSRS) and its successor, the Federal Employee Retirement System (FERS).

Proposals to modify the pensions earned by Federal employees have received a great deal of attention lately and many issues have been raised that I hope we can address today. For example, some believe that our Federal employees have overly generous pension benefits, while others argue that the average employee's benefits are modest compared to many private sector pension plans. Assertions have also been made that changes in the Federal retirement system are necessary to shore up the financial footing of the retirement plans.

In light of the significant pressures on the budget, the Congress has an obligation to take a serious look at all proposals to reduce expenditures and a review of the retirement benefits provided to employees is appropriate. However as possible changes in the retirement systems are considered, Congress must be mindful of the need to balance those budget pressures with the Government's ability to recruit and retain a skilled workforce.

I welcome our witnesses today, Carolyn Merck, a specialist in social legislation from the Education and Public Welfare Division of the Congressional Research Service, and Johnny Finch, Assistant Comptroller General at GAO for the General Government Division. Mr. Finch is accompanied by Bob Shelton, Assistant Division Director for Federal Human Resource Management Issues at GAO.

I'm interested in receiving the testimony of our witnesses today, particularly on issues such as the significance of the Government's obligations under CSRS and whether FERS, which I authored, needs to be fine tuned or whether we need to craft a new retirement system to carry us into the next century.

I am hopeful this hearing will help to establish some fundamental facts necessary to any thoughtful deliberations on the future of Federal employee pensions. I look forward to any insights the witnesses could give on the comparability of the benefits with those offered in the private sector, the soundness of the two retirement plans, and any suggestions you may have on changes that could be made to improve the quality and affordability of the plans.

Senator STEVENS. Our first witness today is Carolyn Merck, Specialist in Social Legislation from the Education and Public Welfare Division of the Congressional Research Service. We also will hear from Johnny Finch, Assistant Comptroller General, GAO, for the General Government division. He is accompanied by Bob Shelton, the Assistant Division Director, for Federal Human Resource Management Issues.

I am interested in this testimony today, deeply, because I feel we should really bring about an understanding of where we are before people try to tell us where we ought to go on this subject.

I would like to call Ms. Merck first.

Ms. Merck, we will put your statement and the GAO statement in the record completely. I think yours is one of the best statements we have seen summarizing the status of retirement plans. So as far as I am concerned, if you want to read it for the education of all present, including our friends from the press, it will be helpful for all concerned.

**TESTIMONY OF CAROLYN L. MERCK,<sup>1</sup> SPECIALIST IN SOCIAL LEGISLATION, EDUCATION AND PUBLIC WELFARE DIVISION, CONGRESSIONAL RESEARCH SERVICE**

Ms. MERCK. Thank you, Mr. Chairman. I have a summary which is not much shorter than the original statement. What I have done is expanded on some areas that I thought needed more clarification and just cut back on others that were more straight-forward.

Senator STEVENS. We will print the prepared one and your summary, too, whatever you read.

Ms. MERCK. That is fine.

My name is Carolyn Merck. I am a specialist in social legislation with the Congressional Research Service. I am pleased to have this opportunity to assist the Committee in its review of the Federal Civil Service Retirement Systems. As you know, Congressional Research Service is a nonpartisan organization. We advocate no positions on issues before the Congress and make no recommendations. My statement this afternoon is intended to be factual and explanatory.

I am going to focus my statement on the financing of the retirement programs, their cost, and the factors that influence those costs. The Civil Service Retirement System (CSRS), and the pension component of the Federal Employees Retirement System (FERS), are defined benefit plans. This means that retirement benefits to participants are determined by a formula, not an accumulating account balance.

Although some have characterized the retirement plan for Federal workers as an implicit labor agreement between the Government, as employer, and Federal workers, there is no legal contractual relationship. Rather, public retirement systems generally are considered entitlements granted by legislatures.

Like all other employer-provided defined benefit plans, the Federal Civil Service plans are financed mostly by the employer. The employer of Federal Government workers is the American taxpayer. Nevertheless, on an annual cash-flow basis, employee payments taken in from payroll withholding from today's Federal workers finance approximately 12 percent of the cost of benefits paid to today's retirees. This percentage will decline as FERS employees grow to outnumber CSRS workers.

Both the CSRS and the FERS pension plans are financed on a pay-as-you-go basis, as are the military retirement systems and Social Security. This means that despite the existence of a trust fund, benefits to current retirees are paid from current revenues. Congress set up this system for the CSRS in 1920 and it has operated as a pay-as-you-go for the past 75 years. Moreover, this is the way benefits are and will be paid under the defined benefit pension component of FERS.

If the retirement systems are pay-as-you-go what, then, is the role of the trust fund and what are the issues pertaining to program liabilities? First, I will take a minute to explain some technical but important concepts regarding measurement of costs and liabilities, including the difference between static and dynamic measures of normal costs and liabilities.

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<sup>1</sup>The prepared statement of Ms. Merck appears on page 178.

A normal cost is the present value of future benefits divided by the present value of total compensation for a typical group of entering employees. It is the percentage of every paycheck that should be contributed over the total career of each employee of a group of new entrants to pay fully for all the benefits to be received by that group.

An important factor influencing these cost estimates is the assumed rate of interest used to compute the present values. The static normal cost of the retirement system does not count benefits that might be attributable to future, annual general schedule pay raises or retiree COLA's, and the static present value is computed with an unchanging interest assumption of 5 percent.

The dynamic normal cost does count estimates of future pay raises which would increase initial annuities and COLA's. Also, OPM currently assumes a 7 percent interest rate.

Program liabilities are the Government's obligations to pay promised benefits over a long period of time. Funded liabilities are the cost of those benefits covered by the securities in the trust fund. Unfunded liabilities are the difference between assets on hand (the trust fund balance) plus scheduled future payments or credits to the fund, and the estimated total cost of benefits over a given projection period. Thus, the difference between static liabilities, funded or unfunded, and dynamic liabilities is whether future general pay raises, COLA's, and current interest rates are taken into account.

How does the financing of the retirement programs work and what is the role of the trust fund? There is one civil service retirement trust fund that holds securities for both the CSRS and FERS. A Federal trust fund is an account set up in the Department of the Treasury to which are credited Federal securities equal in value to the sums withheld from Federal employee paychecks, payments from the U.S. Postal Service for Postal worker retirement, and certain other intra-governmental transfers required by law.

The CSRS/FERS trust fund is not like private trust funds in that no money is actually deposited into it for investment outside the Treasury. The credits in the trust fund are technically referred to as nonmarketable interest-bearing securities of the United States Government. The securities are nonmarketable because they are not sold to the general public. Every year, securities are credited to the fund and, as benefits are paid to retirees and survivors, securities recorded in the fund are reduced accordingly.

The trust fund is actually an accounting ledger used to keep track of revenues and credits earmarked for the retirement program and benefits paid under those programs. The major purpose of the trust fund is to provide automatic budget authority for the Treasury to write checks to retirees without the need for annual appropriations. The cash to pay current benefits and other costs comes from general revenues and from mandatory contributions paid by Federal employees and the U.S. Postal Service.

As of the start of fiscal 1996, the Civil Service Retirement Trust Fund will hold about \$366 billion in Federal securities.

Total income to the trust fund from cash and intra-governmental transfers was \$63.5 billion in fiscal year 1994. Total expenditures of the program, all of which are reflected in debits from the trust

fund, were \$36.4 billion. Thus, the trust fund takes in more than it disburses annually and, therefore, it continues to grow.

Although cash from employee payroll withholding and from the U.S. Postal Service is received by the Government as funds earmarked for retirement, the trust fund has no way to receive or hold cash. Instead the cash paid into the Government is deposited in the general receipt accounts of the U.S. Treasury and can be used for any purpose for which the Government spends money, including paying current retiree annuities. It can also be used to reduce the deficit or Government borrowing or offset revenue losses that might be caused by a tax cut.

However, even though the cash from workers and the U.S. Postal Service is deposited in the general receipt accounts of the Treasury, securities of equal value are credited to the trust fund to note that the Government had, in fact, received cash for the retirement system. Nevertheless, unlike Social Security, for example, the cash coming into the Treasury annually that is earmarked for Federal retirement, \$9.7 billion in fiscal year 1994, is less than the annual cost of benefits, \$36 billion in fiscal year 1994. The difference is paid from general revenues or borrowing.

When the Congress established the Civil Service Retirement System in 1920, it set up the trust fund and called for employee contributions. However, it was not until 1956 that Congress formalized funding of the Government share of costs through required agency payments. Before that time, Congress had made occasional appropriations, but in the very early years of the program there were so few retirees that the cash from employees was enough to pay fully for the benefits to retirees.

In 1969, the static normal cost of the CSRS was estimated to be about 14 percent of payroll. Employee payments were set at 7 percent, and agencies paid a matching 7 percent. Thus, it was the intent of Congress to fully fund the CSRS on a static basis.

In Public Law 91-93, in 1969, Congress required 3 additional annual credits to the trust fund to cover costs previously incurred and others not included in the normal cost contributions. These payments are (1) 30-year amortization payments for pension liabilities resulting from salary increases or coverage of new groups of employees; (2) the amount of the employer share of benefits attributable to military service; and, (3) interest set at the fixed rate of 5 percent on the estimated accrued static liabilities of the program for which no securities were credited to the fund.

In fiscal year 1994, these credits totaled \$19.7 billion. Other intra-governmental transfers to the fund include interest on the balance of the securities in the fund which was \$24.8 billion in fiscal year 1994, and a few miscellaneous receipts. All intra-governmental transfers counted as fund income totaled \$53.7 billion in fiscal year 1994.

If the static costs of the CSRS were estimated today, but using a current 7 percent interest rate, the static costs would be about 9.5 percent of payroll. The dynamic cost of the CSRS, currently, is 25.14 percent of payroll. Thus, the current 14 percent of CSRS pay that is credited to the fund from employee and agency payments over-funds the CSRS according to the static funding rules Congress adopted in 1969, but less than fully funds the system under dy-

dynamic rules. Under dynamic funding rules, unfunded liabilities of CSRS continue to grow, but they do not grow under the static funding criteria.

Congress has not changed the 1969 law, hence, there is no requirement for the program to be fully funded according to dynamic cost estimates. In some regards, it might seem illogical to write the laws governing CSRS financing to meet static funding objectives, and then criticize the program as underfunded because it is not fully funded when measured against dynamic funding criteria.

In comparison, the dynamic normal cost of FERS pensions is currently estimated to be 12.2 percent of pay. Of that amount, the Government pays 11.4 percent through funds appropriated to employing agencies which are returned as intra-governmental transfers, along with the 0.8 percent of pay contributed by workers, to the Treasury for deposit in the trust fund.

Some analysts view these funding issues and intra-governmental transfers as academic since the money to pay benefits must always come from general revenues or borrowing, whether there are enough securities in the fund to fully fund all benefits by any measure, or whether there is no trust fund at all.

Others say good accounting practices are necessary to keep the Government and taxpayers apprised of the magnitude of the cost of Federal personnel. The only cost of the CSRS and FERS defined benefit retirement systems that are outlays from the budget and that contribute to the deficit are: (a) the cost of benefits to retirees and survivors; (b) payments to individuals who resigned from the Government and withdraw their contributions; (c) repayment of employee contributions to the estates of certain deceased employees or retirees; and (d) administrative costs. The costs of the programs and the need for general tax revenues to pay for Federal retirement has never and will never exceed the cost of these payments.

In fiscal year 1994, the total Federal outlays for CSRS and FERS annuities was \$36 billion. The total cash received by the Treasury and earmarked for retirement was \$9.7 billion. Thus, the difference between these costs and receipts—\$26.3 billion—was the total cost to the system that was paid from general revenues or borrowing.

A retirement system's liabilities are fully funded if a trust fund holds assets approximately equal to the present value of all benefits promised to retirees and vested employees. Unfunded liabilities are estimates of benefits for which assets have not been set aside in the retirement fund and for which no future deposits are scheduled.

Congress designed the FERS defined benefit pension as a fully funded system. Consequently there is no controversial issue regarding the funding status of FERS. Nevertheless, FERS defined benefit pensions are and will be paid with cash from general revenues authorized by the securities in the trust fund.

At the end of fiscal year 1993, the estimated total liability of the CSRS was \$815 billion using dynamic estimates. The trust fund held \$277 billion for the CSRS which is the funded liability. Therefore, the dynamic unfunded liability was the difference between these two, or \$538 billion.

But what do liabilities, funded or unfunded, really mean in terms of costs to the Government or taxpayers? The \$815 billion total li-



ability of the CSRS is the estimated amount the Government would have to pay, all at one time, if everyone who is or who ever has been a vested CSRS participant could demand a check for the present value of all the benefits to which they would be entitled from that time throughout their retirement until their death or their survivor's death, taking into account estimated future pay raises they might receive and COLA's after retirement. This event cannot happen in the Federal system.

Federal pension obligations cannot come due all at one time, unlike the situation that arises in the private sector when an employer goes out of business and must pay all promised pension obligations at once. Some of the Government's liabilities represent payments due to current retirees who receive their benefits one month at a time throughout retirement. Others represent payments that will not commence for years to come because the workers are not yet eligible to retire. By the time they become eligible, others currently retired will have died. Thus, unlike private employers, the Government need not fully pre-fund the retirement system in order to insure against having to pay off all earned benefits simultaneously.

It should be noted that the same reasoning applies to the Social Security system which, throughout its 55-year history, has been largely pay-as-you-go. Incidentally, Social Security has about a \$7.6 trillion unfunded liability.

Currently about half the Federal workforce is still covered by CSRS and about half is covered by FERS. Over the next 2 decades or so the number of CSRS workers will decline as they resign or retire. As the number of CSRS workers declines, the assets credited to the trust fund for CSRS will decline primarily because the Government's payments will decline, not because of loss of payroll contributions from workers.

The formulas by which the Government's share of CSRS costs are determined are based on projections of long-term benefits. As long-term benefit projections decline in anticipation of the demise of the CSRS, the Government's funding will decline, although there will still be CSRS retirees and survivors entitled to benefits.

According to OPM, CSRS benefit payments will begin to exceed the amount of assets credited annually to the trust fund for CSRS in about 2008. And assets attributable to the CSRS will be depleted by about 2025.

When Members of Congress wrote the new FERS law in 1986, they understood that there would have to be a financial transition from CSRS to FERS in the next century and they wrote the law to provide for that transition.

First, the law provides for one trust fund in which CSRS and FERS assets are combined. Therefore, there is no separate CSRS trust fund that will be depleted. Second, Congress established a system whereby benefit payments, under the CSRS, will be authorized by FERS trust fund securities, as needed, until there are no more CSRS benefits to be paid. Thus, the securities that are building up for FERS and that are in excess of the amount needed to authorized FERS payments for some time will be reduced each year by the amount by which CSRS benefits exceed CSRS assets.

This will cause an increase in the FERS liability, but that liability will be paid off through a series of 30-year payments. Using a 75-year projection period, OPM estimates the total value of securities in the trust fund will grow throughout the projection period, ultimately reaching about 4.2 times payroll and an ongoing steady state in which it will have a balance sufficient to authorize advance payment of 18 years of benefits.

Although OPM does not project the dynamic unfunded liability of the CSRS, that liability might increase slightly on a temporary basis early in the next century. However, it will have no economic effect, just as the current unfunded liability that accrued in the past has no current economic effect. The unfunded liability has no effect on the cost of the program, on the budget, on the deficit, or on taxpayers, either now or in the future.

The cost of a defined benefit plan is determined by the size of the eligible population, the benefits for which they are eligible at the time of retirement, and post retirement COLA's. Thus, if Congress were to determine that the cost of the program is too high, there are a limited number of factors that might be modified to reduce costs.

The only way to influence the size of the retiree population is through changes in the retirement age. Currently, the average age for workers at the time of retirement—that is those taking voluntary, normal retirement—is about 61.5. The cost effects of raising the retirement age would depend on what that change was.

The factors in the benefit formula that determine the amount of the annuity are the pre-retirement salary base—high-3 years, high-5, or another measure—and the accrual rate, which is the percentage applied to the salary base that determines the amount of the annuity for each year of service. Either or both of these—the salary base or the accrual rate—could be changed to reduce annuities to future retirees. There would be no effect on current retirees. Retiree COLA's are decidedly a cost factor, although the cost effect may be large or small depending on the rate of inflation.

The factors I just mentioned affect the size of individual benefits and, therefore, the costs of the program. Another factor, employee contributions, affect Government's cost of the program, but not the size of retiree benefits. Any one or a combination of these factors could be modified through changes in law to reduce costs.

The issue Congress faces when considering benefit changes are fairness to workers nearing retirement and grandfathering of certain benefits or individuals, versus achieving savings within a given budget horizon.

A final note about the future costs of the CSRS and FERS. The Congressional Budget Office projects the costs of these programs as a percent of gross domestic product to remain flat for a while and then decline slightly after about 1998. However, it is important to remember that as CSRS phases out and FERS becomes the system under which most workers retire, the Government's cost for pension benefits under FERS will be less than they are under CSRS because the FERS benefit formula is lower.

Although the nominal dollar cost of CSRS and FERS benefits will grow into the next century, most of the growth will be attributable to retiree COLA's. Some of the increase will be the result of pay

growth which is always passed through to the salary base on which benefits are determined. If benefit costs were computed in constant dollars, that is, removing the effects of inflation, there would probably be quite modest increases in program costs, since most of the growth would be attributable to wage growth in excess of inflation and to increasing numbers of retirees.

However, in comparison with the Social Security program, the retirement of the baby boom generation will have little effect on the Federal retirement programs. I would just like to repeat that. The retirement of the baby boom generation will have little effect on the Federal retirement programs. Unlike Social Security, the size of the Federal retiree population is a function of the size of the Federal workforce, not the population as a whole.

The average age of Federal workers has increased very slightly from 42.4 in 1982 to 43.4 today. OPM expects there will be a somewhat lower than typical rate of retirements in the next few years, followed by a modest upturn in the rates early in the next century. However, there is no large bulge in retirements pending due to a baby boom type of situation and, therefore, no pending financial crisis.

Thank you, Mr. Chairman. I would be happy to answer any questions.

Senator STEVENS. Thank you, very much. I want to confer with Senator Akaka here, but it would be my hope that we could call GAO up and have them read their statement. Ms. Merck, do you have time to wait so that we can ask you questions later?

Ms. MERCK. Certainly.

Senator STEVENS. Would you like to make your statement now, Senator Akaka?

#### **OPENING STATEMENT OF SENATOR AKAKA**

Senator AKAKA. Thank you, Mr. Chairman. I will be very brief.

Mr. Chairman, I am deeply troubled by the provisions included in the budget proposals, and particularly those included in the House tax measures, which unfairly tax Federal employees to balance the Federal budget and reduce the deficit.

As part of our effort to reinvent and streamline Government, we have reduced the number of Federal employees over the last several years and more reductions are expected in the future. During this difficult time, we have asked Federal employees to do more with less, and they have been meeting the challenges in providing excellent services to the American taxpayer.

However, each year Congress debates whether to provide COLA's to Federal employees. Although the retirement system went through a major reform over 10 years ago, the retirement system has been the only stable compensation program the Federal employees can depend on, especially when leaving Federal service.

Mr. Chairman, I hope that we will consider alternative proposals to reduce spending, instead of unfairly targeting Federal employees.

Thank you, very much, Mr. Chairman.

Senator STEVENS. Thank you.

We can proceed now with Mr. Finch. And you have Mr. Shelton with you again today. I find that I read your draft statement this

morning and have a second one today. I will print either or both in the record depending on what you want to do. It is your choice.

Mr. FINCH. Thank you, Senator.

I think given the way things are going here, and the length of the statements, what I will do—I was prepared to summarize but I think I can do, if it is OK with you—is I will read the text of the detailed statement with the exception of the financing section.

Senator STEVENS. Yes, sir.

Mr. FINCH. Because I think CRS did an admirable job of discussing the financing issues and we come out on the same points.

Senator STEVENS. Yes, sir, I realize that. Thank you, very much, Mr. Finch. We will print the statement in full.

Mr. FINCH. Thank you.

**TESTIMONY OF JOHNNY C. FINCH,<sup>1</sup> ASSISTANT COMPTROLLER GENERAL FOR GENERAL GOVERNMENT PROGRAMS, GENERAL ACCOUNTING OFFICE; ACCOMPANIED BY BOB SHELTON, ASSISTANT DIVISIONS DIRECTOR, FEDERAL HUMAN RESOURCES MANAGEMENT ISSUES, GENERAL GOVERNMENT DIVISION**

Mr. FINCH. Thank you, Mr. Chairman, and Members of the Subcommittee. We are pleased to be here today to discuss Federal retirement issues. This is an area in which we have done considerable work over the years. This work has given us a basis from which we can offer some perspectives that the Subcommittee may find useful as it examines these issues.

Our observations today are based on the premise that retirement programs are an integral part of the employee compensation package. We recognize the pragmatic concerns raised by budget issues, however, we also believe that budget concerns should be viewed, at least in part, from the context that retirement benefits are income that employees earn while performing service for their country, but receive when their working years are over.

As with private sector, State and local Government employees, Federal employees should be able to expect that the benefits they earn while they are working will, in fact, be paid to them when they retire.

While important to employees, retirement programs also have important management objectives. Retirement programs are tools that can help an organization keep its workforce vibrant and productive. They can be key employee recruitment and retention tools for employees and managers alike. It seems reasonable to assume that quality employees will be much more likely to want to work for and stay with an organization that has a good retirement program.

We also believe it is important to keep in mind that about 10 years ago the retirement program for most Federal civilian employees was completely reformed. The resulting Federal Employees Retirement System bears little resemblance to CSRS. CSRS has been closed to new entrants since the end of 1983. Currently the great majority of retirees on the retirement rolls retired under CSRS, but CSRS and FERS each now cover about half of the 2.8 million active

<sup>1</sup> The prepared statement of Mr. Finch appears on page 129.

Federal civilian employees not covered under other Federal retirement systems, such as the Foreign Service, Central Intelligence Agency and Federal Reserve Board retirement systems.

These other systems are much smaller than CSRS or FERS, and cover a minor percentage of all Federal civilian employees.

None of the above should be interpreted to suggest that we believe there are no Federal retirement issues that should be considered. Quite the contrary.

We believe it is important for all decision makers to know how the retirement systems work, the benefits they provide, and how they compare with programs in the non-Federal sector.

To the extent that we are able, the chief purpose of our statement today is to help get the facts on the table. Because they are, by far, the largest retirement systems for Federal civilian employees, our statement concentrates on CSRS and FERS.

In a Government with a civilian workforce as large as ours, it stands to reason that the number of retirees and the total amount of retirement benefit payments they receive each year will dwarf the statistics of any non-Federal retirement program. According to the Office of Personnel Management's statistics, at the end of fiscal year 1994 approximately 2.3 million people, including retirees and survivors of retirees and employees, were receiving monthly annuity payments from either CSRS or the FERS pension plan. At the monthly rates they were being paid, the annual payments would amount to about \$36 billion.

For the 1.6 million CSRS retirees, the average monthly benefit was \$1,537 or \$18,444 a year. Of the just over 41,000 FERS retirees, the average monthly benefit was \$662 or \$7,944 a year. These averages included all the various types of retirement available under the systems, including optional, disability, deferred, early voluntary and early involuntary, as well as the amounts for retirees who were covered by the special provisions for Members of Congress, Congressional staff, law enforcement officers, firefighters, and air traffic controllers.

When limited to general employees who retired at age 55 or older under the optional retirement provisions, the averages were \$1,665 a month, or \$19,980 a year, for CSRS retirees; and for FERS retirees it was \$627 a month or \$7,524 a year.

Since FERS retirees also receive benefits from Social Security and the Thrift Savings Plan, any benefits from those programs would be in addition to their pension plan amounts.

One statistic that may be surprising to many observers is that about a quarter of the 2.3 million annuitants receiving CSRS and FERS benefit payments at the end of fiscal year 1994 were widowers, widows, children, and other survivors of deceased employees and retirees.

In total, about 600,000 survivors were receiving monthly benefits from CSRS and the FERS pension plan. Their benefits average \$791 a month or \$9,492 a year under CSRS, and \$262 month or \$3,144 a year under the FERS pension plan.

We were asked that we include in our statement a discussion of the history of CSRS and FERS. CSRS has a much longer history as it was established in 1920. It even pre-dates the Social Security system by several years. It was the first retirement program for

employees in the Federal Civil Service and was born out of a pressing management need to remove from employment permanently tenured personnel who could no longer perform effectively because of age or infirmities.

Many employees had grown quite old and often became inefficient in their work and incompetent for continued service. Because most elderly workers had not been able to make provisions for their old age and because isolated instances of removing them had drawn adverse public reaction, it was very difficult to induce managers to dismiss them.

As a result an unofficial, unauthorized pension system had evolved to simply retain on the employment rolls, under various pretexts, all superannuated employees with many years of service and pay them full salary for little or no work. Needless to say this practice impaired the efficiency of Government operations and retarded the advancement of more competent employees.

When initially enacted, CSRS provided only two types of retirement—mandatory and disability. Mandatory retirement was set at age 70 and if employees had completed at least 15 year's of service at that age, they were paid annuities. Disability retirement annuities were paid to all employees with at least 15 years of service who became totally disabled for useful and efficient service before reaching the mandatory retirement age. Mandatory and disability annuities were determined in the same manner and provided annuity amounts ranging from a minimum of \$180 to a maximum of \$720 a year.

Many changes were made to CSRS in the ensuing years. Optional retirement provisions were added in 1930. They allowed employees who had completed 30 or more years of service to retire 2 years earlier than the mandatory separation age with no reduction in annuity.

The rationale behind the provisions was that certain individuals became superannuated and inefficient earlier in life than others, and affording such employees the opportunity to retire a few years early with fair remuneration for long service would enhance Government efficiency.

In 1942, the optional retirement provisions were liberalized. The new provisions permitted voluntary retirement at age 60 with 30 years of service; at age 62 with 15 years, or with a reduced annuity between ages 55 and 60 with 30 years.

According to the Legislative history, this change was made because most other public retirement systems provided earlier retirement options and the change would reduce the number of employees retiring on disability, thereby effecting a savings in administrative costs.

The current CSRS optional retirement provisions for general employees were adopted in 1956 and 1967. In 1956, the provision for optional retirement at age 62 with 15 years of service was changed to age 62 and 5 years. And the annuity reduction for employees electing to retire at age 55 with 30 years of service was eliminated in 1967. Also in 1967, the service requirement for optional retirement at age 60 was changed from 30 to 20 years.

The Legislative history shows that these changes were prompted by arguments that 30 years is a full career, justifying retirement

without penalty and a report to the President by a Cabinet committee recommending the age 55 and 30 years service option with unreduced annuity be adopted. The Cabinet committee also recommended the age 60 and 20 years of service option as a meaningful intermediate option between the 55/30 and 62/5 provisions, and to establish a more consistent relationship between age and service requirements.

An annuity formula was first used for CSRS in 1926. Under that formula, annuities were based on employees' annual average salaries during the final 10 years of service not to exceed \$1,500, and years of service up to 30. The formula produced a maximum annuity of \$1,000. In 1930, the formula and salary base were changed. The new base was a 5-year average limited to \$1,600. The new formula produced a maximum annuity of \$1,200.

Through the years, several other changes were made to the benefit formula. In 1942, the ceiling on the high-5 average salary was eliminated and in 1948 a new formula was adopted that computed benefits by multiplying the high-5 salary by 1.5 percent for each year of service or, if a greater amount would result, by 1 percent plus \$25. The 1948 legislation also established a maximum annuity of 80 percent of high-5.

The current 3-step benefit formula, using a high-5 salary base, was adopted in 1956. It calculated benefits for general employees at 1.5 percent of high-5 for each of the first 5 years of service; 1.75 percent for each of the next 5 years; and 2 percent for each year of service greater than 10. This formula was an apparent compromise between a formula contained in a Federal employee union-supported bill and a formula recommended by the Civil Service Commission, the predecessor of OPM.

The union-supported bill provided for using the 1948 formula for the first 5 years of service and using 2 percent of high-5 for all remaining years. This would have produced a basic annuity of 57.5 percent of high-5 after 30 years of service. The Commission's proposed formula would have provided a 30-year benefit of 52.5 percent of high-5. The formula ultimately adopted provided 56.25 percent of high-5 for 30 years of service.

In 1969, the salary base for computing annuities was changed from the high-5 average to a high-3 average. The rationale for this change was that the high-5 tended to keep employees working beyond the time they would have or should have retired because pay increases prompted employees to postpone their retirements in order to improve their high-5 averages which could increase appreciably with each additional year of service.

Over the years, many other changes were made to CSRS. The disability retirement provisions were revised at least 6 times. Discontinued service and deferred retirement provisions were added, and also changed several times, and since 1939, the system has provided annuities to surviving spouses and children of employees who died during their working years and retirees who elect survivorship coverage by accepting reduced annuities.

CSRS was also frequently changed to extend coverage and/or provide preferential benefits to particular employee groups, including Members of Congress, Congressional staff, law enforcement and firefighter personnel and air traffic controllers. Separate provisions

for these groups allowed higher annuities and/or earlier retirement eligibility than provided to general employees.

Several changes to the CSRS statute have reduced its cost substantially. Much of the savings have come from changes to the retiree Cost of Living Adjustment (COLA) provisions. From 1969 to 1976, CSRS COLA's were based on monthly increases in the Consumer Price Index (CPI) and a 1 percent "kicker" was then added to each adjustment. The add-on was eliminated and twice-a-year adjustments equal to the percentage increase in the CPI were instituted in 1976. In 1981, the manner in which initial adjustment amounts after retirement were determined was changed to reduce them considerably, and annual adjustments were adopted in 1981.

We recommended all these changes based on our analytical findings that the practices tended to over-compensate retirees for their loss of purchasing power.

Other changes to CSRS COLA's have been primarily budget driven. Scheduled COLA's have often been reduced, delayed or skipped as part of budget reduction efforts. For example, in 1983, the CSRS COLA was delayed 1 month and was limited to one-half the increase in the CPI for non-disabled retirees under age 62. The 1984 COLA was delayed for 9 months. In 1986, the President and Congress decided not to grant any COLA's to Federal retirees that year, and for fiscal years 1994, 1995, and 1996, the COLA's were delayed until April of each year instead of the scheduled January effective dates.

Our calculations indicate that the COLA delays and reductions imposed during the 10-year period from 1985 through 1994 caused the COLA's to be equal to about 80 percent of the CPI increase during that period.

Other significant savings have come from changes we recommended to tighten the CSRS disability and early retirement provisions to eliminate system abuses and close loopholes. As a result, the conditions under which disability and early retirement can be granted were changed and disability retirements were reduced or eliminated for many individuals who were receiving benefits under conditions that were not in keeping the system objectives.

FERS has a much shorter history. It was adopted because the Social Security Amendments of 1983 brought all Federal civilian employees first hired after December 1983 under Social Security. The amendments were primarily intended to resolve financial difficulties in the Social Security system, but they also had the effect of requiring that a new Federal retirement program be developed to supplement the benefits that new employees would earn from Social Security.

The ultimate design of FERS was determined after extensive analyses of non-Federal retirement programs and how non-Federal practices could be applied to the Government. FERS adopted the non-Federal approach of providing Social Security coverage, a defined benefit pension plan, and the Thrift Savings Plan in which employees may participate to increase the retirement income provided by the other two parts of the FERS package.



The FERS pension plan also provides substantially reduced retiree COLA's as compared to the full COLA's provided by the CSRS statute.

FERS was implemented in 1987. For employees who entered the Government during the 3-year interim between January 1984, when Social Security coverage began and CSRS was closed to new entrants, and January 1987, a CSRS off-set plan was instituted whereby employees were covered by both CSRS and Social Security.

Under this arrangement the Social Security contributions employees made and any Social Security benefits they received from their Federal service were deducted from their CSRS contributions and benefits, respectively. Also Members of Congress were covered by Social Security in January of 1984, regardless of when they entered Congress. Members in CSRS were given the option of participating in the off-set plan or being fully covered by both CSRS and Social Security.

After FERS became operational in 1987, Members and employees in CSRS and the off-set plan were given the option to switch to FERS.

To our knowledge, no substantive changes have been made to FERS since its inception, other than the same COLA's delays applied to CSRS retirees in fiscal years 1994, 1995, and 1996.

The issues we most often see raised in relation to Federal retirement are (1) the ages at which employees are allowed to retire; (2) the amount of benefits the systems pay to retirees; (3) the Federal COLA provisions in comparison to the COLA's paid by non-Federal retirement programs; and (4) how the systems are financed. Our observations based on current and past work on each of these issues are as follows.

First, retirement age. As mentioned previously, CSRS provides general employees the option to retire at age 55 with 30 years of service; at age 60 with 20 years; and at age 62 with 5 years. Earlier optional retirement provisions are available to Members of Congress, law enforcement officers, firefighters, and air traffic controllers.

One of the frequent criticisms of CSRS is that the option of unreduced benefits at age 55 is generally not available in non-Federal pension plans.

Indeed, our 1984 analysis of private sector plan features showed that age 62 or younger was the prevailing age at which unreduced benefits were available. However, we also found that the age requirement should not be considered in a vacuum. Rather, it should be viewed in the context of the length of service requirement that accompanies the age requirement.

Some private sector plans, for example, allowed long service employees to retire with unreduced benefits at ages younger than 62 and very few private sector plans that used age 62 required employees to have 30 years of service before benefits would be paid.

More recent data indicate that retirement age provisions in private plans have changed little, if, at all. For example, a 1993 Bureau of Labor Statistics survey of benefits provided to employees in a representative sample of private establishments employing 100 or more workers showed that about half of the employees were in

plans that would provide unreduced benefits at age 62 or younger, often with 10 or fewer years of service.

The survey also showed about 8 percent of the employees were in plans that allowed retirement at age 55 with 30 or fewer years of service. Another 3 percent were in plans that allowed retirement at any age when an employee's combined age and years of service totaled 80 or less.

Thus, a number of private plans follow the CSRS practice of distinguishing between long- and short-service employees in their retirement eligibility provisions as was the CSRS framers' objective.

The practice of allowing employees to retire on unreduced annuities at ages younger than 62 is quite prevalent in retirement plans for State and local Government employees.

According to a 1992 BLS survey of benefit programs in a sample of Governmental units employing 100 or more workers, about 34 percent of all employees were in plans that allowed optional retirement at any age with 30 or fewer years of service. Another 23 percent were in plans that allowed optional retirement at age 55 with 30 or fewer years of service, and 5 percent were in plans that allowed optional retirement when an employee's age and years of service, together, totaled 85 or less.

It should also be recognized that because of the 30-year service requirement most Federal employees do not qualify for optional retirement at age 55. And, many of the employees who have 30 years of service do not retire immediately upon reaching retirement eligibility. In fact, on average, the 38,550 employees retiring under CSRS' optional retirement provisions in fiscal year 1994 were age 61.5 and had 30 years of service. About 35 percent of these employees retired at the ages of 55 to 59. They averaged age 57 and had almost 35 years of service.

Consideration of the retirement age issue should also take into account the fact that the optional retirement age has been raised under FERS. FERS instituted a Minimum Retirement Age concept that gradually increases from age 55 to age 57, the earliest age at which general employees under FERS are eligible for optional retirement. Like in CSRS, employees in FERS must have 30 years of service to retire without a benefit reduction at the minimum retirement age.

FERS has another provision intended to serve as an incentive for employees to extend their careers beyond the minimum retirement age. Employees who retire at age 62 or older and have completed at least 20 years of service receive annuities calculated at a formula that provides a 10 percent greater benefit amount than the formula applied to employees who retire before age 62.

The provision may be having an effect on the average FERS retirement age. The 5,965 employees who retired optionally under FERS in fiscal year 1994 averaged age 63.5—2 years older than CSRS retirees in that year.

In our view, the incentive in FERS for employees to extend their careers is in keeping with demographic changes that are occurring. In a 1992 report, we described the significant demographic changes that have occurred and are occurring in the U.S. labor force including its increasing age as a result of the middle-aging of the baby boom generation and the comparatively low birthrates that fol-

lowed the baby boom era. The report observed that workforce aging is a trend that may have a profound impact on the world of work in the first half of the 21st century. The median age of the Nation's civilian workforce rose from 34.3 in 1980 to 36.6 in 1990, and is expected to reach 40.6 by the year 2005. The Government's workforce in 1990 was, on average, 5 years older than the workforce in general.

In a 1993 report, we discussed how the Government and most non-Federal employers had done little to prepare for the challenges presented by workforce aging. Among the actions most expert agreed employers should be taking was to encourage their valued older workers to extend their careers.

A 1991 survey we made of Federal employees who were within 5 years of retirement eligibility showed that many of the Government's older workers would be willing to extend their careers if certain incentives were included in the retirement programs. For example, 59 percent of the respondents said that they would probably stay longer than they had planned if the benefit formula for retirement eligible employees were increased. About 41 percent said that an increase in the Government's contributions to their Thrift Savings Plans after they were eligible to retire would make it likely that they would delay their retirements. And, about 33 percent said a reduction in employee contribution requirements after retirement eligibility would probably cause them to extend their careers.

These findings suggest that exploring the possibility of adding incentives for later retirements to CSRS and FERS could help enhance workforce capacity by retaining employees with needed knowledge, skills and abilities. Such incentives could also possibly generate cost savings in that the Government would not be paying concurrent retirement benefits to a retiree and salary to a current employee to achieve the performance of a given job.

The data show that almost all private and State and local Government plans allow employees to retire before they attain the age and service requirements necessary for the payment of unreduced benefits. Typically they allow employees to retire by age 55 with 10 or fewer years of service at reduced benefit amounts. FERS incorporated this concept by allowing employees to retire at the minimum retirement age if they have at least 10 years of service.

Benefits for employees who elect this option are reduced by 5 percent for each year they are younger than 62. CSRS does not have a similar provision.

Benefit comparisons are the second issue that is frequently raised. Comparing retirement benefits is not an easy task. There is wide variation in the designs of retirement programs and the amounts of benefits they provide. As we noted earlier, even CSRS and FERS bear little resemblance to one another.

When FERS was being developed, the Congressional committees of jurisdiction asked us to assist by identifying the features and benefit levels typically found in non-Federal retirement programs. We issued two reports in response to this request. At your and the House Subcommittee on Civil Service's requests, we are updating these analyses and that work is in progress now, Mr. Chairman. We have not yet completed this work but thus far we have seen nothing to indicate that significant changes have occurred in the

design of non-Federal retirement programs or the level of benefits they provide.

In our earlier reports we found that, like the eventual design of FERS, private companies' retirement programs typically consisted of three parts: a defined benefit pension plan, one or more capital accumulation plans—most commonly a Thrift Savings Plan to which the employees and companies contributed—but also including programs such as profit-sharing plans and stock ownership plans, and the third part is Social Security.

It appears from our current work that the basic structure of non-Federal programs is essentially the same. As one 1994 study of non-Federal retirement programs noted, "Defined benefit pension plans continue to play an integral role in most organizations' benefit packages. A majority of the organizations studied offered a defined benefit plan and almost all of these supplement their plan with some type of capital accumulation plan."

All the States have retirement programs and most States also cover their employees under Social Security. The States often have capital accumulation plans as well. But the plans generally do not provide for employer matching of employee contributions.

Very few private pension plans require employee contributions toward plan costs. State pension plans generally require employee contributions but in most cases, the States have employer pick-up plans whereby—

Senator DORGAN. Excuse me, would you just—do you have a percentage on the private plans that do not require participation? You say, most. Do you have any additional information on that?

Mr. FINCH. In the high 90's, I believe, sir. It was 90-some-odd. I cannot remember the exact percentage. I can provide it for the record.

Senator STEVENS. It is on the chart?

Mr. FINCH. No, I do not think so. But as I recall the percentage is in the high 90's, Senator Dorgan.

Senator DORGAN. But there is no requirement of contribution?

Mr. FINCH. That is right.

Mr. SHELTON. That is right, 95 to 97 percent.

Mr. FINCH. That is 95 to 97 percent do not require employee contributions.

Senator DORGAN. Thank you, sorry.

Mr. FINCH. Oh, no problem.

I appreciated the break, quite frankly. Our earlier analysis disclosed that benefit formulas in the non-Federal pension plans varied considerably. The majority of private plans based benefit amounts on employees' average salaries earned during their 5 highest paid years. Some private plans, particularly in large companies, and a majority of the State plans used a high 3-year average. The benefit accrual rates differed and the approaches to recognizing Social Security benefits and the early retirement reduction provisions also differed from plan to plan.

We could not identify one formula as being representative of all plans included in our various data sources. Accordingly, we applied the plan formulas to a series of salary levels, retiree ages and years of service, and calculated the benefit amounts produced by the formulas as a percentage of final salary.

In this amount we could determine the average benefit levels provided by the plans. We also calculated the benefits available from Social Security and the typical Thrift Savings Plan to determine the total retirement income the retirees would receive. The benefits varied somewhat by salary level but to illustrate our findings, Table 1, in the prepared statement, shows the retirement incomes available to the private sector and State employees from all three sources at a final salary of \$40,000 and at various ages and years of service.

The retirement incomes available from CSRS are also shown. We have not yet compared FERS and non-Federal program benefits.

The retirement amounts for State retirees were generally lower than the amounts for private sector retirees principally because, at the time of our analysis, most State Governments did not make contributions to employee capital accumulation plans. Thus, we did not include any benefits from capital accumulation plans in the retirement calculations for State retirees.

It is apparent that the relative benefits of CSRS and non-Federal programs depended heavily on when employees retired and how much service they had. CSRS provided greater benefit amounts to general employees retiring optionally at age 55 with 30 years of service than did the typical non-Federal program. On average, however, retirees in CSRS were age 61.5 in fiscal year 1994. Non-Federal benefits were superior at age 62 when Social Security benefits were available to non-Federal employees.

Also, even though the benefit amounts available to non-Federal employees at age 55 with 10 years of service were rather small, general employees in CSRS can receive no optional retirement benefits at age 55 unless they have at least 30 years of service.

It is possible that the more current data we are developing will show different results. However, non-Federal employers would have had to make major changes to their retirement programs since we did our earlier work if appreciable differences in comparisons with CSRS are to be found.

Another factor that makes comparisons difficult is Social Security coverage that provides additional benefits such as spousal and dependent benefits. Our comparisons and those of others focused only on the benefits accruing to individuals and did not include these additional Social Security benefits. The Social Security spousal benefit is 50 percent of the primary benefit and is paid in addition to the primary benefit while both spouses are alive, unless the spouse is eligible for a larger primary benefit in his or her own right.

The primary benefit is paid to the surviving spouse upon the other spouse's death. Neither CSRS nor the FERS pension plan provides a spousal benefit while the retiree is living, and survivor benefits are less than the amount the retiree was receiving before death.

The third issue frequently discussed about CSRS is the Cost of Living Adjustments. The CSRS statute calls for annual adjustments equal to the increase in the CPI. This was instituted to protect the purchasing power of retirees' annuities. Without inflation protection the value of an annuity, after several years of retirement, could be far less than its value at the time of retirement.

The private sector has also recognized this concept but to a more limited degree and in a less structured way. Our earlier studies showed that private sector pension plans often adjusted benefit amounts in recognition of the effects of inflation on retirees' purchasing power. These adjustments were generally granted ad hoc rather than as the result of a pension plan feature. Moreover, the amount and frequency of the ad hoc adjustments tended to vary with plan size.

According to a Department of Labor study of a statistical sample of private sector retirees completed in the late 1970's, the retirees received average adjustments during 1973 through 1979 equal to 37.9 percent of the increase in the CPI, ranging from 5.5 percent for retirees in the smallest plans, to 57.2 percent for retirees in the largest plans.

More current information from BLS and several benefit consulting firms, again, shows wide variation in adjustment practices by employer size as well as by industry. A study of 50 large companies showed 70 percent of them gave at least one adjustment during the 10-year period of 1984 to 1993, some of which were sizable.

For example, one company gave adjustments in 1985 ranging from 1.5 to 18 percent depending on the date of retirement and in 1991, the company gave another adjustment of from 2 to 20 percent, again, based on date of retirement.

Another study of employers of all sizes showed 38 percent had given at least one adjustment during the same 10-year period. As a rule, the more current studies contain very limited information on the size of the adjustments.

In addition to the Cost of Living Adjustments that may be made to their pension amounts, private sector retirees receive annual adjustments to their Social Security benefits to offset the effects of inflation. It is important to note that Federal employees in CSRS are not in Social Security.

Also, annual Social Security COLA's have been given without exception for many years, while CSRS COLA's have often been reduced, delayed or skipped for budgetary reasons in the past 10 years.

FERS retirees receive full inflation protection for their Social Security benefits, but their pension plan adjustments are limited. Pension plan COLA's for non-disabled FERS retirees are not paid until the retirees reach age 62. When paid, the COLA's are equal to the increase in the CPI if the price increase is 2 percent or less. The adjustment is 2 percent if the price increase is between 2 and 3 percent. If the price increase is 3 percent or greater, the adjustment is equal to the price increase less 1 percent. Thus, the current pension plan for Federal employees has less inflation protection than the CSRS plan.

Retirement system financing is also an issue. With your permission, I will not read that part of our statement since CRS and we came out basically the same place here. There is not a problem with the unfunded liability.

Senator STEVENS. So you will go on to page 20, you are going to continue there?

Mr. FINCH. Yes, sir.

You asked for our views on whether Congress should consider a new Federal pension system as a refinement of CSRS and FERS. You also asked if we had any thoughts on whether there should be another open season for employees in CSRS to join FERS; and, if so, how employees could be encouraged to switch to FERS and how much money Congress might have to appropriate to cover any added costs.

The budgetary implications related to Federal employee retirement, as with any other Government program, would certainly be a consideration in deciding whether a new pension system is needed. While recognizing this, our assessments of retirement matters have traditionally used the criteria of what practices make good retirement policy, including reasonableness and competitiveness with non-Federal plans. Also, since CSRS has been closed to new entrants for several years, our comments are primarily focused on FERS.

We have seen nothing thus far in our work that would suggest that FERS is a poorly designed program or that it will not meet the Government's and employees needs. The three-part FERS is designed like many private sector plans. It is a much more portable system than CSRS because it includes Social Security coverage that applies to all other employment in the country and the Thrift Savings Plan that a separating employee can convert to another plan outside the Government or keep with the Government when he or she leaves before retirement eligibility.

Moreover, FERS includes incentives to encourage employees to make the Federal service their careers and to continue those careers beyond the minimum retirement age. It seems to us that this is a reasonable, balanced design for accomplishing portability and career service objectives.

Thus, the central question on this issue is whether there is a better approach than FERS and, if so, what it would be. Some options to explore might include moving more towards a defined contribution program by making the Thrift Savings Plan a greater part of the package or even eliminating the pension plan portion in favor of an enhanced Thrift Savings Plan and Social Security.

In this manner, Government costs could be more easily identified and controlled. COLA's, for example, would not be an issue. However, our work shows that having both defined benefit and defined contribution plans is a common approach in non-Federal programs. Moreover, defined benefit plans, including CSRS and FERS, generally include protections for employees who die or become disabled early in their careers. Such employees would have had insufficient time to earn benefit amounts of any significance from a Thrift Savings Plan.

From our perspective, considerable additional study is needed to develop possible courses of action on this issue.

You asked about another open season to allow employees in CSRS to switch to FERS. According to OPM, the total current cost of the three FERS components is very similar to the cost of CSRS when measured on a dynamic normal cost basis. Thus, there would be no apparent savings to the Government from allowing employees to switch plans. The employees in question have already had an opportunity to elect FERS coverage and did not do so.

We have seen no information to indicate that sizeable numbers of employees in CSRS would elect FERS coverage if given another opportunity.

This concludes my statement, Mr. Chairman.

Senator STEVENS. Thank you, very much.

Ms. Merck, would you join us again?

You said OPM has made the assertion that the cost of the three FERS components are similar to the costs of CSRS. The cost to the Government for Social Security would be the same everywhere, so I cannot believe that that is a proper comparison.

The cost of FERS to the system, I think, has to take into account that CSRS, while it did not provide Social Security, did have about 85 percent—if I remember right—of those who were eligible for CSRS, qualify for at least minimum Social Security. That is why we faced the question of applying Social Security to everybody. I cannot believe OPM is correct that the cost of FERS is the same, roughly, as the cost of CSRS, because they should add in the 85 percent of CSRS'ers getting Social Security benefits. And if you do that then obviously there is a difference in these two plans as far as cost is concerned.

I may be in favor of another open season for CSRS employees and I would ask if you considered this Social Security aspect?

Ms. MERCK. No, but I would be happy to comment on it. I did not put it in my formal statement. The proportion of CSRS retirees who end up qualifying for Social Security in addition are those who have gotten Social Security coverage from other non-Federal employment, another job.

Senator STEVENS. Yes.

Ms. MERCK. These are people with split careers. And if you look at the data—and there is really only one good source of data; it was done quite a while ago by the Social Security Administration—if you look at the total combined retirement income of retirees, who have both Social Security from a non-Federal job and then who entered a Federal job and retired with a benefit under CSRS, the combined retirement income to that individual from the two sources is generally lower than a benefit given to one CSRS retiree who has no Social Security coverage. Because the fact that you split your career does mean that—

Senator STEVENS. I realize that. But I am looking at the cost to the Federal Government now of having some CSRS people going to FERS. I still think that moving CSRS people into FERS results in a lowered cost to the Federal Government when you consider the fact that most of them are going to get Social Security anyway.

Ms. MERCK. Well, they will get their Social Security coverage from their non-Federal job. But you have to think about this in terms of who would make such a choice. The only folks who would make such a choice would be those who have something to gain, that is, who would get more under FERS than they would get under CSRS, which is clearly not to the advantage of the Government. It would be to the advantage of the individual.

At this point in an individual's career, having foregone since 1987—when there was an open season, until 1997 or 1996 or whenever such a second open season might occur—having foregone the accrual of Social Security coverage for those 10-or-so years which



cannot be retro-fitted into a person's history, and having foregone the accrual of Thrift Savings Plan benefits for these 10 years, an individual would have lost significant advantage of the FERS system, which is that Social Security coverage and that Thrift Savings Plan coverage.

So that for their remaining years of service in the Federal Government they would not be able to accrue the kind of benefit under FERS that would make it attractive to them. So, for that reason, it is hard for me to imagine—

Senator STEVENS. There are some other benefits though. There is no limit on FERS. There is an 80 percent limit on the CSRS. And there is no matching under CSRS for the Thrift Savings Plan. There is matching under FERS. So I have to disagree with you in terms of the analysis for each individual. I am surprised more people did not come into FERS, let me put it that way.

Ms. MERCK. Well, we were surprised too, and we think many people should have switched who did not back then.

But the question is, is it at this time, 10 years down the road, still be to their advantage?

Senator STEVENS. Well, if you were at 30 years and you reached a maximum of 80 percent, why would you stay in CSRS if you wanted to stay in the Government? I agree with Mr. Finch. I think we have to find some way to give people encouragement to stay in the Federal Government and, particularly in this transitional period that we are looking into, in this 10-year period, between now and 2005. We are going to be hard-pressed to find employees with great capability to replace those that we have now in this aging population.

So we have to give them incentive. I like this idea of somehow or another finding another option to increase the Thrift Savings Plan if you stay beyond retirement age. And I would add to it, if you have superior or better rating, in terms of your performance. I would tie it to performance. Why not keep the best, not the worst of them?

But, in any event, I do think there ought to be some incentives to come over to FERS and get that matching fund in the Thrift Savings Plan in the years beyond what you would get, maximum, for CSRS.

Ms. MERCK. Well, under CSRS, a regular civil service worker does not hit the 80 percent maximum until completion of 42 years of service. This is just a handful of people.

Senator STEVENS. I do think, unfortunately, there is a little bit of bias towards the analysis of plans. But our advantage is going away soon so we will start thinking about that, too.

Ms. MERCK. Yes. In the Congressional plans—

Senator STEVENS. Ms. Merck, pardon me for interrupting, but you gave us the former Members of Congress receiving the largest annuities. It is said they are the ones receiving the largest annuities. Can you put in the record the number of Members of Congress who are receiving annuities? You say they averaged \$3,760 a month under CSRS, and \$4,094 a month under FERS.

That must mean those retired under FERS, obviously, had a considerable amount of time under CSRS.

Ms. MERCK. Yes.

Senator STEVENS. Break that down for us, will you? I believe the retirement for Congress employees under FERS has to be much lower under the pension plan than CSRS.

Ms. MERCK. The pension component under FERS is definitely lower. For example, for someone retiring with 30 year's of service under FERS, their benefit is 30 percent of their high-3 pay, or whatever salary base. Under CSRS, at 30 year's of service, it is 56 percent. Clearly, the FERS defined benefit pension piece is significantly lower, but you cannot overlook the value of the Social Security component of FERS.

Senator STEVENS. But that would go wherever you are now. That is uniform, across-the-board, everywhere. And they are contributing the same amount as anyone else to Social Security. We have no differential there.

Ms. MERCK. That is right.

Senator STEVENS. The great differential we have is in the pension side. We do not get any more matching funds than non-Congressional employees. So the attack that is on our retirement system right now, as far as the Congress is concerned, is associated with the pension plan.

I do not know if a lot of people know, but we have, as Mr. Finch said, a three-tiered plan. Social Security is down at the base; FERS, in the middle which has very modest employee contribution; and, the Thrift Savings Plan on top in which the employee is matched on a percentage basis for savings that are invested in the private sector, not involved in the U.S. Treasury at all.

So, as a matter of fact, I think the FERS plan, as far as the pension portion is concerned, is very inexpensive. And it is there merely, as Mr. Finch points out, to be competitive with almost 97 percent of the medium-to-larger-sized employers in the country.

But I am going to have a hard time educating some people here these next couple of weeks on some of these things. I hope that you all can help us get some statistics that will demonstrate this Congress portion of the substantial retirement income of some Members, like the former Speakers. They all had enhanced salaries in the first place, which has never been explained. They got an additional amount because of being Constitutional officers, and all of them had enhanced years. They are all well beyond 30-plus years. So if you take them out of the pie of retired Congress employees, I do not think you are going to find a substantial difference, really, in terms of the amount of money being paid to Congress retirees.

I bet if you ran the staff figures on Congress retirement it would be hardly any different from the Federal system, the overall Federal system. Would you do that for me? You are only dealing with about, as I recall, 3,000 to 4,000 people, right?

Mr. SHELTON. In fact, we are working on some of those kinds of analyses now.

Senator STEVENS. I asked you last time to do some of that.

Mr. SHELTON. Right.

Senator STEVENS. If you would excuse me, I have to vote. But the reason the whole Federal employee retirement system is under attack is because of the Congress part of that plan. And people do not understand that we almost abandoned that in FERS.

There is only one difference in terms of FERS, as far as Congress employees, and that is the difference in what you contribute to the benefit plan. But since you contribute more and you get a little bit more, I think it would almost balance out.

I will be right back. Thank you, very much.

[Recess.]

Senator STEVENS. Thank you, very much for waiting.

Mr. FINCH. Senator, we were working on some numbers here that we would be glad to share with you if you would like. They get at a couple of the questions that you raised in terms of the number of Members that are on retirement and what the average monthly rate is.

Senator STEVENS. Yes, sir.

Mr. FINCH. That is one thing. The second thing is we have OPM's numbers that they used to make that comparison that you were arguing with there about the comparison of the CSRS and FERS as being about the same in terms of the total costs. And we can share with you those numbers. Now, we have not gotten behind the numbers, but we can at least give you the numbers and how they—

Senator STEVENS. I would just as soon have something for the record on that one.

Mr. FINCH. OK.

Senator STEVENS. The other would be of interest to us.

Mr. SHELTON. At the end of fiscal year 1994, last September, according to OPM records, there were 362 retired Members of Congress on the Civil Service Retirement System rolls. And their average benefits were \$3,760 a month.

That was composed of two different numbers. Of that 362 people, 336 had retired as Members of Congress at a \$3,835 average monthly pension.

Another 26 of the 362 had served as Members of Congress but did not retire as Members of Congress. They had retired from some Executive branch job. Their benefits averaged \$2,786 a month.

Under FERS, as of the end of fiscal year 1994, there were 19 retired Members of Congress, 18 of whom retired as Members with an average monthly pension of \$4,287 and one who retired after Member service but not as a Member of Congress. That person's annuity—a very short-term person—was \$624 a month.

So, essentially you have 354 direct retirements from Congress, 336 under CSRS; 18 under FERS, the FERS pension plan.

Senator STEVENS. My point about FERS is that, whoever they were, 90 percent of their retirement plan came out of Civil Service Retirement System.

Mr. SHELTON. Or at least a big percentage of it. One big difference was that the Members who retired under CSRS only had 20 years of service, both military and civilian. Those 18 who retired from FERS had 25 years of service. That explains the higher annuity. They had 5 more years of Federal service.

Senator STEVENS. I would like to get to that. I would like to find some way to separate out from the overall problem of the proposal that has been made about the Federal Retirement System, the Congress Members side of it, as opposed to Congress staff, and try to save the system, as a whole, from what I would call unwarranted attack because of some articles that have emphasized the

money received by the Congress Members when, I think, most of the articles really are focused on the money that was received by the former leaders of the House.

Mr. SHELTON. Who have higher salaries and more years of service, typically.

Senator STEVENS. Yes. And a couple of others who were 35-or-38-year Members who had absolute maximums.

Mr. SHELTON. Mr. Michel, for example, had 38 years of service when he retired from the House this past year.

Senator STEVENS. Yes.

I think it is a given, as far as I am concerned, that the FERS system will be changed so that there is no difference between the Congress portion and the general Federal employees portion of it. Because, as I said, I think that difference is the cause of some of the recent attacks.

But we will not dwell on that. I want to get to the question of the high-3 to high-5. Ms. Merck, as I understand it, it started out as a high-5 but was changed to high-3 in 1969. The basic systems that are out there in the private sector are all over the place, but most of them are high-5, are they not?

Ms. MERCK. A lot of them are high-5. A lot of them are high-3, and then a lot are something else entirely.

Mr. FINCH. I think an interesting point is that when you look at the bigger firms, the ones that employ more people, many of them have the high-3, than the high-5.

Senator STEVENS. I think they followed us, though, rather than us following them. I think the initiative in 1969 was a Government initiative.

Let me ask you this. I told a group of union managers that, in my judgment, as we come into this 7-year period of very tight budgets, it will make very little difference really to the people who are retiring out in the future, whether it is high-3 or high-5. If we assume that people are working to 30 years, this is not going to be a period of great increases in salaries, because of the economic situation. It is not going to be a time of great increases in COLA's. We are not going into 13 percent COLA's as we did in the 1970's.

So I do not think it makes any difference whether it's a high-3, or high-5 right now.

Ms. MERCK. Well, the effect is variable depending on the worker's career path in the final years before retirement certainly. For example, if a worker is at the top 10th step of his pay grade, a GS-12, step-10, for example, and has stayed at that grade and step and gets no more step increases and has not gotten a step increase for many years, all he gets or she gets is the general schedule pay increase. CBO estimates that for every additional year added to the high-3 the average annuity is reduced by 2 percent. So a high-4 would reduce your annuity by 2 percent; a high-5 by 4 percent; a high-6 by 6 percent.

Senator STEVENS. That is based on the past, though. I do not think they are looking ahead at a period of frozen salaries.

Ms. MERCK. This is just kind of typical. The person who would be the least affected is this person who has gotten very little in the way of pay increases. The person who would be affected the most

would be the person who has actually gotten a promotion within the 3 years before retirement.

Senator STEVENS. As I said, I think it is counterproductive, I do not think it is going to make a lot of difference. We ought to be devising formulas to keep those people who have reached that top step and stayed on so that they will stay a little longer into this period of the changing demographics of the workforce.

I like that suggestion of the increase in the match but you have to have them in FERS to do that.

Mr. FINCH. There is another dimension I think, Senator, and that is the downsizing that is occurring. And as you downsize you really need to do some good workforce planning in terms of making sure you keep the knowledges, skills and abilities that are necessary to continue effectively delivering mission service.

And, in a lot of instances in the Federal service, it is the senior staff, the more senior people that have that needed capacity, which argues further for getting them to stay around a little bit longer.

Mr. SHELTON. Some of the details in one of our reports that we did not mention I think you might find very interesting. We asked these people who were within 5 years of retirement eligibility what their plans were. And most of them said, essentially, I am leaving as soon as I can. I think there was only about 2 percent who planned to stay longer than 10 years after they were eligible.

But, yet, these same people, large percentages of them said, I will stay longer with some incentive to do so.

Senator STEVENS. Which is more important in your judgment, maintaining the high-3, or moving to the concept that even the CSRS people after they reach retirement age would be entitled to have matching in the Thrift Savings Plan, and would get a kicker for every 2 or 3 years they stayed? I would like to keep them on.

I would like to see an analysis of what those differences make in employee retention. CSRS people do not get a Thrift Savings Plan match?

Mr. SHELTON. No they don't.

Senator STEVENS. Suppose that we changed it and said that they get a Thrift Savings Plan match if they stay beyond their retirement eligibility?

Mr. SHELTON. That is the way we posed the question to the CSRS people in our questionnaire, yes.

Ms. MERCK. I would suggest one problem with this that you would have to be careful of, is the worker who comes into Federal service very late in his career, for example, enters a job at age 57 and does qualify for retirement then with only 5 year's of service at 62.

Senator STEVENS. I am not talking about 62. There is a reduced level at 62, is there not?

Ms. MERCK. Well, that is when you are eligible to retire with 5 year's of service.

Senator STEVENS. All right.

Ms. MERCK. But if you are talking about anyone who is eligible for retirement now getting a Government match to his Thrift Savings Plan, you would have to write this in such a way that you would not offer it to that individual who is not a career worker.

Senator STEVENS. No, you would have to weight it in terms of total service of 15 years or more, something like that. But I think we could devise a plan. Why do you not put your brains together and help us on that, because I do not think that Congress has awakened to the fact that we face a challenge to get employees right around the turn of the century. Maybe with term limits, some of them do not care, but I intend to be around.

Ms. MERCK. I think you are exactly right. For a number of reasons, for the last 15 years or so, hiring freezes, etc., in the non-Department of Defense part of the Government, there certainly are little vacuum pockets in the workforce. But it is going to be a bit lumpy, over the next few years, in terms of smoothing the workforce demographics.

Senator STEVENS. Have you looked at high-5 from the point of view of its impact on the law enforcement and others who get an increased computation rate, such as Congress? I think they are the same as ours, as a matter of fact. There are a series of them out there that are the same as ours.

Mr. SHELTON. Same in FERS, right.

Senator STEVENS. I just wonder what will happen if we go to a 5-year level with regard to those who are in those other categories—air traffic controllers, firefighters, law enforcement people—our Congress employees have been paid comparable to those people. As a matter of fact, I am inclined to think that Congress employees are under similar stress and more steady fire. I will admit the air traffic controllers and firefighters have intensive stress over a very short period of time and their systems recognize that.

Now, what is going to be the impact on them of a change from high-3 to high-5?

Ms. MERCK. Those jobs have with them not only earlier retirement, that is they can retire with unreduced benefits at age 57—by and large, with 55 for firefighters, but 57 for law enforcement—with 20 year's of service. But there is mandatory retirement when they hit that age, so it is a double-edged sword. First, in order to get the higher accrual rate, that is the higher benefit amount, they must do a complete 20 years in this particular public safety occupation.

So they have to stay the 20 years to get the higher benefit. But once they have been there 20 years, when they do reach the mandatory retirement age of 55 or 57, then they must leave.

Senator STEVENS. What is their salary curve, though? As firefighters, as law enforcement people, they must hit the high-pay plane earlier and stay there for a shorter period of time.

Ms. MERCK. I am not familiar with the pay structure of the public safety personnel.

Senator STEVENS. Do you know, Mr. Shelton, how is it going to impact them?

Mr. SHELTON. Well, I am not sure it would make much difference, as far as the high-5 goes, between those people or anybody else. I think that anyone who is eligible to retire before the high-5 would take effect, probably would be inclined to leave.

Senator STEVENS. I think the average length of service here, in the Senate, is somewhere around 13 years now. Yet, their years of retirement are a lot more.

We have many people who come and go and do not even join the retirement system, as I am sure you know.

Mr. SHELTON. Right, it is optional.

Senator STEVENS. I think the Congressional employees have a comparable situation to those with mandatory 20. There are not many who come in with Members and stay here beyond 20 years.

Mr. SHELTON. Right. Roughly 50 to 60 percent of all staff retirements here are under the early involuntary retirement provisions, such as where their Members lost an election and they lost their jobs.

Senator STEVENS. I have never seen those statistics. What are they? Have you given us those statistics?

Mr. SHELTON. No. Those are some things we developed since we were here last Monday.

Senator STEVENS. Please get it for the record. I know there are a lot of them. When a job is eliminated because of the retirement or death of a Member, that is the end of the job. I think there are a lot of Congressional employees that do retire, right?

Mr. SHELTON. The largest percentage of Congressional staff retirements is under those circumstances.

Senator STEVENS. Before they are 55?

Mr. SHELTON. They would have to be at least 50 with 20 year's of service so it would be somewhere between there and age 55, yes.

Senator STEVENS. It would be helpful if you could get some statistics. I am trying to understand how many people we ought to try to protect from the high-5 concept. If we go to high-5 there would still be some who are totally oppressed by that change, such as the law enforcement, firefighters, air traffic controllers, or people whose jobs are abolished. Why not use a high-3 for them? Could you give us any statistics as to what difference that would make?

Mr. SHELTON. We could calculate what the effect would be on their pensions, yes, if they go into a high-5, as opposed to leaving it at a high-3.

Senator STEVENS. If you could, I would appreciate that.

I do hope you can get us something about those speakers and how many. Have you ever done a study solely on retired Congressional Members? What is the average annuity for Members alone?

Mr. SHELTON. Yes. We have the OPM statistics. For Members alone, from CSRS in 1994, the average annuity was about \$3,800 a month as compared to \$1,500 a month for the general workforce.

Senator STEVENS. But what about as compared to our employees?

Mr. SHELTON. The Congressional staff who were retired as of the end of fiscal year 1994 were receiving an average of \$2,125 a month under CSRS. It was about \$1,000 a month under FERS. Somewhat more than the average employees.

Senator STEVENS. You mentioned that there are some options, Mr. Finch, for changing to FERS. Have you quantified the options in terms of what would have the greatest impact to those who want to save money?

Mr. FINCH. No, sir, we have not. Those were just sort of brainstorming things in terms of options that you might want to look at.

And, of course, one of the first things you would want to do under that is to try and price them out and see what might happen.

Senator STEVENS. The difficulty I have is that people are looking for short-term savings, I think, 5 to 7 years and yet, the proposed changes to FERS would be long-term savings. I do not think they understand that either.

The Simpson-Kerrey plan will limit COLA's, and they want to have CPI minus 0.5 percent. Well, with FERS it is already CPI minus 1 percent. I do not think some people understand what is going on out there in the world, frankly. They also want to equalize contribution accrual rates for all Federal employees and they want all contributions to be the same as the judicial branch employees. Do you know what that would do? I do not remember the judicial branch employee contribution rate. It must be higher.

Mr. SHELTON. Well, judicial branch employees in the Administrative Office of the Courts are in FERS and CSRS. They pay the same as other employees. The judges, themselves, do not pay anything other than I think they do contribute toward survivor benefits.

Senator STEVENS. They also want to reduce the rates on accruals for all participants in FERS and CSRS by 0.1 percent. I do not really understand that.

Ms. MERCK. Maybe I can explain that. That was in the options papers of the Bipartisan Commission on Entitlement and Tax Reform. As you know, that Commission did not end up with any recommendations, but in their final book of options that they included under each program, for Civil Service, they did recommend, for example, under FERS, to drop the accrual rate for those retiring under age 62 from 1 percent a year, to 0.9 percent a year. And for those retiring at 62 or over, under the regular general employee plan, from 1.1 to 1.

And then under CSRS, since everyone under CSRS now has at least 10 or 11 years, and they are at the 2 percent accrual rate, that 2 percent would drop to 1.9. And that saves money.

Senator STEVENS. I am sure it does. It will increase the number of years it would take to get to maximum, considerably, right? I have not figured that out, but I am sure.

Mr. SHELTON. Another effect it would have, Mr. Chairman, is that our work is showing that at age 62 and older the CSRS benefits are already less than you can get in the private sector. And reducing the formula would just make that differential greater, and put Federal employees further behind.

Senator STEVENS. I wish you could give me a graph on that. I said that the other day and someone laughed and said it is not true. But I think the problem is they are comparing the general sector, which includes small business, as well as the businesses I think we compete with which are the medium- to large-sized businesses.

Mr. SHELTON. We found that to be a problem. We also find that they, the critics, tend to compare the civil service system with only private pension plans and ignore the Social Security aspect of private employees retirement, as well as the Thrift Savings Plans and other capital accumulation plans they have out there as a part of



the three-part package. They compare CSRS to just one part of the three-part packages that are typically out there.

If you look at page 14 of our statement, I think you have the charts you are looking for.

Senator STEVENS. Yes.

Mr. FINCH. It shows that comparison. It shows that at age 62 the private sector is more generous.

Senator STEVENS. I did see that, as a matter of fact. I was surprised that they were all alike, by the way. All three, I marked that chart. The CSRS retiree at 55 and 30, is above the private sector average.

Mr. FINCH. Right.

Mr. SHELTON. Below 62.

Senator STEVENS. And 62 and 30 is below the private sector.

Mr. SHELTON. Right.

Senator STEVENS. And 65 and 30 is still even further below the private sector.

Mr. FINCH. Right. And the point that we made in connection with that was that most civil service employees do not retire at 55 and 30. They retire more nearly at 62 and at 62 the private sector benefits are better.

Senator STEVENS. What percentage of our people retire at 55 compared to those who retire afterwards, do you know?

Ms. MERCK. I know that 13 percent retire at exactly 55 with 30 year's of service. That is a comparatively small proportion.

Senator STEVENS. Yes, that is, but I am told they are mostly women. Is that right? Did you ever look at the gender?

Ms. MERCK. That I do not know, no.

Mr. FINCH. I think the figure sticks in my mind that of the ones that retired in 1994, 35 percent of the total were between 55 and 59.

Senator STEVENS. I know this is not the subject of the hearing, but unfortunately all the things that we are suggesting that would keep people on longer, have an immediate monetary impact in the next 5 years. Have you ever looked at the system to see what incentives there are that are nonmonetary that might be utilized to retain Federal employees? Are there any?

Ms. MERCK. Well, of course, now this is somewhat monetary, obviously, but the value of the health insurance package. Even though during the debates on health care reform the Federal system was often discussed as being a good system, sometimes it was referred to as a Cadillac system, yet some analyses comparing it with private sector practice, of substantial firms, show that the employees bear more of the cost of their health insurance under the Federal system than they would under a typical private plan.

Senator STEVENS. That might be one way.

Mr. SHELTON. There were a couple of other, I guess you might say, nonmonetary incentives that our survey revealed would help keep people longer. For example, a large percentage of these people who were nearing retirement eligibility said if you would let me cut back on my hours, work part-time, I would stay longer. Others said, how about something like trial retirement where I would retire for a few months, and if I did not like it, I could come back.

There were a number of things that sounded interesting to them that they would like to consider, if they were available under the law, that would cause them to stay longer other than just increasing their benefits. A lot of them said if I were just treated better. If management acted like they wanted me to stay, I would stay.

Senator STEVENS. There is a lot to that, all right. I wonder sometimes about leave policy and accumulation of leave and other things we might have that would have a long-term cost but not immediate cost.

Let me go to another section. You, Ms. Merck, made a comment on page 6 of your draft, under intra-governmental transfers. Agency payments were to match the amount of contributions paid by the employees, however, for many years these agency payments were not made systematically. But it did not matter because there were so few retirees that the cash from employees was enough to pay fully the benefits of retirees without additional budget authority.

I was led to believe that right up until 1969 there was a considerable deficit in the employer contribution to the accounts, just from an accounting basis because there was a feeling that if it showed up and would have caused a deficit to be greater in years that they did not want a deficit to show up.

Do you know how many years there was a difference in the Executive, as an employer making contributions to the plan?

Ms. MERCK. No, I do not.

Senator STEVENS. Can that be traced?

Ms. MERCK. I can try to go back and look at that.

Senator STEVENS. Because the unfunded liability argument stemmed from a feeling—I have heard this from some senior members in the union—that during the period of, for instance the Vietnam War, that there was a decision not to make contributions to the retirement plan because it really did not matter anyway. And it was just symbolism and increased the deficit with the non-war related monies.

Ms. MERCK. I do not believe that is the case. The law formalizing the agencies' contributions was in 1956. And that required the agencies to systematically match the employee's share. By law, it had to be done and it was done.

And then, in 1969, mid-Vietnam War, three additional payments were required by Public Law 91-93, including interest on the static, unfunded liability. So you take all the years from 1920 up to 1969 and you add up, on a static basis, the unfunded liability and you make a payment—you, the Government—make a payment of 5 percent of the interest on that.

The factor that has contributed and continues to contribute, to some extent, to the unfunded liability is that every time you give a pay raise in the Federal Government, from 1920 until today, every time you have a general schedule pay raise, you immediately create an unfunded liability because you raise the benefits that are promised in the future based on pay, and as pay goes up, future benefits go up.

That is why in Public Law 91-93, in 1969, Congress said, well, we are not going to estimate the cost of this program on a dynamic basis for the future. Over here, on a separate accounting basis, every time we give a pay raise we are going to estimate what the

eventual benefit cost effect of that is, and we will make a payment. We will set up a series of 30-year amortization payments to pay it off. So year-by-year, this is done. It is done in the U.S. Postal Service this way, too, for their workers.

Senator STEVENS. That is still just a paper transaction, right?

Ms. MERCK. That is an intra-governmental transfer.

Senator STEVENS. And what it is really is an authorization to pay money later if you got it, right?

Ms. MERCK. It creates securities in the trust fund and the trust fund creates budget authority.

Senator STEVENS. Those securities are not securities, as you have explained, as we normally know them. They are a bookkeeping entry—

Ms. MERCK. Right.

Senator STEVENS [continuing]. In a trust fund that really is double-entry bookkeeping all right, but it is still funny money until you get it, right?

Ms. MERCK. Well, it is the same kind of securities that are in the Social Security trust fund and the Military Retirement trust fund.

Senator STEVENS. But the Thrift Savings Plan is different.

Ms. MERCK. Yes.

Senator STEVENS. The Thrift Savings Plan, when you say the Government is going to match it, they put the money out there. It is in a separate fund.

Ms. MERCK. Yes.

Senator STEVENS. It is invested by individuals.

Mr. SHELTON. It is real money.

Senator STEVENS. It is real money and if the market goes up, it goes up; if the market goes down, it goes down. Everybody takes the same risk as the general economy, right?

Ms. MERCK. Yes.

Mr. FINCH. Yes. The Thrift Fund is vested in marketable securities. The Retirement Fund is invested in nonmarketable securities.

Senator STEVENS. I understand that. But the trouble is that I do not know why we are going through this charade of a 30-year catch-up with the CSRS and FERS when at the end of the game there is still not going to be money in the account unless there is money in the general economy at the time.

Ms. MERCK. If the program were fully funded, if the trust fund held enough of these securities to pay every dime owed for 75 years, in a rolling 75-year period, still the bottom line is when you write a check to a retiree you have to get the money out of general revenues. You liquidate a security, you roll it over, but the cash, funded or unfunded, all comes from general revenues or borrowing.

Senator STEVENS. Which brings me to that \$62 billion question. The money that is in the House bill that requires an increased contribution by CSRS and FERS employees is really a means of raising money to meet the deficit, right?

Ms. MERCK. It is cash that is counted as available to pay for spending by the Government or offset a tax cut. For example, if you are the Treasury, and if I were to give you a dollar you have a dollar in cash. And you can put it in your checking account and write checks on it. But the way the retirement system works is that you, as the Treasury, would then tell the Treasury to write a security

for one dollar or any number of dollars that you took in, and they would be entered in the trust fund.

So the cash goes to the Treasury, securities of equal value are recorded in the trust fund, but the cash in the Treasury is then counted as cash along with all other receipts of the Government from income taxes or whatever source of cash the Government has.

And the way the budget rules work, any cash received can be used to reduce the deficit, pay for spending, reduce borrowing, or under the budget rules, offset the effects of a tax cut.

Senator STEVENS. That is what surprises me. Why is not one of the options, Mr. Finch, to monetize the retirement plans as we did with the Thrift Savings Plan and require actual contributions in a fund? The Government could borrow it, but it would have to pay it back to the fund. Why is not the answer to go to funded retirement systems for all Federal employees?

Mr. FINCH. Well—go ahead Mr. Shelton.

Mr. SHELTON. As you observed in a deficit situation we would have to borrow the money in order to do that.

Senator STEVENS. We would have to borrow money back from the fund, some of it. But we did that with thrift. We stepped thrift out so it all had to go in Government funds. And then we let it go out to where there is no mandatory amount now that has to be in it.

Mr. SHELTON. No.

Senator STEVENS. Although most of the employees are still taking a portion of it in Government securities. But a portion of it, the Thrift Fund is, in fact, invested in Government securities at the option of the employees, right?

Mr. SHELTON. Right, the G-fund, right.

Senator STEVENS. So if we took Social Security and Federal retirement and said, 1, or 2, or 3 percent a year had to be invested in marketable securities would not the country and everybody else be better off?

Mr. SHELTON. Well, perhaps, and that proposal has been considered before, kind of do it gradually. And the whole thing would be a lot of money.

Senator STEVENS. Does anyone feel up to thinking about it?

Ms. MERCK. It is a very complex issue. We have some work that has been done on that and I would be glad to provide it to you.

Senator STEVENS. I saw something in one of the pension books I was reading the other day. You know, that coming crisis thing, that applies to the private sector, does it not?

Mr. SHELTON. Right.

Ms. MERCK. One of the issues is, of course, this rapidly becomes a lot of money and the Government then owns a lot of the private sector. Another is, of course, that it is an outlay. It causes however much money this is, it has to be an outlay. Right now we are spending about \$1.5 billion a year for the 1 percent automatic Government share into the Thrift Savings Plan, plus the matching for FERS employees.

Senator STEVENS. As far as the budget is concerned though, that is a wash, because our budget system assumes we are making the payment into the fund, does it not?

The budget shows we are making the payment into the fund.

Ms. MERCK. The budget shows an outlay of a \$1.5 billion a year. Now, that is—

Senator STEVENS. But it shows the individual agencies are paying to the fund, transferring part of their budget authority into the fund, right? But there is no outlay.

Ms. MERCK. No, there is an outlay. This is for the Thrift Savings Plan, I am talking about.

Senator STEVENS. I was still talking about the pension plan.

Ms. MERCK. Oh.

Senator STEVENS. All right, I will come back to that.

Ms. MERCK. What I am saying is if you were to treat the regular retirement system like the Thrift Savings Plan it would require the same kind of outlay.

Senator STEVENS. I understand that, but what I am saying is that if we did it, we would gradually get to the point where we would not have a question of unfunded liability, right?

Ms. MERCK. Right and then you would be in what is generally called a defined contribution plan which is what a Thrift Savings Plan is. And in a defined contribution plan, the employee bears the risk for the vicissitudes of the market. But if you still had a defined benefit formula, and if the Government were still bound by law to pay benefits according to a formula, not according to the account balance, when workers came to retire, if the market were in a down-slide, the Government would be at risk for making up the difference.

Senator STEVENS. But only on the pension part.

Ms. MERCK. Yes. But that could be a lot.

Senator STEVENS. The Thrift Savings Plan has already reduced the Federal retirement burden. Not many people see that yet, but in the future its value will be there. The pension plan, and the Social Security plan are backed by Government securities. It is the same kind of fund, right? The pension plan is another accounting mechanism.

But the Thrift Savings Plan is out there in the real world.

Ms. MERCK. Right.

Senator STEVENS. Now, if we took even a part of the pension plan and put it in the real world, it would reduce this argument about unfunded liability. As a matter of fact, if we put it all out there in the real world and said part of it had to be loaned to the Government as we, in effect, did with the Thrift Savings Plan for the first years, then I think we have removed unfunded liabilities as an issue.

I am worried about how to maintain the pension plan into the future. I would like to ask you to give us the elements of a system that could improve on FERS, if you have any. You suggested a couple, Mr. Finch, that were monetary. I would like to know if there are any that are nonmonetary in your judgment that have been tried in the private sector and worked?

And what would be the effect if we just said, we will increase the matching fund and do away with FERS? And how much would we have to match to have it be competitive with the private sector defined benefit plan?

Is that a fair question, Ms. Merck?

Ms. MERCK. In terms of replacing the defined benefit component of FERS altogether, would the higher—

Senator STEVENS. In terms of the average to be received by the employee. Of course, you do not have a crystal ball, you cannot tell me how the market is going to be, I know that. But just assuming that we have a market—I do not see how a market could get down to what is lower than what we have been—assuming that we got 5 percent, off our retirement plan.

I mean the U.S. market would have to fall 50 percent before the average was 5 percent.

Ms. MERCK. Yes.

Senator STEVENS. So I really think the Federal employees have been taken to the cleaners over the last 40 years rather than been pampered, because if their money was out there in the private sector during this period, my goodness, your retirement checks would be phenomenal.

Ms. MERCK. Well, you have to take into account though the benefit of basically a risk-free investment. The rate of return is usually related to the rate of risk.

Senator STEVENS. I agree with that, but we do not live in a risk-free society and I think most people would like returns based upon participation in the risks of society. If we are going to change it at all, we ought to make it better. I think we could put less money in and have more money out, even on the worst of assumptions in terms of the stock market. It would take a 1929 market crash to get us back to the level we have been paying since 1969, which is 5 percent.

Even after 1929, the average of the companies that survived was better than 5 percent, if I remember right. I am talking in terms of appreciation, over the period from 1929 to, say, about 1948.

And I agree with you, Ms. Merck, that it is going to take a great change to have the Federal Government go out of business as an employer, so we do have one advantage over the private sector retirement plans.

My staff tells me that there is a phrase called the Golden Handcuffs of CSRS and mid-career Federal employees, which creates a disincentive to leave.

Pension portability is the only answer to golden handcuffs, is that right?

Ms. MERCK. Yes. I think, certainly under the CSRS, when a person gets to the point of perhaps 15 or so years of service and is weighing the options of staying or leaving for a private sector job, the forfeiture of benefits for leaving with that much invested, time invested in the CSRS can be significant unless one goes to a job in the private sector that is going to pay substantially more than the job that you are doing.

This, however, is virtually cured under FERS, because FERS is a very portable system. It was designed to foster portability and not disadvantage workers who change jobs, maybe several times, coming and going from the Federal sector, more than once or twice. So FERS really has unlocked these golden handcuffs and is quite a portable system. Social Security is portable. You can leave your Thrift Savings Plan in, roll it over to an IRA, roll it over to a 401(k), and pick up on it again if you return to Government.

But CSRS definitely is a system that tends to force people to stay once they have a significant investment in time.

Senator STEVENS. I understand. I would like to look at one nonmonetary issue. I do not think it would have an impact on the Federal budget. What I am referring to Mr. Finch, is a process which permitted those who are at retirement age, who are still eligible to contribute to the Thrift Savings Plan, to withdraw funds before retirement. Currently if you want to withdraw funds you have to borrow them against your own account to be repaid at retirement which places a burden on people that might want to start getting a retirement home or something like that.

If a person reaches retirement age and is under FERS why should they not be able to withdraw any amount they want out of the Thrift Savings Plan?

They can still go on contributing and the employer can still go on matching but I think it would be a substantial advantage if people could take some funds out of that account by the time they reached 30 years under FERS.

I am not aware of the numbers, but I, being the author of FERS, selected FERS over CSRS on the first day it was created, and I think my retirement plan is much healthier now than it was if I had stayed under CSRS. I still wish there was some way we could induce people under CSRS to change now. And none of you have said so directly, but would the Government be better or worse off if all Federal employees were in FERS during this last part of their retirement?

I would like some data, if you can compute that. My understanding is that about half of Federal employees are still under CSRS and they are the aging portion of it. Because, by definition, they have been employed for more than 10 years.

So if those employees were induced to come over to FERS, would it be to our advantage in terms of budget concerns; and, if it would be, what inducements might we offer?

I notice that Maryland used some particular inducement to encourage their employees to come into a new plan. What has been used in other venues to induce employees to come into a new plan?

Lastly, I assume you all agree that we are only talking about those who are employed. We have no right to change the benefits of the retired employees except as to COLA's. Do you agree with that? As an earned benefit, once you retire you are really claiming your accrued benefits during the period of your retirement. And we cannot reduce the actual amount that is payable under the plan. We could change the rate of COLA's and only the rate of COLA's, do you agree with that?

Ms. MERCK. The Congress could, as I said, these are entitlements. This is not a contractual relationship. And I believe, technically, under the law, if need be, the Congress could reduce benefits. For example, it could say, we will now pay 99 cents on the dollar to every retiree.

Senator STEVENS. I think we would have to do so under a different constitutional authority than just the basic Congressional authority to hire and fire employees. I think it does become a contract when you retire, do you disagree?

When I retire, I am entitled to the benefits that I earned to that date and one of them was my retirement plan. Now, how can someone take away from me what I have earned?

Mr. SHELTON. The courts have held that we can.

Senator STEVENS. I see.

Mr. SHELTON. There is no contract.

Senator STEVENS. An old law professor of mine used to say in any lawsuit, 50 percent of the lawyers are wrong, so I guess this was wrong. [Laughter.]

Senator STEVENS. I am going to conclude this hearing. I would like to submit to you some questions that are technical in nature about both FERS and CSRS. And I would ask that when we get down to the point of looking at the final suggestions this Subcommittee may make that you come back and visit with us again.

I really think that you did one tremendous job in preparing this information and my only question is, did the Kerrey-Danforth group have your advice? [Laughter.]

Mr. SHELTON. They did not seek it, no.

Mr. FINCH. From the appearance of the article, no.

Ms. MERCK. No.

Senator STEVENS. I would not think so after having read both today.

Mr. SHELTON. They did not.

Senator STEVENS. I do thank you, very much.

Do you have anything to add right now?

Mr. FINCH. Yes. I would like to clarify one thing, Senator. We did send a couple of early drafts down of the statement and if I could just clarify, for the record, if we could just insert the final.

Senator STEVENS. Yes. I went back and thought about what I said to you. I do not think there is anything new in your second statement. You just rearranged it.

Ms. MERCK. Yes. It is—

Senator STEVENS. You did not add anything new, did you?

Ms. MERCK. It is reemphasized.

Senator STEVENS. You did not add anything new, did you?

Ms. MERCK. No.

Senator STEVENS. You took some things out, I noticed. Let us just print your first one as if it was your last one, all right?

Ms. MERCK. Fine.

Senator STEVENS. Is that all right?

Ms. MERCK. Yes.

Senator STEVENS. Thank you.

My staff tells me I should have asked you the question about law enforcement impact of switching to high-5.

Ms. MERCK. Well, I think I gave an answer which is that they are fairly narrowly bound by having to stay 20 years in order to get the special higher accrual rates. So none of them is going to jump ship if they are at 19 or 18 years in order to avoid high-5. Because they would be throwing away a much bigger benefit that they would be getting under the higher accrual rate.

On the other hand, there is really only a small window within which they can retire. Because they do, then, face mandatory retirement when they hit age 57 with 20 years of service.



So I frankly think the issue is less for them than it is for other workers.

Senator STEVENS. But I was looking at it from the other way around and that is recruitment. How do you keep somebody in something like that unless they know there is a special advantage and the special advantage is early retirement and high-3. I think air controllers and others dealing with stress would question staying in the high stress environment for the full term unless there is an incentive?

Ms. MERCK. Well, for them, for example, under the CSRS, of course no one is coming in under that plan now, but under the CSRS after 20 years of service their benefit is 50 percent of their high-3 pay, compared with the general service employee who only gets 36 percent. It is a significantly higher benefit and that would only be reduced under high-5 by 4 percent.

So they are still much farther ahead than the general service employee.

Senator STEVENS. I really question those assumptions, the shifting to 5. If I have a level salary, I have reached the top of my grade and the top of step. And I am not going to get any changes other than COLA's in a 5-year period. What difference does it make if I average 3 or 5?

Ms. MERCK. Well, if your pay goes up by 2 percent a year, by a general schedule pay raise, the CBO's—

Senator STEVENS. You are assuming we are going to get those. Now, that is an assumption—

Ms. MERCK. The CBO assumes this, these are their numbers.

Senator STEVENS. Well, tell CBO they had better go back and look at some of what my colleagues are saying. I do not think that any of us can assume anything right now.

Mr. FINCH. But there could be a—

Senator STEVENS. If you look at a static salary, 3 years is the same as 5. That is the way I look at this.

Ms. MERCK. Yes.

Mr. FINCH. But there could be promotions. An employee could get a promotion which would change.

Senator STEVENS. By definition, that is the difference, but when you are looking at people who have reached their 25th year, how many promotions are they going to get?

Mr. FINCH. Right.

Senator STEVENS. By the way, I have been here almost 26 years, and I do not think my job description has changed at all. It does not make any difference.

Mr. FINCH. A point I wanted to make, Senator, was it is really refreshing to hear you talk about thinking about recruitment, because that truly is one of the things that a retirement program serves. It is a recruitment tool. It does help attract—

Senator STEVENS. Once again, I should not think off of the top of my head, but I should tell you that back when we were young Senators, another Senator and I read some books about demographics in the next century. And we decided in about 2015 that one-third of the population would be retired, one-third of the population would be working, and one-third would be too young to work. And we postulated that the working one-third would not pay any—

thing to help those who had already retired but had not taken care of themselves, keeping in mind that they had the burden of raising the one-third that was too young to work.

And we started thinking then about incentives because the demographics showed that with the baby boom generation retiring, the workforce would decline so dramatically that we would have to have incentives built into the law.

Mr. FINCH. Right.

Senator STEVENS. And we did build a couple of them into the law.

Thank you, very much.

[Whereupon, at 4:31 p.m., the Subcommittee was adjourned.]

# FEDERAL PENSION REVIEW

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MONDAY, JUNE 19, 1995

U.S. SENATE,  
SUBCOMMITTEE ON POST OFFICE AND CIVIL SERVICE,  
OF THE COMMITTEE ON GOVERNMENTAL AFFAIRS,  
*Washington, DC.*

The Subcommittee met, pursuant to notice, at 2:00 p.m., in room SD-342, Dirksen Senate Office Building, Hon. Ted Stevens, Chairman of the Subcommittee, presiding.

Present: Senators Stevens, Pryor, Akaka, and Dorgan.

## OPENING STATEMENT OF SENATOR STEVENS

Senator STEVENS. Let me bring the hearing to order.

This is the third in a series of hearings by this Subcommittee on the subject of Federal retirement plans. On May 15, we heard from several Members of Congress, as well as the General Accounting Office, on the mechanics of the Federal pension plans and some ideas of ways to modify Federal plans. On May 22, we heard from the GAO and the Congressional Research Service when we focused on the mechanics of the two Federal systems, the Civil Service Retirement System and the Federal Employees Retirement System, as well as reviewed research on the comparison of Federal plans with private sector plans.

Today, we are looking forward to testimony from four panels. The first panel is the Director of the FBI and the Deputy Administrator of the Drug Enforcement Administration. Panel two will include representatives of Federal employee groups. Panel three will include representatives of the Postal Service employee groups, and panel four will include representatives of Federal management and retiree groups and Mr. Robert Mansker, a Congressional employee.

Let me welcome you, Mr. Director. We are always pleased to see the head of the FBI here, and Mr. Stephen Greene, Deputy Administrator of Drug Enforcement. Gentlemen, proceed as you wish. We are going to try and get all these panels in this afternoon, so I would urge everyone to put their full statement in the record and make such statements as you wish.

Mr. Freeh?

**TESTIMONY OF LOUIS J. FREEH,<sup>1</sup> DIRECTOR, FEDERAL  
BUREAU OF INVESTIGATION**

Mr. FREEH. Thank you, Mr. Chairman, and with your permission, I will submit my full prepared text for the record and maybe I could just highlight very briefly the points that I wish to bring to your attention.

First of all, let me thank you and the Committee, but particularly you, for the tremendous and continuous support that you have shown for all Federal employees, and particularly, speaking on behalf of all the Federal law enforcement agencies, I just want to compliment you for your attention and awareness of our situation.

I have the privilege, of course, to represent not only the FBI, but all of the Department of Justice investigative agencies who are covered and will be covered by any changes which the Congress makes in the pension and retirement plans.

Since becoming Director, I have visited 43 of our 56 field offices, speaking with agents directly not just about their work, but their concerns, and I must say that in the last year the concerns and the anxiety about the changes in the Federal pension system are clearly the predominant subject of interest which I find particularly among our agents who have been in the Bureau for more than 15 years.

In addition to the anxiety factor, many of the agents have told me that they are considering advancing their retirement status because of not only contemplated changes, but the fear of changes which may impact upon them and the welfare of their families.

I have prepared for the Committee a chart which shows the current status with respect to all of the Federal enforcement agencies, where we stand in terms of the total number of sworn officers and the eligibility to retire, and those numbers show agency by agency, beginning with the FBI, which has a 20-percent eligibility to retire rate, given our current complement, and I know that all of the concerns that I express here are shared by the other agencies.

In the late 1960's and early 1970's, many of the currently serving FBI Special Agents were appointed. Those were the days when the growing challenges of organized crime, violent crime and counterterrorism required the hiring of many agents at one particular point in time.

The typical agent at retirement in the FBI is 53 years of age, with 26 years of law enforcement experience. Last year, we experienced 478 retirements of special agents. Through May of this year, another 274 have retired. We currently have only 9,846 special agents on duty. We should have a full complement of 10,400. The reason for the 700-agent shortfall is two-fold. One, we went for 22 months without hiring a single special agent beginning in May of 1992. Although, since October, we have been appointing new agents, we are still suffering from that deficit.

Thirty percent of our current agent population will become eligible to retire in the next 2 years. Ninety percent of those agents are our veteran street agents, the journeymen and journey women, GS-13's, who serve in the field representing collectively 70,000 years of Federal law enforcement experience.

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<sup>1</sup>The prepared statement of Mr. Freeh appears on page 203.

Another chart that I have prepared for the Committee, but I don't have a blow-up, reflects a recent survey that I asked to be taken in contemplation of these hearings. To go beyond the question as to the eligibility to retire I had, in 27 of my field offices, a survey done to see how many of the currently eligible agents would actually retire with the changes contemplated in some of the proposals before the Congress.

In a survey of those 27 field offices, we determined that 56 percent of the retirement-eligible agents would retire if Congress changes the annuity computation formula. That would be approximately 1,100 agents who could, and would leave very, very quickly.

To give you a couple of examples, beginning in the Anchorage office, which I visited 2 weeks ago, 24 percent of the agents assigned there are eligible. Three would retire, which is 50 percent of those eligible. In Boston, there are 27 percent of the agents now eligible; 34 would retire, according to the survey we conducted last week; in Honolulu, 22 percent, which translates to 2 agents; Jackson, Mississippi, 19 percent, which translates to 8 agents; Little Rock, 20 percent, translating to 8 agents.

All in all, across the board, the survey was certainly a little startling to me because beyond the actual eligibility rate, the survey, I think, reflects people who actually would leave, given some of these changes.

We have worked very hard to staff back up to the 1992 levels which the Congress last year generously, and I think wisely provided the FBI to return to. It takes approximately 4 to 8 months to recruit a new agent, 4 months to train them, and it will be very difficult even under normal circumstances to make up for the 800-agent shortfall that we currently have in our complement. In addition, 70 percent of our SACs, who are the special agents-in-charge of our field divisions, are currently eligible to retire. That is a significant number of our leaders in the FBI field operations.

Beyond the impact on the FBI, I just want to stress very briefly the impact that this would have on our State and local law enforcement partners. The FBI, as you know, has hundreds of police instructors. We train over 100,000 State and local officers in the field. That is separate and apart from our Quantico division. We train police, actually, from all over the world.

Our National Academy program trains 1,000 State and local officers in Quantico every year. In addition, we have leadership programs, such as the LEEDS program and the National Executive Institute. Our FBI Laboratory, the individuals who respond to disasters, crash sites, are our most experienced agents who would be more affected by such modifications. Our scientific and technical research would also be harmed.

The other concerns we have are those regarding the ability of the FBI to remain attractive not just to recruit employees, but to retain them. We are blessed right now with the fact that we have a 97-percent career dedicated agent employee force. That 3-percent turnover rate in our special agent ranks is what, I think, makes the FBI not just very experienced, but keeps the mission and the dedication and the morale of the employees as high as it is.

Congress has worked very hard to address the issues of parity both with respect to benefits and pay between the private sector

and, in particular, the FBI and law enforcement sector. The 1990 Pay Reform Act, which we applauded, was a wonderful step in that regard.

We are, however, concerned that current retirement and benefits packages, as they may change, or, worse, as people may contemplate possible changes, will really motivate many people who would otherwise stay and serve to leave early and to leave quickly, which would put us in a very difficult situation.

Again, I have given you a lot more facts and information in my prepared statement. I would stress, however, that in the FBI, in DEA, and all the law enforcement agencies, there are certain stresses and certain risks which are not found in other types of public service. In the last 8 months, 3 FBI agents have been killed in the line of duty. The stress and the difficulty that people experience by serving in any law enforcement capacity—DEA, FBI, Marshals Service, ATF—one of the few things we can do for them and one of the few things that Congress has done remarkably consistently over the past few years is to establish a benefits and retirement package which compensate a little bit for that sacrifice, and I thank the Congress for that and I thank this Committee for that, and really urge you to look carefully at any changes, and particularly the impact that they will have on our ability to carry out our mission.

I thank you, Mr. Chairman, for holding the hearing and look forward to answering any of your questions.

Senator STEVENS. Thank you, Mr. Freeh.  
Mr. Greene?

**TESTIMONY OF STEPHEN H. GREENE,<sup>1</sup> DEPUTY  
ADMINISTRATOR, DRUG ENFORCEMENT ADMINISTRATION**

Mr. GREENE. Mr. Chairman and Senator Pryor, I also will submit a statement for the record, but I wanted to say it is a privilege for me to appear before you today to provide you with my views on the effect that the proposed reductions in Federal retirement benefits will have on the Drug Enforcement Administration.

Before discussing the specific effects that a reduction in Federal retirement benefits will have on DEA, I would like to provide a very brief assessment of the drug and crime situation in the United States.

For the first time in our history, the United States is under siege, not from home-grown criminals, but from highly organized international criminal enterprises that conduct their business from foreign countries. These include the Colombian drug traffickers, who have become the largest and best organized drug mafia in history, as well as organized Asian drug traffickers. These drug traffickers could not flood the U.S. with cheap, pure drugs without active organized drug gangs operating in the United States. These drug gangs use violence and intimidation to terrorize our communities.

The main resource we have to combat these threats is the 7,400 men and women of the DEA, which includes 3,450 special agents and the personnel that support them. Incidentally, in the last 10

<sup>1</sup>The prepared statement of Mr. Greene appears on page 211.

months, DEA has lost 7 special agents and 4 support staff in the line of duty.

Now, let me turn to H.R. 1215 and its implications for our workforce. H.R. 1215 would increase the amount DEA employees contribute for their retirement by 2.5 percent, which is 1.5 percent in 1996 and .5 percent in 1997 and .5 percent in 1998. Beginning January 1, 1996, the retirement benefits would be calculated on a high 4-year average versus 3 years under the current law. This would increase to a 5-year average on January 1, 1997. The net effect is that Federal employees would be required to pay more for their retirement, while getting less.

As the President stated in his April 5 letter to Speaker Gingrich on H.R. 1215, he does not "believe we should reduce the retirement benefits of Federal employees and increase their required retirement contributions. . . ."

It goes without saying that any reduction in Federal retirement benefits will affect the retirement decisions of all Federal employees. These effects will vary by agency, depending primarily on the age and number of years of service of the employees. I am concerned that the retirement reduction proposals in H.R. 1215 are affecting the morale of the special agent workforce and, more important, our ability to retain those special agents who are eligible to retire. These mature, experienced veterans are essential to DEA's ability to successfully perform its mission.

I have spent my entire law enforcement career with DEA and its predecessor agencies and have worked my way up through the special agent ranks to my present position, and I can tell you from firsthand experience that agents do consider changes in their retirement benefits and legislation that affects their retirement pay when determining when to retire.

For example, DEA only had 17 special agents retire in 1991. We had 34 retire in 1992 and 27 in 1993. In 1994, however, 100 agents retired, and so far this year 80 have retired. This tremendous increase in agent retirements can be attributed to agents who held off retiring to wait and see if they could take advantage of buyout legislation that passed Congress in 1993.

In 1994, many of our agents in our largest offices became eligible for higher retirement pay because of the special pay adjustments of up to 16 percent which took effect in 1992. By the end of next year, there will be over 600 special agents eligible to retire in DEA. Because of H.R. 1215 and similar proposals, those agents who were not thinking about retiring soon may start thinking about it now. Those who were already seriously considering it are deciding to leave Government right now.

If large numbers of agents eligible for retirement decide to leave Government rather than take cuts in benefits, DEA would face two substantial challenges, the first would be that DEA might have difficulty properly training agents hired to replace the retirees because of our current hiring requirements that are already over-taxing the joint DEA-FBI training facility. This is in addition to the substantial task of recruiting a large number of qualified applicants to replace the retirees. The second would be that DEA might have difficulty in maintaining small offices in many of the small

communities throughout the United States because of a lack of veteran agents.

Mr. Chairman, I strongly believe that DEA's ability to function as the lead Federal drug enforcement agency whose mission is to stem the flow of illegal drugs that are fueling the violence on our streets would be impaired if large numbers of our special agents retire because of the reduction in their retirement benefits. We cannot afford to lose 600 of our most senior and experienced agent personnel.

Additionally, with the new agents that we are planning to hire in the next 2 years, by October of 1997, one-quarter of the special agent workforce will have under 3 year's experience. This will create an extremely dangerous work environment for the men and women of DEA.

That concludes my prepared remarks, Mr. Chairman, and I would be happy to answer any questions that you or the Committee might have. Thank you.

Senator STEVENS. Thank you very much, Mr. Greene.

My good friend, the Senator from Arkansas, is here now and I wondered if he had an opening statement.

#### OPENING STATEMENT OF SENATOR PRYOR

Senator PRYOR. Mr. Chairman, I am barely here now. I have to go back down to the Finance Committee in just a moment, but I want to thank you for holding this hearing. I am sorry that I may have to go up and down the elevator a few times to attend this meeting and also a hearing that Senator Hatch is having on some legislation that we are jointly coauthoring.

Mr. Chairman, I would like permission to place my statement in the record, if I could.

Senator STEVENS. It will be included.

[The prepared statement of Senator Pryor follows:]

#### PREPARED STATEMENT OF SENATOR PRYOR

Mr. Chairman, I would like to thank you for holding the third in this series of hearings reviewing Federal retirement issues. I look forward to hearing from the Director of the FBI and the Deputy Administrator of the DEA about the effects of retirement changes on their agencies, as well as from a number of unions and associations representing the broad spectrum of Federal and Postal employees and retirees. For many Members of Congress, Federal employees and retirees are anonymous, their daily contributions to this country overlooked. This hearing will put a face on the people whose lives we are going to affect.

The Senate budget resolution requires reductions of roughly \$7 billion in the area of Federal and Postal employee health and retirement benefits. The House budget resolution requires reductions of roughly \$11 billion in the same areas. Like many programs identified for cuts by the budget resolutions, I have not heard any reasonable policy rationale underlying these cuts. The reductions are simply a result of the desire to balance the budget.

Since it seems clear that the Governmental Affairs Committee will have to make reductions in the programs under our jurisdiction, I believe these hearings will be invaluable in giving us a better understanding of how programs operate and how the suggested changes would affect different groups of Federal and Postal employees and retirees.

Mr. Chairman, many of the witnesses' testimony commends you for your understanding of the Federal retirement system. I join them in that commendation and look forward to working with you on these issues.

Senator PRYOR. I think we have a lot of witnesses today for you and I want to come back and hear some. Also, Mr. Sturdivant in



his prepared statement has a table that has impressed me. I was looking at it a few moments ago and I would ask that it be placed in the record at the appropriate point. If he wants to put it in his statement, certainly, fine, but I would just hope that we would place it in the record.

It was prepared by the Federal Government Service Task Force and it demonstrates that this Committee, working in conjunction with other Committees of the House and Senate, since 1981 has taken \$163 billion out of the Federal employee sector in this past 10 or 11 years. I think that this is an enormous amount of money.

I know that there was a good-faith effort on behalf of the Senate in trying to save \$7 billion out of Federal employee benefits however, I think we are going to find this emerging as certainly one of those consequences that we did not realize.

I think this table demonstrates how we have done things in the past decade to lessen the benefits in the Federal workforce. I think for us to continue drastically and dramatically to continue this without really a reason policy-wise to do it—I think that we have really got to be very, very cautious as to how we do it.

So I hope to rejoin you, Mr. Chairman, in a little bit, and once again I congratulate you for this hearing.

Senator STEVENS. Thank you very much, Senator. I hope you will come back. We know you have another meeting going on. Do you have any questions for these gentlemen before you leave?

Senator PRYOR. I do not. Thank you, Mr. Chairman.

Senator STEVENS. Gentlemen, you know, as I look over the history of the high-3, high-5 concept, the interesting thing is that it was decreased from 5 to 3. I am not sure how many people remember it, but it used to be 5 and it was reduced in the 1970's to 3, and the reason at the time was supposedly to give people an incentive to leave, to rotate out sooner, to retire sooner. Now, I am hearing that if we put it back to 5, it would be a catch-22 because it might cause people to leave sooner.

I wonder if particularly this high-3 to high-5 proposal is in H.R. 1215, the fiscal year 1996 Budget bill. It increases the number of years in stages, to high-4 years and then to high-5 years, so it really wouldn't penalize most Federal employees. In your activities, is that high-3 a significant concept in terms of your agents?

Mr. FREEH. Mr. Chairman, if I may answer first, it certainly is. In fact, I would say it is the template not only of all the current concerns, but also a lot of the anxiety about what changes may come. Since 1990–1991, the people who are most impacted by the high-3 are now looking at the landscape and deciding whether they should stay an extra year or two or leave, and the dynamics—not just the deficit of 800 agents on board, but the dynamics of a lot of anxiety about future changes makes this a particularly critical and sort of watershed moment where the high-3 takes on even greater significance. So I would say it is the single most concern for all of the agents that I have spoken to across the field.

Senator STEVENS. Mr. Greene?

Mr. GREENE. These are my sentiments. It is the thought that those that had done their planning with the high-3 years in mind, foresee an additional year or an additional 2 years is going to force

a decision on them earlier and they will go; a good number of them will go.

Senator STEVENS. Well, I spent several years as a U.S. attorney and my memory is that your special agents-in-charge were normally those with the greatest seniority. In other words, they have reached the point of their highest career level. I don't think that for those people near retirement that it makes that much difference in pay. Is there that much adjustment in the last years of your agents' careers?

Mr. FREEH. I don't think as a matter of numbers and of dollars there is that significant a difference. I think the very significant factor here is that we need all of our agents to stay as long as possible at this particular moment because of the unique dynamics of our situation.

If we can induce people to stay 1 or 2 years, we will solve by a great degree not just our recruitment and training problem, but the absolute horror, at least in the FBI, of losing all of our GS-13's, or losing 1,100 of them very, very quickly.

Senator STEVENS. Well, that is our goal, too. I mean, the demographics of our society really lead me to believe that we ought to find ways to encourage people to stay longer at the end of their career and not retire early. Most of yours had an opportunity to retire early because of accelerated retirement benefits. They are, in particular, the ones that we would like to have stay and be supervisory people. Have you thought of what incentives might work to have them stay?

Mr. FREEH. If we had the discretion, and it is not clear that we do in every case, to give retention bonuses, to give, where possible, term GS-14's for people, we might be able to counter-balance the economic disadvantage of staying 1 or 2 or 3 years later. We are looking at those, but a lot of that is not within our discretion, since we are in Title 5.

Senator STEVENS. You can waive mandatory requirements, though, right?

Mr. FREEH. The Department of Justice gives us a certain number of waivers that I am allowed to execute as the Director. We are going to see if we can expand that number, but right now it is a very small percentage of what would be the 1,100 people who might stay.

Senator STEVENS. I should have recognized my friends, Senators Akaka and Dorgan. Do you have opening statements, gentlemen?

Senator AKAKA. Yes. Thank you, Mr. Chairman, I do.

Senator STEVENS. Do you have an opening statement, Senator Dorgan?

Senator DORGAN. I will just put it in the record.

Senator STEVENS. I would be happy to yield to you.

Senator Akaka.

#### OPENING STATEMENT OF SENATOR AKAKA

Senator AKAKA. Mr. Chairman, thank you very much for this opportunity to open with a statement. I would like to thank you for holding these hearings on the Federal pension system. It has provided an opportunity for everyone involved in the budget debate to learn more about the Federal retirement program, particularly as

it impacts essential services, such as law enforcement, as FBI Director Freeh has testified.

Federal employees are deeply concerned that their retirement benefits are being eroded as a result of political expediency. These dedicated and committed individuals have already contributed their share to deficit reduction efforts, and they should not be singled out again to bear the brunt of further cuts.

In the case of Federal law enforcement personnel, it appears that there is a problem with training new personnel, and that if we continue the way we are heading, it may cause many current agents to leave the system and retire. This is something that we have to seriously consider.

The benefits that Federal employees receive under the current program are comparable to many private sector plans. In fact, compared to plans offered by many of our major corporations, the Federal system provides less benefits to its employees.

I thank the Chairman again for this hearing. It has provided the opportunity to learn more about what is actually happening out there, and I am pleased to be here today, Mr. Chairman. Thank you very much.

Senator STEVENS. Thank you, Senator.

Senator Dorgan?

#### OPENING STATEMENT OF SENATOR DORGAN

Senator DORGAN. Well, let me just put my statement in the record by unanimous consent, if I might. This is part of a series of hearings on Federal pensions. And I would like to thank the Chairman for holding these hearings. My concern is that there is not very much good information about the pension system out there and that the discussion about potential changes is a discussion that doesn't take place with enough facts. So I think these hearings are helpful.

I think there is some notion in our country that Federal pensions are extraordinarily lucrative and far better than the pensions that are available to those in the private sector and elsewhere in the public sector. However, the facts show otherwise. In this room last month, we heard testimony by the General Accounting Office. The testimony by the GAO indicated that the Civil Service Retirement System is no more generous than private sector plans.

In 5 out of 6 hypothetical retirement scenarios that the GAO studied, private sector workers came out ahead of CSRS retirees by as much as 20 percent. In addition 97 percent of private plans studied did not require any employee contribution to the pension plans. In contrast, of course, Federal employees must contribute to their pension plans out of their salaries.

Mr. Chairman, the suggestion that you can save money in Federal pensions has to be weighed against the impact these changes will have on the Federal workforce. If you don't value the Federal workforce, then, of course, you don't have any concern, and there are some in Congress who frankly think the worse the Federal workforce, the better; the less experienced, the less qualified, the better.

I view the Federal workforce as an enormous asset to our country. Contrary to those who push term limits these days, I think

both in elected and non-elected offices those with experience are valuable assets. Pension program changes that would encourage the best of public employees to leave Federal employment, I think, would disserve the public interest. So I am very pleased that you are having these follow-up hearings.

I understand your testimony, Mr. Freeh. Adding substantial resources to our law enforcement sector, especially the FBI, when we also consider pension changes that would cause us to lose some of our most valuable workers is really a contradictory approach. I think we have to look at the facts and try to reach conclusions that are in the public interest.

So I appreciate the fact that you are holding the hearing and I appreciate the testimony that has been submitted.

[The prepared statement of Senator Dorgan follows:]

#### PREPARED STATEMENT OF SENATOR DORGAN

Mr. Chairman, I would like to thank you for holding these hearings in an effort to provide context and background to attempts to change the Federal pension system. We previously heard from experts at the Congressional Research Service and the General Accounting Office, and we will be drawing on their testimony a good deal in today's hearing.

The Senate budget resolution would require the full Committee to report legislation saving \$6.8 billion over the next 7 years, and much of that will likely come from pension changes. The House's target is closer to \$15 billion, and it's possible that the final budget resolution will require savings of this Committee in the area of \$9 billion.

Mr. Chairman, I voted against that budget because its priorities were all wrong. Both the House and Senate budgets would cut Federal pensions in order to offer a tax cut. The House's tax cuts are largely targeted towards those who don't need them.

The testimony we heard from CRS and GAO, as well as the testimony we will hear today, only reinforces my view. Our first hearing showed that the Governmental Affairs Committee may have a difficult time justifying pension changes on policy grounds. Today we will hear that Federal employees—who are asked to do more with less, as we downsize the government—are understandably reluctant to take a further hit in their retirement benefits. I understand their reluctance, given the salient facts that emerged from our previous hearing on this issue:

1. The Civil Service Retirement System (CSRS) is no more generous than private sector plans in terms of the amount of income it replaces. In 5 out of 6 hypothetical retirement scenarios that GAO studied, private sector workers came out ahead of CSRS retirees—by as much as 20 percent. In addition, 97 percent of private plans studied did not require any employee contribution to pension plans. In contrast, of course, CSRS requires 7 percent and FERS .8 percent of employees' salaries to go toward their pensions.

2. Shifting to "high-5" would not necessarily make Federal pensions more like private sector ones—and could encourage employees to stay too long. A majority of State employee retirement plans and a significant number of private sector plans (particularly the large ones most comparable to the Federal Government) use a "high-3" average salary base for retirement benefits, not a "high-5". In addition, the Federal Government switched from high-5 to high-3 in 1969 because high-5 encouraged Federal employees to stay in the Federal workforce for too long.

There may be room for agreement on some aspects of this issue, Mr. Chairman. I am prepared to take a close look at both the Administration's request for a 40-year amortization of pension expenses and at your suggestion that we open FERS to Federal employees who originally stayed in CSRS. However, I find myself very sympathetic to today's witnesses as they discuss budget-driven changes to Federal retirement provisions.

Thank you again, Mr. Chairman. I look forward to the testimony from today's witnesses.

Senator STEVENS. Thank you very much.

I just have a couple more questions. Senator Dorgan mentions facts. Do we know what it costs to train an agent in each of your organizations as a replacement? Do you have those figures?

Mr. FREEH. Yes, sir, I do. We will be hiring and deploying, just in the normal course, about 1,600 new special agents in the next 18 months. That is without contemplating 1,100 people who may retire because of the changes.

It costs approximately \$41,600 to replace an experienced agent with a new agent. That includes the recruitment, training, and deployment costs. There also are transfer costs. As you know, one of the requirements of our position is that you serve anywhere. We need to have that to fill all the many positions around the country. The transfer costs of the average agent today are about \$69,000, so those are two formidable sets of numbers.

Senator STEVENS. What is the last one, sir?

Mr. FREEH. It averages about \$69,000 for a transfer of an agent and his or her family.

Senator STEVENS. To transfer them from one place to another?

Mr. FREEH. Yes, sir.

Senator STEVENS. How often do you rotate them?

Mr. FREEH. As less as possible. We need to sometimes put in a residency agency, which is a small office, an experienced agent, as opposed to a brand new agent. There are specialty requirements of pilots, evidence experts, police instructors. We try to eventually satisfy agents as best we can, so after 20 years, perhaps, on the job they will have an office or an area of preference. But we try to do the least number of transfers possible because of the prohibitive cost. I am not sure what the DEA figures are.

Mr. GREENE. Our figures on hiring new agents are approximately the same, particularly since we use the FBI Academy for our training and our background checks are virtually the same. Our figures on transfers are somewhere around the same figures. DEA averages about \$71,000 per transfer, and in answer to your question, DEA has just about stopped the routine transfer of personnel due to lack of funds. We now only transfer those necessary to meet our overseas obligations and routine promotions and the hiring of basic agents and giving them their new assignment. That is about all the transfers we now do.

Senator STEVENS. One of the things that bothers me is recent research showing that there are about 38 different Federal retirement plans. Yours is one of them that is different from the two main plans, CSRS and FERS. I come from a State that has a Department of Administration. One department does all of the administration for all of the departments of the State. Of course, it is a State with a very small population, but at the same time the concept is there. It just begs the question of why we are maintaining 38 separate plans. It would seem that we ought to be able to have a single plan which had some variations because of job hazard, or the age of the people involved.

Do you have any idea what it costs you to administer a separate plan?

Mr. FREEH. No, sir. I can try to get you those costs. I don't think we have them here this afternoon.

Senator STEVENS. All right. I don't need it right now.

Do you have any idea how many of your agents work to the age of mandatory retirement?

Mr. FREEH. Of mandatory retirement?

Senator STEVENS. Yes.

Mr. GREENE. I don't have those numbers. I could get them for you, Senator.

Senator STEVENS. If you can get them for the record—

Mr. FREEH. We will get those for the record, sir, yes.

[The information referred to follows:]

Year	Voluntary Retirements	Mandatory Retirements
1991 .....	10	6
1992 .....	26	4
1993 .....	19	5
1994 .....	78	22
1995 (through July 12, 1995) .....	81	4

Senator STEVENS. Does the DEA have waiver authority, too, Mr. Greene?

Mr. GREENE. Yes, to my knowledge, the DEA has never used it.

Senator STEVENS. Would you give us the statistics on how many you are waiving now annually?

Mr. FREEH. We certainly will.<sup>1</sup>

Senator STEVENS. I do believe that one of the great problems we have right now is finding a way to create a retirement plan that cannot be changed in the near term, because I think it is going to be a very staggering period as we try to eliminate the deficit. Trying to catch up with about a \$6 trillion debt is going to put substantial pressure on all Federal systems for a while. I think if we are going to have a retirement plan that is going to be an incentive to stay in the Federal service, we have to have one that is untouchable. That is going to be my goal.

Senator Dorgan, do you have any questions?

Senator DORGAN. I appreciate the testimony a great deal. I guess one question I would ask is in order to keep people who are qualified, you have to compete with other private and public sector employers. What typically happens to an FBI agent who leaves Federal service? Who are you competing with for the service of that employee?

Mr. FREEH. I would say the majority of them go into private sector work because the compensation is much more lucrative than what an agent earns over the course of a 25-year career. I would say most of them go into the private sector as opposed to other Government agencies, which is what we are competing against in the beginning.

Also, a lot of the State and local law enforcement positions now are much more lucrative in terms of benefits and certainty of location than the DEA and the FBI, so there is an increased competition against our State and local partners for getting the young men and women whom we would like to see in the Federal service.

Senator STEVENS. Would you yield right there?

Senator DORGAN. Yes.

<sup>1</sup> The information referred to appear on pages 356-365.

Senator STEVENS. I have heard that, too, that a lot of the county and large city law enforcement people are compensated much higher than your agents. Do you have any chart of that?

Mr. FREEH. I can certainly prepare one for the Committee. I don't have it right now.<sup>1</sup>

Senator STEVENS. Thank you. Pardon me, Senator.

Senator DORGAN. That is fine.

What kinds of pension opportunities does your competition offer?

Mr. FREEH. Twenty-year retirement is the most common with respect to State and local departments.

Senator DORGAN. What about the private sector? Have you done some surveys in that area?

Mr. FREEH. I have the 1990 information that went into the Congress' decision with respect to the Law Enforcement Parity Act which we can supply to you. I think that has been updated recently and I will get that for the Committee, too.<sup>1</sup>

Senator DORGAN. Well, I would just say again, Mr. Chairman, that if we are faced on the one hand with trying to go out and find new people and on the other hand with a decision that will probably accelerate the departure of current workers, many of whom are the more experienced people in the service, we have not served the taxpayer very well. That is why I think these hearings are important.

Mr. GREENE. Senator, that was primarily the concern that the Director and I expressed in our verbal remarks, that there is a good chance that DEA—through the generosity of Congress in the next 2 years, may be bringing on 920 new employees. At the same time, we are concerned the best and the brightest with the most seniority and experience are going out the other door, and it is very troublesome for us.

Senator DORGAN. If you look at what concerns people in this country, ranking near the top is the subject of crime, and you can't, it seems to me, affect crime in a very significant way unless you have crime fighters who are experienced and who have knowledge. I would imagine that you find, like we do, that if you lose somebody with 10, 15, or 20 years' experience, you don't replace them for a good long while.

You can hire somebody, and the first year or two you have them on they are learning. But it's hard to fight crime and serve the public interest if you are losing your best people. So we really have to think our way through this in a clear way and reach the right result on these issues. It is seductive to try to save a little money in the short run here, but the failure to make the investment will short-change the country in the long run.

Mr. FREEH. There also is, as you both pointed out, the safety factor. I had a new agent class graduating Friday from Quantico. The class speaker, who was elected by the class, was a graduate of the Notre Dame Law School, Phi Beta Kappa, a graduate of the Harvard Law School, and former prosecutor.

You know, one of the big reasons that we can get people like this, as opposed to the competition—it is not even a competition with respect to a law firm in that case—is because the Federal service, the

<sup>1</sup> The information referred to appear on pages 356-365.

FBI and the DEA, has that great attraction, the stability that people have a career there. If we take the 1,100 people who may leave because of a pension change and juxtapose that with 1,600 new agents, the safety factor is also very, very important as more of our agents, particularly in DEA, are on the street working in violent programs, where that experience is just a life-saver in the literal sense.

Senator DORGAN. Thank you.

Senator STEVENS. Senator Akaka?

Senator AKAKA. Thank you, Mr. Chairman. Director Freeh, in your statement you indicated there has been an increase in the demand for investigations. In the past, how many FBI retirees have you had to ask back to help? In the future, with these increasing demands, do you have any idea of how many retirees you may have to ask back to help you with these tasks?

Mr. FREEH. In many of the technical areas, we have already solicited retired agents to consider coming back; our pilots. In our Laboratory, we have Ph.D.'s in microbiology, specialties that we cannot train up in rapid time. Software engineers—we have very few software engineers who can run multi-million-dollar systems, competing with the best corporations in the world. Those kinds of specialties we are not only recruiting, but trying to bring people back who have recently left.

Senator AKAKA. What percentage would this represent? I believe you expect to lose about one-third of your force to retirement.

Mr. FREEH. We could lose over the next 3 years 30 percent of our current special agent force. I can give you a breakdown of the technical skills and the separate professional disciplines that would be at issue.<sup>1</sup>

Senator AKAKA. Thank you very much.

Mr. FREEH. Thank you, Senator.

Senator STEVENS. Thank you very much.

Well, you have both given us a lot to think about, gentlemen. You are in a different situation than many Federal agencies, in that you are reaching out for additional employees. The draw-down on other agencies is of course, a net reduction, but I do think you present a challenge to us to devise a system that will not add to the problem that you have outlined of these early retirements.

I didn't ask you about early retirements. Could you give me the statistics, too, on those agents who retire before mandatory age?

Mr. GREENE. Yes, sir.

Mr. FREEH. Just about all our FBI Special Agents retire before the 57 mandatory age.

Senator STEVENS. Thank you very much. We appreciate your courtesy, gentlemen.

Mr. FREEH. Thank you, Mr. Chairman and Senator, for your attention.

Mr. GREENE. Thank you.

Senator STEVENS. Our next panel is John Sturdivant, the National President of the American Federation of Government Employees; Robert Tobias, the National President of the National

<sup>1</sup> The information referred to appear on pages 356-365.



Treasury Employees Union; and Sonya Constantine, the Acting National President of the National Federation of Federal Employees.

We have looked through prepared testimony and would appreciate it if you would allow us to print it in full. Please make such comments as you wish. We might as well go in the order that I read.

Mr. Sturdivant?

**TESTIMONY OF JOHN STURDIVANT,<sup>1</sup> NATIONAL PRESIDENT,  
AMERICAN FEDERATION OF GOVERNMENT EMPLOYEES,  
AFL-CIO**

Mr. STURDIVANT. Thank you, Mr. Chairman. I want to thank you for having these hearings, and although it seems as though we always find ourselves beating this same horse every year around budget time, I thank you for giving us an opportunity to be heard and to present the views of our members and those individuals that we represent.

As you know, the AFGE represents more than 700,000 Federal employees, and we appreciate the opportunity to lay to rest some of the mistaken notions about Federal retirement that have left this program once again vulnerable to being singled out for cuts.

I am particularly pleased to come before your panel to discuss this issue because no Member of Congress comes close to matching your expertise over this important matter. Certainly, while policy-making is an important endeavor, I think it would be accurate to say nonetheless that you are the author of the Federal Employees Retirement System.

Before beginning my own remarks, and I will try to summarize them, I must tell you that Federal employees and retirees appreciate the calm and reasoned way in which you are examining Federal retirement. You urged that Federal retirement be recognized as part of the overall compensation package to retain skilled and dedicated employees in the Federal workforce. As you must know, that enlightened, far-sighted approach is not one taken by some of your colleagues in both chambers.

At the last hearing, representatives of CRS and GAO appeared before your panel to discuss Federal retirement in detail and painstakingly explained to all who would listen four very important facts. One, Federal retirement is a fiscally responsible program. Two, Federal retirement is a financially secure program. Three, Federal retirement provides benefits comparable to private sector pensions. Four, Federal retirement already requires Federal employees to pay more toward retirement than their counterparts in the private sector. If even the most fanatical Federal employee basher put politics aside and accepted, however grudgingly, those four facts to be true, there is simply no way they can justify hacking and whacking at Federal retirement again.

Mr. Chairman, two of the retirement cuts—I am sure we have all talked about them, so I just want to comment briefly on them. The first, of course, would mandate significantly greater contributions by Federal employees. Under this proposal, FERS employees would be required to increase their contributions from .8 percent

<sup>1</sup> The prepared statement of Mr. Sturdivant appears on page 212.

to 3.3 percent of salary, in addition to the 6.2 percent of salary they are already required to contribute to Social Security. CSRS employees, who receive no Social Security benefits, would be required to increase their contribution from 7 percent to 9.5 percent of salary.

Mr. Chairman, we said this before and we stand by that statement. This is a significant tax increase on working and middle-class Americans merely because they happen to be Federal employees. For the average Federal employee who makes a little more than \$30,000 annually, this would result in a tax increase of \$750 per year, the equivalent of a mortgage payment if you live in a place where you can get a cheap mortgage, certainly not in this town.

Worse, unlike Federal retirement, very few private pension plans generally require employee contributions toward plan costs. In fact, according to BLS, 97 percent of employees in medium and large firms are in pension plans fully financed by contributions from the employer. Under CSRS, for example, employees are required to contribute 7 percent of their salaries toward retirement, and should this cut become law, that required contribution would grow even larger.

The second change would, of course, change the formula for calculating benefits by using the highest 5 years of salary instead of the customary high-3. While the rationale for this proposal is that it would make Federal retirement more like non-Federal plans, a majority of State plans and a significant number of private sector plans, particularly those used by the larger corporations most comparable to the Federal Government as employers, also use a high-3 average.

There have been various estimates about how much this would cost the typical Federal retiree, and I would plug some numbers into the retirement formula, do the math, and show the impact this benefit cut would have on two typical AFGE members, rank-and-file employees working, middle-class Americans by any definition. I believe that is in my prepared statement. I see no reason to get your eyes to glaze over by going through that, but I would just say that once again it would reduce the amount of their benefits.

At the same time, powerful forces in Congress are trying to perpetuate the pay gap and make health care benefits even more inferior to those available in the private sector, and all of these pay and benefit-cutting initiatives are being offered despite the fact that Federal employees and retirees have already contributed billions and billions of dollars to deficit reduction over the last 15 years. I believe Senator Pryor pointed that out and we have a chart in our testimony that speaks to that.

What is particularly ironic about this so-called reform that we are seeing during the 104th Congress is that Federal retirement was completely overhauled just a few short years ago, Mr. Chairman, with your creation of FERS, which was designed to make Federal retirement even more comparable to private sector pension plans. There have been no changes in non-Federal plans that somehow render FERS no longer comparable to the pensions provided by businesses and State governments.

Federal employees accepted the FERS reform inspired by the belief that the political and perceptual problems that had left Federal

retirement so vulnerable had been corrected—we still believe that they have been corrected—and that they would be left alone to plan for their futures with confidence. But as former President Reagan might say, here we go again.

Some of the Members of Congress who will decide the fate of Federal retirement are different. Some of the journalists covering this hearing are different, and even some of the union presidents testifying today are different. But the problem remains the same, a retirement system that is as politically vulnerable as it is fiscally responsible and financially secure. In other words, it is *deja vu* all over again.

Mr. Chairman, I listened to your comments quite carefully when you talked about trying to make the Federal retirement system un-touchable. Unfortunately, many of us and many people that we represent felt that it was un-touchable. We felt that when FERS was created, we had crafted a bargain with the Members of Congress, with the administration, and with our Government, and that we would be able to move on to make Government work better and more effectively and more efficiently. Unfortunately, that is not the case.

I don't know how much of this we can go through year in and year out, given all of the other pressures and all of the other stresses and all of the other attacks that Federal employees have had heaped upon them, and we are not victims, but we simply don't like being pushed around.

I want to thank you, Mr. Chairman, for your interest in this, and I know that if anyone can work and move in the direction of making this retirement system un-touchable, you can. I will be happy to try to answer any questions after you hear from my colleagues.

Senator STEVENS. Thank you very much.

Mr. Tobias?

#### **TESTIMONY OF ROBERT M. TOBIAS,<sup>1</sup> NATIONAL PRESIDENT, NATIONAL TREASURY EMPLOYEES UNION**

Mr. TOBIAS. Thank you very much, Mr. Chairman. I very much appreciate your invitation to testify. You have been a longtime leader in this field and I appreciate the fact that you have taken the time and made the effort to really understand the retirement system. You have attempted to gather information and make decisions based on facts, not myths.

The issue of whether Federal employee retirement benefits should be decreased and employee contributions increased is extremely important not only to Federal employees, as everyone would expect, but I think it is also important to the public who receive the services and pay the cost, and also to Congress who in this equation is the employer. Congress sets the retirement benefits and is the responsible employer in this equation, and therefore I believe has the responsibility to determine what is in the best interest of the public and certainly what is in the best interest of the employer.

I start today with the proposition that the average Federal employee who retires after 20 years of service at \$12,779, or after 30

<sup>1</sup> The prepared statement of Mr. Tobias appears on page 234.

years of service with an annuity of \$17,616 from the CSRS system, is not going to be rich in retirement. There is no Social Security to supplement the employer retirement plan and the retirement is fully taxed, unlike those who participate in the Social Security plan.

I also start with the proposition that Federal employees have given up \$162 billion in pay and benefits from 1981 to 1992 in the name of making a sacrifice to reduce the Government deficit. So it is not as though Federal employees have not been called upon to reduce the promises that have been made to them as Federal employees. They have, in fact, been called upon and they have, in fact, contributed over the years in a way unlike those anywhere else that I am aware of.

I believe the current proposals to reduce benefits and increase employee costs are really unfair and unjust from any possible angle of analysis. First, the recommendation to calculate annuities based on the high-5 rather than the high-3 average pay has been in effect for 25 years. Employees have organized their working lives around the expectation of calculating their annuity based on the average high-3. The proposal represents a loss of somewhere between 2 and 4 percent per year.

Enacting this recommendation is really counter not only to the promises that have been made, but also to the policy that is in effect of downsizing the Federal Government. A high-5 calculation will lead to employees remaining on the rolls longer, rather than leaving.

The proposal to increase employee contributions by 2.5 percent would represent a 30-percent increase in their retirement contributions. It would represent a \$750 tax increase for an employee making \$30,000, as my colleague said. The House Budget Committee resolution uses the contribution to offset a tax cut. Increasing Federal employee retirement contributions to fund a tax cut for the rest of the population is unfair, unjust, and bad policy.

The rationale I often hear for the increase is that it is necessary to fund the unfunded liability. The Congressional Research Service laid this myth to bed in a report to this Committee when it said, "The unfunded liability has no effect on the cost of the program, on the budget, on the deficit, on the taxpayer either now or in the future."

A similar myth is that the Federal employee pension system is too fat, too generous. That same CRS study shows that the CSRS system is less generous than comparable private systems and less generous for FERS employees who do not participate in the Thrift Savings Plan. Overall compensation under either system—the CRS concludes, "Federal workers could be viewed as being compensated less for their work than their private sector counterparts."

I think, Mr. Chairman, that it is time to face up to the fact that the public deserves a talented, competent workforce, and at a time when we are asking Federal employees to do more and do it with less—and they are, in fact, responding and they are, in fact, improving work processes and work procedures—we ought not be punishing them for their good work. Rather, we ought to be recognizing their good work and rewarding them and not seeking to

further reduce those folks who have already been reduced since 1981.

Thank you very much, Mr. Chairman.

Senator STEVENS. Thank you.

Ms. Constantine?

**TESTIMONY OF SONYA CONSTANTINE,<sup>1</sup> ACTING NATIONAL PRESIDENT, NATIONAL FEDERATION OF FEDERAL EMPLOYEES**

Ms. CONSTANTINE. Good afternoon, Mr. Chairman. My name is Sonya Constantine and I am the Acting National President of the National Federation of Federal Employees. I am a 21-year Federal employee and under the current system I have 15 more years before I am eligible to retire. I have literally grown up working as a Federal employee and this subject is very near to me and the nearly 150,000 Federal employee represented by my union.

I am pleased to be here today to offer our views on the efforts to reform the Federal retirement system because this is our future. Before I begin, I would like to thank you, Mr. Chairman, for your support of Federal employees over the years and for your willingness to listen to the views and to work with the representatives of the employees who are directly affected by your decisions and actions.

NFFE's statement for the record addresses many of the statistics and issues addressed by my colleagues here, so I will try not to be too repetitive. At the onset, I must state that NFFE is wholeheartedly opposed to any change in the Federal retirement system that will reduce the level of benefits received by current Federal retirees or that are expected to be received by current employees.

NFFE is opposed not just because it is unfair to change the terms of the employment contract that Federal employees accepted when they joined the civil service, but because Federal employees and retirees have already contributed more than their fair share to deficit reduction.

Federal retirement benefits are a form of non-wage compensation that make up part of employees' total compensation package and make up, in part, for salaries that are significantly lower than those received by workers who have similar jobs in the private sector. In addition, NFFE asserts that the retirement benefits of current Federal employees have already been significantly reduced.

Since Federal retirement benefits are based upon an employee's salary at the time of his or her retirement, each delay, reduction, or freeze in Federal employee pay raises also has the effect of reducing an employee's retirement annuity.

In a prior hearing, Mr. Chairman, you discussed the options of creating a new retirement system which would operate alongside CSRS and FERS. NFFE would recommend against adopting this option. NFFE agrees with the testimony of the General Accounting Office which found that the FERS system is a well-designed plan which meets the needs of both the Government and its employees.

As the father of FERS, Mr. Chairman, I am pleased to tell you that NFFE thinks you got it right the first time. FERS provides

<sup>1</sup>The prepared statement of Ms. Constantine appears on page 237.

Federal employees with a retirement program designed like many private sector plans. As the GAO noted, FERS is a much more portable system than CSRS because it includes Social Security coverage and the Thrift Savings Plan which an employee leaving the Government can convert to another plan outside the Government.

FERS provides incentives that encourage employees to make the Federal Government their career and to continue those careers beyond their minimum retirement age. In short, FERS is a very well-balanced system that achieves its objectives of providing reasonable retirement benefits to dedicated Federal employees.

Another option discussed was holding a new open season for CSRS employees to switch to FERS. NFFE maintains that such a move would have little to no impact. Those employees in CSRS were already provided with an opportunity to switch to FERS in 1986 and most chose not to do so. An informal poll of NFFE members who are in CSRS indicates that the vast majority of them would elect to remain in CSRS. Additionally, GAO found that allowing Federal employees to switch from CSRS would result in no savings to the Federal Government.

I would suggest that the Committee turn its attention away from reducing the retirement benefits of dedicated Federal workers and focus instead on the massive cost of Federal service contracting. Currently, the Federal Government spends \$105 billion each year on contracting out, which has become the fastest growing area of Federal procurement.

In the past, these contractors have been characterized as having formed a shadow government. Unfortunately, many of the shadow government's members are not performing effectively. A recent Office of Management and Budget study of Federal contracting out found instances of poor performance, contractors performing Government work as program management, incomplete cost and price analyses and statements of the work to be done, and weak oversight of contractor performance. Mr. Chairman, the \$105 billion shadow government is what should be targeted by those interested in reducing Federal expenditures, not the approximate \$12,500 annuity received by the average Federal retiree.

In conclusion, Mr. Chairman, I must once again state that NFFE is opposed to any further cut in Federal employee retirement benefits. NFFE believes that Federal employees have already contributed more than their fair share to deficit reduction. While, obviously, all Americans should contribute their fair share to deficit reduction, NFFE asserts that Federal employees have already done more than their fair share, and so are indeed due a reprieve, not a rebate.

Thank you.

Senator STEVENS. Thank you very much, Ms. Constantine. I thought we got it right, too, but times change, unfortunately. In regard to your comment, I might say that I agree with you that the combination of Social Security coverage and the Thrift Savings Plan is probably the most portable combination we have found in retirement systems. That is what I was looking at, having a Thrift Savings Plan as the second tier to the Federal system and making the pension contribution matchable by the retiree. I am still look-

ing at that and I hope we won't argue about it too much when we get to that point.

I do think the problem is one of portability, particularly for women who come in and out of the workforce; who come in, spend some time, leave, come back in, and leave again. That seems to be a pattern of many women—they leave behind the pension contribution all too often, and they cannot withdraw other than their own contribution. I really think we can devise a better system if we really start thinking about it, particularly one that fits all 38 different plans. This would generate savings by reducing the Federal costs of administering the plans.

Let me ask you just a couple of questions because I know that you have put a lot of time in on this. I do wonder about some of the charges that are made against our plan. One is the 55-year-old eligibility. There are a considerable number of people now who are saying that that is unique in the pension system world and that we ought to think about the age limit.

Social Security is now going up, and it will go up again. People are going to live longer, we are told—and will have a longer period of retirement. So the question is, should we induce Federal employees to work longer? Have you all looked at the subject of the age of retirement?

Mr. TOBIAS. I would say, Mr. Chairman, that that is probably the most volatile issue in the Federal employee workforce today, increasing the minimum age of retirement. There is the feeling among Federal employees, particularly those in the CSRS system, that 55 eligibility after 30 years of service is an inviolate kind of action. The fact of the matter is that the average retirement age in the Federal sector is 61.5, so increasing the retirement age to 62 saves very little money, as the CRS pointed out. But I can tell you that the psychic benefit and the psychic importance of having that age at 55 cannot be understated because people plan their life around that 55 and 30 years.

I think that what we see even with those who compare the benefits for those who retire early—the CRS showed that the people who retire at age 55 and have a normal life span receive less money than those in the private sector. So changing the retirement age, I believe, will have zero impact on the cost of the system, but will have a very damaging impact on the Federal workforce.

Mr. STURDIVANT. I think it will have a detrimental impact on—if you operate on the premise that based on everything that has happened in the Federal workforce, if there is anything that policy-makers can do to make morale worse, then I think that probably tampering with the 55-year limit—as I go around the country—I spend about 50 percent of my time out with our locals and with rank-and-file leaders, and people will come up and that is one of the issues that I hear a lot about.

I haven't done any scientific polling, but I am a fairly good union politician, so I know where the tenor is, and that is an issue that people say, I don't want to have to work 5 more years, I don't want to have to work 7 more years. If they choose to work 5 more years, that is one thing. If they have to work 5 or 7 more years, that is another thing, and I think that would be a mistake.

Senator STEVENS. You mentioned that we shouldn't be tinkering with this every year. We really haven't tinkered with the retirement system for 10 years, and I hope we don't tinker with it this time. Tinkering is a bad word, but I do think we may want to try to reform this plan for the future, particularly realizing how much stress the Federal budget is going to be under for a period of about 20 years.

Mr. STURDIVANT. But we have fought off efforts every year, every budget year, and it is not just in the Congress. It is in the administration, including this administration. We have had to fight off efforts to look at the retirement system or to look at changes in the retirement system or to look at various aspects of the retirement system as a way to meet short-term goals as far as income or cut short-term costs.

I think the retirement system should be looked at as an investment in a quality Government, in the quality of the workforce, in the quality of the type of people that you want working for the American people in the 21st century. It should not be looked at as a cost. It should be looked at as an investment to ensure that you will have the type of Government that you are going to need in the 21st century.

We have had to fight these proposals, these discussions, in the President's budget. There have been many instances, at least one or two that I personally know about, where administration individuals recommended some cuts and, of course, we were able to convince the President that they should be taken out of the budget, in fact, I believe probably for this year. So we have had to fight this battle not here, certainly, in front of your Subcommittee, Senator, but we have fought it every year.

Senator STEVENS. Go ahead, Mr. Tobias.

Mr. TOBIAS. I would say, Senator, that even though the fundamental structure of the retirement system hasn't been changed, certainly the way COLA's are paid to retirees has been changed on an almost annual basis.

Senator STEVENS. Every year. As a matter of fact, this Committee faces at least \$10 billion that we must find and the only budgets that we can deal with are Federal employee budgets. Now, that comes out of the budget resolution, once again, and it is based on some assumptions. We can change the assumptions, but we can't change the budget goal. We have to find at least \$10 billion.

We don't want to use smoke and mirrors. That doesn't accomplish anything toward real deficit reduction. But I do think you ought to realize that the Committee is going to make some changes. It has to make some changes, as much as I disagree with many of them, but I am looking for ways to try and make changes that will result in, as I said, a plan that would be untouchable in the future.

One of the things that we should consider is finding a way to give an incentive to people to work longer. You heard the predicament of the two agencies that have some of the top law enforcement people in the Federal Government. They have been urged by Congress to hire more agents. But, they have more agents retiring, some prematurely, than they are being asked to hire. Now, that revolving door is a very costly revolving door.



Have you looked at anything that would be an incentive to continue working rather than to retire? What are the incentives that are out there we have not used?

Mr. TOBIAS. I think there are several incentives. I think we haven't been using them very well. One of them might be to fund the comparability increases.

Senator STEVENS. By definition, we have to find incentives that don't cost as much money as they save. If it costs money to train a replacement, but you can get the current employee to stay on 3 or 4 more years, you may postpone an expenditure that, when you are borrowing money and paying interest on it, has the cumulative positive effect of reducing the deficit. So our goal is to try and get people to work longer, work at least to retirement age, and hopefully beyond retirement age.

Mr. TOBIAS. Well, I think the high-3 to high-5 has both a short-term and a long-term downside. The short-term downside is that there will be a lot of folks who retire. Those who are eligible to retire now will leave, and they would be insane not to because they would receive less annuity benefits.

Senator STEVENS. Now, that is not entirely true because most of those who are staged to retire in a year or two would not be significantly affected by it.

Mr. TOBIAS. That is what I mean. They would leave. That is what I am saying. They would leave so that they wouldn't be adversely impacted, of course. They are eligible to retire now, so to avoid the problem of a reduced annuity, they will leave now or shortly.

Senator STEVENS. But it is staggered out, so that if you retire with 3 years now, the next year it would be 4 years, and the next year it would be 5 years. The person saves on a year who has got 4 years and in 2 years he has got 5 years. There is no harm in that schedule.

Mr. TOBIAS. Well, the harm is, Mr. Chairman, that if I am eligible now to have my high-3 and I elect to stay on for 2 more years, at my high-5 I may end up with a smaller annuity at that time than the annuity I would have now.

Senator STEVENS. Congress has never reduced annuities or taken any retroactive action on annuities.

Mr. TOBIAS. Well, I know, but the fact is that if I am making \$100 now, or I made \$85, \$90, and \$100, and now it is pretty flat over the next 2 years, the calculation on that high-5 may lead to a lesser annuity than the calculation on the high-3 today. I believe that will be true. I believe that is the way the numbers will work out, which would—

Senator STEVENS. Where is my expert? Mr. Shelton, is that right? Where are you, Bob?

Mr. SHELTON. Yes, and I think what he said is essentially correct, sir.

Senator STEVENS. It does reduce as you go out?

Mr. SHELTON. Yes, sir.

Senator STEVENS. Why is that?

Mr. SHELTON. No grandfathering.

Senator STEVENS. No grandfathering?

Mr. SHELTON. Right.

Senator STEVENS. If you grandfathered it, would you lose the money?

Mr. SHELTON. No, not as much anyway.

Senator STEVENS. Well, can you calculate that for me? What would be the loss if you had grandfathering and you stepped it up? There was not a gain when we reduced it from 5 to 3. Why would there be a loss when we put it from 3 to 5? If the reason we changed to a high-3 was to create an incentive for people to leave, why, if we put it up to 5, is that also an incentive to leave? I don't understand that.

Mr. SHELTON. It is basically to avoid the cap, the high-5 or the high-3.

Senator STEVENS. Let us have a piece of paper on that one, will you, please?

Mr. SHELTON. Sure.

Senator STEVENS. He is my brains in this business.

Mr. TOBIAS. Well, I am glad his brains agree with mine, I will tell you. [Laughter.]

Mr. TOBIAS. Thank you very much, sir.

If that is correct, then there will be an immediate departure of a lot of folks, and then those who remain will stay on longer, which I believe will have an adverse impact on the policy of the Federal Government to downsize.

Senator STEVENS. Well, I can see, that with premature retirement, if they left immediately, there would be an economic impact on the Federal Government because we would have to retrain a lot of people, and have a pretty high level of recruitment planned. But I do think that the difficulty is that the reality of the deficit is coming at us like a freight train, and I have learned that I don't survive putting myself down on the tracks in front of a freight train.

My job is to try and find a way to devise this so that there is enough incentive to keep people, and at the same time create a fair opportunity for an employee to have a good retirement system. I think that was what we did with FERS and I think we could do it again if we invest some creative thinking.

You were in those meetings we had over at my house, weren't you, when we started this?

Mr. TOBIAS. I was.

Senator STEVENS. What was that, 15 years ago?

Mr. TOBIAS. That is right. We were both a lot younger then, sir.

Senator STEVENS. Yes. Well, it may take a few more coffee sessions. I understand what you are saying, but I would urge you to try to see if you can provide us with some ideas of what incentives to stay on the job would work that would not cost beyond the cost of training people to take the place of the persons who have left.

Mr. STURDIVANT. Mr. Chairman, just to come at it from two different directions, I think what you are grappling with now is a result of—I guess it is how policy is made without much strategic planning. I know it is real difficult to do a lot of strategic planning around policy, but on the one hand Members are saying we have to reduce the number of Federal employees. We have numbers that sometimes appear out of the air without any rationale for reductions, so you are driving reductions and downsizing on one end, but on the other end you still need people with expertise and ability

and with institutional knowledge to continue to move the programs of the Federal Government.

I think part of that is not only the fact that it doesn't seem that a lot of strategic planning is done. It is driven by budget, it is driven by deficits, it is driven by politics rather than what type of Federal Government do we need, what type of employees do we need, what type of services are going to be needed to move into the 21st century.

I would just offer that one of the areas, if you want people to stay, is let's do what we are supposed to do as far as pay is concerned. That is a piece of it. We need to pay people what they were promised to be paid. I think that the current pay system has some flexibility in it for specific incentives for people, but I think that that is a direction that you could go in where you can really do some things with the people that you want to stay that then make it easier for the folks who want to leave, where you are downsizing, to leave.

So it is not just one way or the other way, and it is a real problem when you are not able to do strategic planning, which has been our experience in dealing with these policy questions around Federal employees, around downsizing, around the deficit.

Senator STEVENS. Well, I guess we are going to have to find some time to get together. I don't agree with some of your assumptions because I do believe that CSRS is underfunded. I do also believe that we had the FERS fix so that there would be no CSRS person who retired that would not get their payment, but it would eventually come from the contributions made by the FERS people, not the CSRS people.

Now, we all know that is a fact. The problem is to figure out a way to fix that. Ms. Constantine says she doesn't like that, but I suggest that we ought to give some incentive for CSRS to fold into FERS now. At least if they did, that would eliminate that unfunded liability as far as the CSRS system, and it would, I think, prove that one plan is better than two for Federal employees right now.

You say we should just pay more money. I don't have much chance to recommend paying more money right now, but I do have some chance to say if we can save money by getting people to work 3 more years. If we don't have to pay to train people and to move them and we can show that we are going to save money, then perhaps we can use some of that money we save for an incentive to those people to stay.

Now, I would like to see incentives like that developed. They would be positive in the budget sense right now. I am hopeful that some of the suggestions we are getting along the way may help us in that regard.

Let me ask you this. Do you know of anything we could do to encourage members to make greater contributions to Thrift Savings Plans other than increasing the match?

Mr. TOBIAS. Well, I haven't seen in a while, Mr. Chairman, a stratification of those who make contributions at what level, but the last one I did see had a predictable result. Those who earn more money make a higher contribution, as you would expect, and it is almost a mirror image. So people spend their money—those

who are lower paid spend their money basically on surviving and as they earn more, they make a larger contribution.

Senator STEVENS. I was looking at that, an inverse matching plan, matching the lower-paid employees at a higher rate and then have a lesser rate of match as we went up the salary scale.

Mr. TOBIAS. My recollection is, Mr. Chairman, that that is a proposition that you considered 15 years ago and we supported it at the time.

Senator STEVENS. Yes, we explored that but we weren't able to enact it. But there is more reason for it now. It was viewed as being too complicated and an unproven system, as I remember the complaint that was made.

Well, let me thank you. We have two more panels. I do appreciate your courtesy, and I do hope that you will be willing to come forth and meet with us informally, all of you, when we get down to trying to figure out what to do this year.

Mr. TOBIAS. Thank you, Mr. Chairman.

Senator STEVENS. Thank you very much.

Mr. STURDIVANT. Thank you, Mr. Chairman.

Senator STEVENS. Let me now call Moe Biller of the American Postal Workers Union; Vince Palladino, President of the National Association of Postal Supervisors; Ted Carrico, Secretary-Treasurer of the National Association of Postmasters; Roger Moreland, Vice President, National Rural Letter Carriers' Association; and William P. Brennan, the President of the National League of Postmasters. Now, we are getting down to a panel that has more breadth here.

Moe, I am told I mispronounced my old friend's name. It is Moe Biller. I apologize.

Again, we will print your statements in full in the record. We have five of you here on this panel, so let's go in the order I read them, if, for no other reason, than that is the way they appear on the schedule. I ask that you make your remarks as brief as you wish, but I am not going to cut you off.

Moe, you are first.

#### **TESTIMONY OF MOE BILLER,<sup>1</sup> PRESIDENT, AMERICAN POSTAL WORKERS UNION, AFL-CIO**

Mr. BILLER. Mr. Chairman, Members of the Subcommittee, I am Moe Biller, President of the American Postal Workers Union, AFL-CIO. APWU represents 360,000 members and retirees and is the largest free and democratic Postal union in the world. I am proud to represent the men and women who move more than 177 billion pieces of mail per year.

In your letter of invitation, you asked me to comment on proposals to modify the Federal retirement system. The short, simple answer, Mr. Chairman, is the Federal retirement programs do not need to be modified or reformed in any significant way. Despite an onslaught of propaganda to the contrary, the important facts are as follows. There is no crisis in the Federal retirement system. There is no unfunded liability problem. There is no solvency problem in the civil service and Federal employee retirement programs.

<sup>1</sup> The prepared statement of Mr. Biller appears on page 239.

You have heard excellent testimony at your last hearing on these issues from experts at the General Accounting Office and the Congressional Research Service. The clear conclusion that can be drawn from their testimony is that CSRS and FERS are sound, responsible programs. Unfortunately, nearly every so-called reform proposal offered in Congress this year and in recent years is nothing more than an excuse to take funds out of the pockets of Postal and Federal workers and retirees. Deficit reduction is the excuse. These cuts undermine and demean the value of public service.

A decade of retirement cuts: Postal and Federal workers were forced to hand over considerable amounts through a decade of nearly \$54 billion in benefit cutbacks from 1981 to 1992. This was really the same as you heard before on more money because that included the pay which is not included here. A list of these cuts is included in the written testimony. Once again, the House and Senate versions of the Congressional budget resolution this year cut retirement and health benefits. I urge you to stop these unfair, unjust budget-driven proposals.

The House budget resolution also contains a sense of the Congress language regarding Federal retirement. This language is an example of the unwarranted attacks on Federal retirement you mentioned at your last hearing. It calls for the convening of a high-level commission, refers to, "problems associated with the Federal retirement system," and asserts that there is a long-term solvency problem.

Mr. Chairman, this language flies in the face of the facts presented at your earlier hearing and ignores the hard work done 10 years ago by this Committee. One way to oppose unwarranted attacks on Federal retirement is to insist that this language be dropped from the budget resolution.

Mr. Chairman, you also correctly noted at the last hearing that much of the continuing bad publicity about Federal retirement comes from anecdotal reports on generous pensions received by former legislators. If you are looking for places to cut back on the unwarranted attacks, cut there. Otherwise, urge your colleagues to keep their hands off Postal and Federal retirement.

The Congress enacted a balanced retirement system more than a decade ago. It should not be made a hostage to budgetary politics. Mr. Chairman, you played a key role in those reforms. APWU members do not want to see undone the excellent work you did back then, on which we all worked and participated. Creation of the FERS system a decade ago achieved this balance. This system is equitable to the taxpayer and to Federal workers, including Postal workers; encourages employees to save toward their retirement by adding a Thrift Savings Plan component; includes a small defined benefit component that is funded like private sector plans and is coordinated with Social Security. It also generally protected the integrity of Federal Government's promises to Civil Service Retirement System enrollees by retaining the program and allowing enrollees a choice between CSRS and FERS and by setting up a solid, sound, and solvent system for financing both programs.

Retirement benefits are not a largesse bestowed on our members. They are a part of the total compensation costs that we have negotiated with the Postal Service. The Postal Service pays from its rev-

enue from stamps and fees all of the retirement costs of its current and former employees that are not covered by employee contributions. The retirement benefit package is not out of line with private sector practices. We are pleased that you have asked the General Accounting Office to update their comparative analysis of private sector retirement plans and Federal retirement benefits.

What needs reform, however, is how we can give some stability to Federal retirement programs and prevent demagogues from alarming Federal and Postal workers by manufacturing false budget-driven crises. These alarmist cries make it difficult for workers to plan their careers and their retirement.

When the Federal Employees Retirement System was created, employees were given the opportunity to stay with the Civil Service Retirement System or make the transition to the new system. For those who elected to stay with the current system, the Federal Government assumed a moral responsibility to keep the basic structure of the program intact. Otherwise, the Federal Government would essentially have engaged in bait-and-switch tactics with its own employees.

In addition to the moral responsibility, there is a pragmatic reason to leave the current Civil Service Retirement System alone. In terms of the long-run perspective that must be used in analyzing retirement systems, it is being phased out. Thus, the issue becomes whether the Congress should reexamine the FERS system that was created a decade ago.

As you know, there are three components to FERS. Unlike the Civil Service Retirement System in which one pension was designed to provide all retirement income, FERS recipients receive Social Security, plus two components that supplement Social Security benefits. Social Security is off the table this year, thank the Lord.

The second component is the Thrift Savings Plan. The only potential for budget savings in a Thrift Savings Plan would be to reduce the Federal match. That would distort the basic structure of FERS and would send a signal that the Congress does not want to encourage Federal employees to save.

The third component is a pension plan with benefits tied to length of service and, like the Civil Service Retirement System, the average salary for the highest consecutive 3 years of pay. This defined benefit component is relatively low. It is important to our members, however, because it provides a floor of benefits that will be particularly important for workers whose incomes were not high enough to allow them to make the maximum contribution to the Thrift Savings Plan throughout their careers.

The benefit is actuarially sound. Proposals to lengthen the averaging period for initial benefits to high-3 and increasing employees' contributions are simply ways to reduce Federal spending. Both of these options are regressive, in that they will impact most heavily on lower-wage Federal employees. Furthermore, the increased payroll tax on Federal employees is nothing more than a tax on one group to pay for the House-backed tax cuts for the wealthy. Please don't undermine or destroy the balanced retirement transition already set in motion. The current CSRS-FERS plan is a good, solid plan for Federal retirement into the 21st century.

I would like to leave the Subcommittee with four conclusions. First, you reformed Federal employee retirement programs a decade ago. Revisiting the issue now is simply a way to reduce the budget deficit which is in no way caused by the Civil Service Retirement and Disability Trust Fund.

Second, some of the benefit changes that are being considered, lengthening the average period for initial benefits and increasing employee contributions, would be regressive. In addition, an increase in the contribution rate would single out Federal employees for a tax increase at a time when both the Congress and the President are seeking ways to provide tax relief for Americans.

Third, responsible Members of the Senate and the House need to oppose and actively counter the irresponsible attacks by demagogues who are trying to discredit public service and the dedicated, hard-working employees who hold together the fabric of our Nation.

Finally, the Congress has to understand that enough is enough. Our members work an entire career with a level of expectation for retirement and health benefits. These benefits are constantly being jeopardized by Members of Congress who apparently feel no moral bond as the employer with the people who work for the Federal Government, be they Postal or Federal workers. APWU says these attacks must end now.

Thank you.

Senator STEVENS. Thank you, Mr. Biller.

Our next witness is Vince Palladino, President of the National Association of Postal Supervisors.

#### **TESTIMONY OF VINCE PALLADINO,<sup>1</sup> PRESIDENT, NATIONAL ASSOCIATION OF POSTAL SUPERVISORS**

Mr. PALLADINO. Thank you, Mr. Chairman. We appreciate the opportunity to testify. I will be very brief and submit my written statement for the record.

I represent over 35,000 supervisors and managers in the Postal Service nationwide. I appear before this Subcommittee during a historical period—and I wanted to use the faux pas “hysterical”—when the need for Federal programs of every type and size is questioned on Capitol Hill daily. As I explain in my written testimony, our organization strongly believes the Nation needs a Federal Postal system and that Postal employees should remain as part of the overall Federal workforce, even though the Postal Service is somewhat unique among Federal agencies.

To manage the Nation's premier communications network, we need three things. First, we need a clear mandate from you and others in Congress. Should we continue to provide universal delivery at a universal price? We believe we should, but it is impossible for us to operate exactly like a private sector business with such a guiding principle.

Second, we need assurances that the Postal Service will not be continuously used as an easy source of billions to help reduce the deficit. No private sector business could sustain the \$14.5 billion of anticipated cash demands as the Postal Service has and continue operating.

<sup>1</sup> The prepared statement of Mr. Palladino appears on page 242.

Third, we need to know that Congress will live by the terms of the contract it has with Postal and Federal employees and retirees. We need to know what we can count on in our retirement so we can plan our lives accordingly. We need to know if Congress will provide the benefits promised to us when we were hired.

In summary, Mr. Chairman, we believe Congress should honor its commitments to those employees already part of the Postal-Federal workforce. We would gladly participate in a discussion about changing the benefits for those who will join the workforce in the future, if you see fit.

I would be glad to answer any questions at this time.

Senator Stevens, thank you very much.

Our next witness is Ted Carrico—I probably pronounced that one wrong, too; I apologize—Secretary-Treasurer of the National Association of Postmasters.

**TESTIMONY OF TED CARRICO,<sup>1</sup> SECRETARY-TREASURER, NATIONAL ASSOCIATION OF POSTMASTERS OF THE UNITED STATES**

Mr. CARRICO. Thank you, Mr. Chairman. I am Ted Carrico, Secretary-Treasurer for the National Association of Postmasters, NAPUS. NAPUS represents more than 42,000 active and retired postmasters throughout the country. We appreciate the opportunity to appear before you today.

While NAPUS realizes the importance of deficit reduction, we oppose attempts to balance the budget by reducing the employment benefits of Postal and Federal retirees. While we understand that we do not have a written contract, individuals who accept a Government or Postal job make that decision with the understanding that certain retirement benefits will be paid to them at the end of their careers. We believed that the benefits which persuaded us to take a job in public service would continue. A bond of trust has been severely strained in previous years as benefits such as the lump-sum and the 3-year recovery rule have vanished.

Retirement income for Federal and Postal employees has been reduced through legislation creating windfall and spousal offsets. COLA's have been eliminated, reduced, or delayed, for a total budget savings of more than \$40 billion since 1981. Federal and Postal employees have already accepted a fundamental change in the basic retirement system, FERS, to cooperate with Congress and develop a self-sustaining program. Is it any wonder that now employees are unwilling to accept even more changes to their retirement system?

As the Chairman is well aware, the Federal retirement program has already been reformed. You and other Members of this Subcommittee created the Federal Employee Retirement System, FERS, in 1986, and we are very grateful for the care that you took in effecting that change. FERS is a fundamentally sound retirement system which makes up a very small portion of the Federal budget. Changing the program now and making the changes apply to Federal and Postal employees who are approaching retirement places an unnecessary hardship on those people.

<sup>1</sup>The prepared statement of Mr. Carrico appears on page 243.



Our employees who are now retiring are primarily those who are covered under the old Civil Service Retirement System and are generally not eligible for Social Security. The implied offers of good health insurance and retirement benefits strongly influenced their decision to enter public service. Most of these people have no back-up plan for financing their retirement, and jobs simply are not available to retirees in many areas even when these people are in good health. As a group, these Federal-Postal retirees are not wealthy, and please note that unlike Social Security, CSRS and FERS benefits are fully taxable.

A good retirement program provides benefits to the employer and to the public, as well as the retiree. Certainly, this is a good reason for attracting a high-quality, stable workforce to Government positions. It is important for our employees to be able to plan for their financial future and to know with a high measure of certainty that funds will be available to them upon retirement.

Changing the rules, particularly for people who have spent many years in the current system, is unfair. The specific Senate proposal to change the retirement formula from an average of the highest 3 to an average of the highest 5 years of salary would unfairly penalize employees who were promoted late in their careers.

Mr. Chairman, at a previous May 22 hearing on this issue, you asked a question about the effects of another open season for changes from CSRS to FERS. A number of our employees who are entering the mid-point of their careers, those who have spent 10 or 15 years in the system, might be interested in having another opportunity to at least consider FERS. They did not understand FERS when it was first presented, particularly the Thrift Savings Plan.

We understand that one of our fellow Postal employee groups is advocating that in return for no other changes, Postal employees, as well as Federal employees, pay an additional 1.5 percent into the pension fund. We do not support this proposal. The Postal Service already makes payment to cover the full pension liability for Postal employees. To ask yet another 1.5 percent from Postal employees themselves would be forcing them to pay more than their fair share of the cost. In any case, the idea that Federal and Postal employees must pay into the Treasury enough to cover the amount that they will receive after they retire is contrary to the way other entitlements, such as Social Security, work.

On the issue of COLA's, Federal and Postal retirees are currently being unfairly singled out for delays in COLA payments. Three-month delays in COLA payments are in effect for CSRS and FERS annuitants through 1996. No such delays affect the COLA's of Social Security recipients. Cost-of-living allowances are intended to help retirement income keep pace with inflation, and inflation erodes the retirement income of both Federal and private sector retirees. NAPUS will continue to oppose discriminatory treatment and changes in our COLA's when there are no similar changes affecting other Americans. Our retirees should not be penalized because they chose careers in public service rather than the private sector.

In the end, it really comes down to an issue of fairness and equality. Federal and Postal employees are not unwilling to share

the burden of deficit reduction, but we do not believe they should be singled out to accept burdens that are not imposed upon other Americans. NAPUS believes that the program has already been reformed and does not need additional fine-tuning.

Mr. Chairman, NAPUS has members living in many parts of the country where business agreements are done by a handshake or a word, a gentlemen's agreement. We would like to believe that our Government would honor such agreements with its employees.

That concludes my statement. I am ready to answer any questions that you may have.

Senator STEVENS. Thank you very much.

Roger Moreland, Vice President of the National Rural Letter Carriers' Association, please.

**TESTIMONY OF ROGER W. MORELAND,<sup>1</sup> VICE PRESIDENT,  
NATIONAL RURAL LETTER CARRIERS' ASSOCIATION**

Mr. MORELAND. Thank you, Mr. Chairman, and good afternoon. My name is Roger W. Moreland. I am the Vice President of the National Rural Letter Carriers' Association, representing 88,000 members. I have also submitted a written statement and would briefly like to discuss topics of concern with you from my statement.

First, the proposal that the GAO report made to this Committee concerning the change from the high-3 to high-5; second, the concern that our members have because we make plans a few years prior to retirement making changes based on when we would be eligible to retire, and for Congress now to change the law rather than futuristically will drastically disrupt those plans.

We also have a concern with the Senate budget resolution's proposed changes to the Federal employees health benefit plan computation. I have included in my written report a chart explaining the impact. The proposed changes would be rather harsh on our membership. It would also be equally as difficult for active workers. Retirees have limited opportunity to take advantage of alternative forms of health plans in the rural communities in which we reside.

During our legislative conference recently, our presidents as well as our vice presidents across the Nation recommended, and the national board concurred, that we recommend that the Postal and Federal employees pay more to maintain the current retirement system and health system exactly the way it is. In return, we would be willing to make an additional contribution toward our retirement. We believe that the 1.5 percent increase in contribution would take care of the \$10 billion that the Committee is more than likely, we believe, looking for. This, in the Postal community, could be done by a Postal pass-through, which would include Postal employees by passing through their increased contribution to the U.S. Treasury for deficit reduction.

We would also suggest, Mr. Chairman, that Postal employees and other Federal employees—when you talk about and consider separating the Postal employees from the Federal employees' plan in the health and retirement system, we strongly think that that is an unsound idea.

<sup>1</sup> The prepared statement of Mr. Moreland appears on page 245.

Finally, in additional changes that you might consider that are being discussed off and on through testimony today proposing future Federal retirement system changes, we believe that we all need to be brought up to speed at the beginning of the process, and perhaps you and Chairman Mica and Chairman Roth and Chairman Clinger could again convene educational forums to bring everyone up to the same level of understanding. We would urge you to bring all of us up to speed once again before you consider any changes to FERS or design a new system.

As always, Mr. Chairman, we look to you for leadership and leading the role in this effort and thank you for the efforts that you have done on behalf of the rural carriers throughout this country. Thank you for permitting me the opportunity to testify before this Committee, Mr. Chairman.

Senator STEVENS. Thank you very much.

Lastly, now, the statement of William Brennan, the President of the National League of Postmasters. Mr. Brennan?

**TESTIMONY OF WILLIAM P. BRENNAN,<sup>1</sup> PRESIDENT,  
NATIONAL LEAGUE OF POSTMASTERS**

Mr. BRENNAN. Thank you, Mr. Chairman. I am Bill Brennan, President of the National League of Postmasters. The League is privileged to represent the Nation's postmasters, along with retired postmasters, officers in charge, other Postal managers and Federal employees. I am pleased to address this Committee today concerning proposed changes to the Federal retirement system, and thank you for the opportunity to participate in the current debate over Federal-Postal retirement benefits.

Mr. Chairman, since all of the issues have been presented before, I will basically be very brief and ask that my written statement be included in the record.

Mr. Chairman, you are, of course, to be commended for your longstanding commitment for developing the Federal Employees Retirement System. You deserve much credit for this tremendously successful program, and I would hope that over the coming months and years those persons who chose to stay in the Civil Service Retirement System might have an opportunity to look at the FERS program again, now that it is better understood.

I do, however, reject allegations that the Civil Service Retirement Fund is out of control, and I further believe that there is no liability as far as Postal retirees are concerned, since the Postal Service has already paid the full cost of its employees' retirement. We do, however, recognize the legitimate concerns of our non-Postal members regarding this issue.

The League is opposed to the proposed reductions in retirement benefits, and changes to our retirement would serve as a breach of faith between the Federal Government and its current and past employees. Proposals to raise the high-3 to a high-5, increase the Federal employee contribution, and to change the method for computing inflation does not give consideration to those individuals who presently have served 20, 25, 30, or more years with the Federal Government or Postal Service. We are also asking that you

<sup>1</sup>The prepared statement of Mr. Brennan appears on page 247.

support the returning of the effective date of COLA's to January 1 in 1997.

The League views retirement benefits as an implied part of our contract to work for the Federal Government. Today, Senator, I bring more than 130 letters from postmasters from across the country who have taken their time to write to you and express their views on their retirement. I submit these in the spirit of cooperation in which they who wrote them serve the public each and every day.

Senator you had asked the earlier panels how we would keep our experienced workforce on the job. Mr. Chairman, to me, the easiest way would be to continue the current retirement system well into the future.

In closing, Mr. Chairman, you have our sincere and genuine appreciation for all you have done for Federal and Postal employees and retirees. I pledge to you the League's full support in responding to our adversaries in this most crucial issue confronting Federal and Postal employees and retirees, and I, too, will be willing to answer any questions.

Senator STEVENS. Well, I do thank you for all your statements. I think they are fairly consistent.

Yes, Mr. Moreland, if we do get to the point of trying to work up a new plan, we certainly would—at least I would—attempt to find a way to have the consensus type of planning sessions we had before.

There is a new plan coming forth here in the Senate which will limit Members to two Subcommittees, and that may mean that in the next Congress I will no longer have this role. If there is going to be an impact from these series of hearings, it will have to be during this Congress. I do hope that we can find some way to look at the Federal employee retirement system.

Let me just ask you, isn't it the uncertainty in terms of the retirement and other benefits that creates the problem that leads people to decide to retire early? Isn't it the uncertainty in their lives and the worry that the plans will not be carried out as they anticipated? Is that what you are talking about—the contract theory? Is it the uncertainty that leads Federal employees in your unions to question whether they should stay with the Federal Government?

Mr. BILLER. Well, that is one of the factors. I am not sure it covers it all, but the feeling that you come in and you have a contract, and not only that, but there is nothing to put it in concrete. Along comes another Congress 6, 8, or 10 years later, and depending on the political situation at the time, their benefits are threatened.

Senator STEVENS. I don't think that the Congress has ever made a change in the retirement system and made it retroactive. Maybe you disagree, but we have made changes and made them prospective. FERS is a good example. Do you know of any time when we made it retroactive?

Mr. PALLADINO. Only once, I think, when you made Postal Service people pay for Medicare. They retroactively increased our contribution to pay for Medicare.

Senator STEVENS. But we eliminated the exemption that you didn't have to pay for Medicare before that time. You mean the deductions from the—

Mr. PALLADINO. Yes, but that was made retroactively, so that nobody could get out. That is the only one I can remember.

Mr. BILLER. Yes, but you also have the diminution of the COLA, postponing it, cutting it. Those are also important to people once they retire.

Mr. PALLADINO. There is another issue, too.

Senator STEVENS. Yes, but when we came here, Moe, there wasn't any COLA. The COLA was something that was a process of the 1970's.

Mr. BILLER. When we came here, there was no retirement.

Senator STEVENS. That is right.

Mr. PALLADINO. There is another issue besides the contract, and that is the actual loss of annuity, and especially in the Postal Service because recently we went through a restructuring and some left in a hurry and others got promoted very quickly. So, that would mean a big loss if they were ready to retire. As you change the annuity from high-3 to 4 to 5, they would leave immediately.

Senator STEVENS. I have been looking at this and, as you know, some people have commented on it today, but it does seem to me that the great problem is portability. More and more, I think people are going to come in and out of the Federal Government employment, depending on their career path.

But in any event, when you look at it, we have this defined benefit pension system that is in our current FERS plan and it really is the principal thing that seems to be under attack right now, which I don't understand, but it is. As I said last time, and one of you remarked on it, I do think it is the problem of the Congressional retirees who have been highlighted—former Speakers and others who have, by the way, augmented salaries and extremely long careers in Government. They are the exception. Those retirement benefits have been highlighted in the media as compared to the average, whether it is a Member of Congress or a Member of the Executive branch. The retirement levels are not high compared to the private sector.

The difficulty right now seems to be to keep this pension plan portion of FERS in the system, and so I was looking at the concept of having Social Security as one leg of the retirement plan and then having a Thrift Savings Plan as another leg with decreasing matching as the contributions of the employees went up. It would be totally portable, and once you make a contribution and it is matched by the Federal Government, no one can ever take it away from you.

Mr. BILLER. Well, I think you are aware, Senator, that there have been efforts recently, either the last session or the present session, to reduce the matching funds, even.

Senator STEVENS. That is because the people who contribute the most are at the highest level of income and they are going to save because of the 401(k) concept of the plan. We wouldn't have to make the match at the level of the \$100,000 employees that we would at a \$20,000 employee to have them save a portion of their income. What I am saying is if we made that Thrift Savings Plan

contribution of the Federal Government decrease with the amount of increased salary, that would answer that question.

I think, Mr. Biller, this may happen. I don't see how we can stop that right now. I think a sufficient number of people now are convinced that the match is too generous. I don't agree with that, but—

Mr. BILLER. You shouldn't because you were the author.

Senator STEVENS [continuing]. As Mr. Tobias said, the matching is heavier at the higher income level than it is at the lower income level. Therefore, there should be an incentive to have more people save at the lower income level and recognize the fact that the upper-income people may be willing to save solely because their Thrift Savings Plan matching is not subject to taxation until they retire.

Mr. BILLER. So match the lower people higher.

Mr. BRENNAN. Because of their income status, the lower levels must use a larger percentage of that money just for existence.

Senator STEVENS. Absolutely, but they are the ones who are really the targets for a good retirement plan. Otherwise, you won't keep them at all.

Mr. Palladino?

Mr. PALLADINO. Well, you have to consider, too, there is a downside to portability, and that is the dedication that we have in the force. I mean, once we get a trained individual, when they have this portability there is no reason to stay on.

Senator STEVENS. Well, I was looking at that, too, and trying to see if we couldn't find also some way to increase the match as you get further out in years because we need an incentive to get people to stay those last extra years. There is a real savings to the taxpayer if a person works throughout the total period of their productivity. You don't have to train someone to take their place, and after the first of the century there is not going to be someone to take their place with the retirement of the baby-boom generation.

It is a very interesting thing, gentlemen. I hope that we can find some time to do some thinking together before these votes hit us, which I think currently we would lose unless we have some way to answer them, and I hope that you will help us get some of the statistics we need to answer them.

For instance, do you have any idea how many of your people retire prematurely now? Do you keep those figures or are they kept by the agencies they work for?

Mr. BILLER. Well, we can get them. I am not sure that the majority retire prematurely. I don't think so. It took me 55.5 years.

Senator STEVENS. I understand that, and I am right behind you, it seems like. When you read the stories in the news here, they talk about the people who have had 30 and 35 years in the Congress. The average is somewhere around 11 years, so the problem is to get the story out as to who we are talking about in terms of this retirement program. Once you hear 30 years, no one is thinking about the retirement program anymore. You know, you have already got your retirement program. It is, I think, something people think about as they are working through their career.

I appreciate your courtesy for coming, gentlemen, and I think you accentuate the problem we have because, clearly, you have all

stated you don't want any change, and yet the program we face right now is finding a way to cut \$10 billion out of the systems that we manage which will affect your members.

Mr. BILLER. You know what happens. They cut us all at a time. If it is not one way, it is another way. We pointed out the cuts that took place in retirement. Somebody spoke of the Postal Service before, cuts of \$14 billion since 1986.

Senator STEVENS. Yes, I understand that. We fought them all along the line, some of us, but it didn't do much good. I think we have to devise systems where we show that if we could get people to work an average of 5 years longer in the Federal Government, we could show a savings. The trouble is we can't score that in the budget process, you see. We can only score it 1 year at a time and we are up against this problem of trying to meet the fiscal year 1996 budget requirements.

Well, you have been understanding before, gentlemen. We will have to have meetings later. I am sure you are advised of what is in that budget resolution. It is still in conference, but I don't think that the Federal employee retirement plan part of it is going to be stricken in the conference. There is not that much difference between the House and the Senate. It is about a \$2 billion difference, I think.

Mr. CARRICO. Mr. Chairman?

Senator STEVENS. Yes?

Mr. CARRICO. I think there is another issue that affects the Postal Service, and I agree with the gentleman who spoke earlier that we will see people not working longer, but working less, especially initially if this high-3 to high-5 goes in.

As you know, we just experienced a big reduction in force, with a lot of our experienced people taking the early-outs. I think we are going to see the same kind of action taken if it goes to high-5. As you know, we have just got our service levels up, probably the highest it has been since reorganization, and I am afraid we are going to see a downward slide if we lose our senior people again.

Senator STEVENS. Well, that 3 to 5 scores—if memory serves—about \$780 million in 5 years and almost \$1 billion in the 7 years. We have to find some way to get this money. None of the options that we face to try and meet the demands for reductions are acceptable.

Mr. BILLER. How do you feel your constituents in Alaska would feel? You have a lot of Federal employees up there.

Senator STEVENS. I know.

Mr. BILLER. I am not being a wise guy. I am just curious.

Senator STEVENS. I don't think they like it at all. I think you represent them well. I don't think they want any one of these changes that are being discussed. But on the other hand, the alternative is just to have a massive reduction in force, and mandate it. We could score that.

I do think they recognize, Mr. Biller, that the budget situation is acute now. I am just back from Alaska and I think there is an awareness that the deficit problem is a real problem. When you start talking about hitting a \$5 trillion national debt in October, they understand that.

Mr. BILLER. But the Congressional Budget Office and the GAO have said there is no crisis in the retirement system.

Senator STEVENS. No, there isn't any crisis because, as one of you pointed out, we are not like a company. It cannot become bankrupt or nonexistent, and therefore the deficit in the CSRS will come out of the FERS system. We created that in 1985. The FERS contributions will back up the CSRS system, but the time will come—Moe, I am not sure you and I will be in these positions—about 25 years from now where that FERS system will be sorely stretched.

It will have the same problem as the Medicare fund and the Civil Service Retirement Fund if we do not fix it soon because FERS will have to pay all of the deficit in CSRS and we will have the largest retirement in history when the baby-boomers retire around 2015. They are people that came on board in 1985. Those baby-boomer members who took FERS, are the largest generation in the history of the United States. When they retire, they will draw down that FERS fund so fast that within a few years it will have the same problems Social Security will have.

Mr. BILLER. Yes, but many of those—we are talking about the baby-boomers. Many of those have switched to FERS and are in FERS.

Senator STEVENS. I am saying FERS, but FERS will not be as sound because it paid off the CSRS deficit. You ought to study that. It is there, Mr. Biller. The problem is out there further than Social Security. The Medicare problem starts next year. The civil service problem starts in about 2012. Beyond that is the problem of FERS, and how far beyond 2015, I don't know, but it is not far.

Sir?

Mr. PALLADINO. Senator, it seems to me like we have a catch-22 here. You are looking for people to stay on longer. Under CSRS, they do have an incentive to stay on longer. However, under FERS, with the portability, they don't, so we have to get something that makes FERS employees stay longer. CSRS does; they have an incentive. Every year they stay on, there is a 2-percent increase in their annuity, and so the higher—

Senator STEVENS. But FERS does because they have a Thrift Savings Plan and they don't have to pay taxes when taking it out if they are retired. But they do if they are not retired. It is not a disincentive against portability. I will agree with you.

Mr. PALLADINO. Right. They can just move to another position.

Senator STEVENS. But it is a disincentive against going out of the workforce.

Mr. PALLADINO. Yes, but they move outside of Government work and carry it with them.

Senator STEVENS. That is correct, and more and more of them are doing that now anyway.

Mr. PALLADINO. I know, but then again we are in that predicament where we have to retrain and bring on new people to replace them. Under CSRS, more of our people stayed for a longer period of time. In fact, I think the retirement age was even higher than the average now, which is 61, or 62. I think under CSRS, before FERS, it was even higher; people stayed longer. It was 63 or 64.

Senator STEVENS. I think it was longer, but the real problem about CSRS was it was costing us about 27 percent of payroll.



FERS saved—and we don't get any credit for that, by the way—but FERS saved, what, \$8 to \$9 billion, in addition to the \$40 billion you all talked about? None of you talk about the savings in FERS, but there is another \$8 to \$9 billion out there in that. All of your comments are correct. We have saved almost that amount of money, \$40 billion in the last 10 years, plus \$7, \$8, or \$9 billion in FERS. I have never really gotten the final analysis of how much we have saved.

I do thank you, gentlemen, and I hope you understand our problem.

Mr. BILLER. Try to understand ours. Thank you.

Mr. CARRICO. Thank you, Senator.

Senator STEVENS. Thank you.

Our next panel is Bruce Moyer, Executive Director of Federal Managers Association; Robert Duncan, Past President of the Social Security Management Association; Carol Bonosaro, President of the Senior Executives Association; Helene Benson, President of the Professional Managers Association; Charles Jackson, President of the National Association of Retired Federal Employees; and the last one is Robert Mansker.

We are hopeful we can finish the hearing by 5 o'clock, but I am not going to put any rush on anybody. I do think we ought to listen to the comments that you have. So, as with the others, we are going to print all of the statements that every witness today has presented to us, and we will start with Mr. Moyer.

#### TESTIMONY OF BRUCE L. MOYER,<sup>1</sup> EXECUTIVE DIRECTOR, FEDERAL MANAGERS ASSOCIATION

Mr. MOYER. Thank you, Mr. Chairman. In the interest of time, I would like to summarize my statement and hit some of the major themes and issues raised today. Thank you for the opportunity to participate in today's important hearing on the future of the Federal retirement system.

We agree, Mr. Chairman; as the father of FERS, you did get it right the first time. Outside of minor modifications, CSRS and FERS programs are not in need of major reform today. Both the Congressional Research Service and the General Accounting Office have gone on record in stating that the current funding method for the Federal retirement system is adequate to cover the costs of all current and future Federal retirees. With this in mind, FMA does not support proposals contained in the Senate and House versions of the budget resolution to make current workers pay more for reduced retirement benefits.

The House version, in particular, is not aimed at improving the health of the retirement system. It is aimed only at providing revenue to offset a tax cut. It is counter-productive toward recruiting and retaining the workforce necessary to successfully create a smaller, more cost-effective Government.

While reducing Federal retirement benefits may not technically constitute a breach of contract, it represents a serious breach of faith with the men and women who have devoted their working lives to serving the American public. Changes intended to reduce

<sup>1</sup>The prepared statement of Mr. Moyer appears on page 248.

retirement benefits, if absolutely necessary, should only apply to new hires. Therefore, we oppose two proposed changes to the retirement system: first, increasing the high-3 to high-5, and, second, increasing Federal employee contributions to the retirement trust fund by 36 percent.

Mr. Chairman, we cannot overstate the importance of viewing changes in retirement benefits in terms of their impact on the Government's ability to effectively manage workforce attrition and employee morale. The retirement system is first and foremost a workforce management tool. Changes to it must take account of all the consequences.

At the same time, we would recommend two changes to the current retirement system, although minor in nature. The first is to allow CSRS workers to contribute an additional 5 percent of pay to their TSP accounts, and, second, to amortize the \$540 billion unfunded trust fund liability over a 40-year period, as the administration has proposed.

As to the prospect of another CSRS-FERS open season, while we do not anticipate that many of our members within the Federal Managers Association would switch from CSRS to FERS because of their higher than average age and years of service, FMA would welcome another voluntary open season. Less than 5 percent of those CSRS-covered employees transferred into FERS during the last open season, far less than would have benefitted from making a switch.

Inadequate understanding of FERS and a high level of skepticism about its advantage as a Federal compensation benefit restrained Federal employees from crossing over. While there are certain to be employees who still would benefit from switching from CSRS to FERS, an ever higher state of cynicism and anxiety about the future of the Federal compensation package pervades. Therefore, the success of an open season in terms of the numbers of Federal employees who actually switch will depend upon their perception of the stability of the rules governing FERS and its three components—Social Security, the defined benefit pension component, and the TSP with the Government's matching contributions.

Thank you, Mr. Chairman, for your strong leadership in this most important issue. We look forward to continuing to work with you in the days ahead to improve the ability of Federal managers, supervisors and all employees to cost-effectively deliver goods and services to the tax-paying American public.

Senator STEVENS. Thank you, and I have read your statement and I appreciate your other suggestions.

Mr. Duncan?

**TESTIMONY OF ROBERT S. DUNCAN,<sup>1</sup> PAST PRESIDENT, NATIONAL COUNCIL, SOCIAL SECURITY MANAGEMENT ASSOCIATIONS**

Mr. DUNCAN. Thank you, Mr. Chairman. On behalf of Social Security field office and teleservice managers and supervisors across the country, I thank you, Chairman Stevens, and this Subcommit-

<sup>1</sup> The prepared statement of Mr. Duncan appears on page 253.

tee for an opportunity to discuss the Federal retirement systems apart from the pressures of budget and deficit reduction.

The U.S. Government, the largest employer in the world, has both a moral and a practical responsibility to provide equitable benefits, including a sound, inflation-protected retirement program, to its workforce. Federal retirement benefits are not needs-based entitlements. They are earned through work and are due as promised to those who earned them during their Federal careers.

Those I represent today are responsible for direct service to millions of people for whom our offices and services establish their image of the Federal Government. Advocating policies to attract and keep a competent, experienced workforce is a high priority for us.

We strongly oppose reduced benefits, increased employee contribution rates, and increased retirement age for the current Federal workforce. Successful budget-driven attacks on our retirement program this year are based on two arguments, that Federal retirement is overly generous and that the retirement trust fund is insolvent. GAO and CRS have presented proof refuting both claims.

We know there is no rational basis for the proposed changes, and no interest in fairness on the part of those who target us in this way. The aim is to extract billions of dollars from us without regard to the cost to individual Federal employees and their families.

It is wrong to change the rules abruptly for long-time Federal employees. Private sector employees are protected under ERISA laws requiring that when benefit formulas are changed, employers must give retiring employees credit under the old rules for the years served prior to the change. Congress should provide a comparable guarantee for the current Federal workforce.

We also strongly oppose proposals to reduce cost-of-living provisions. Over the past 10 years, Federal retirees have paid \$40 billion toward deficit reduction in lost and reduced COLA's. If BLS should determine that the CPI should be modified because relevant factors have changed over time and the result were either a higher or lower CPI than under current calculations, we could not disagree. Not justified, however, are premature budget cuts affecting retiree COLA's based on a guess of how much the CPI should or could change.

We deeply appreciate the attempt by Senator Stevens and others to raise the voice of reason and fairness, and would like to respond to two of Senator Stevens' ideas, in particular—a second open season for employees to change retirement programs and the suggestion that FERS be changed to a defined contribution plan only.

If budget-driven changes are forced on us, there should be a second open season, this time with better comparative information and an adequate period in which to consider the choices. However, we note that GAO expects that few employees in CSRS would elect FERS coverage if given another opportunity. This is largely because of the impact of Social Security rules on those whose retirement calculation combines CSRS and FERS. The formula for calculating the Social Security benefit uses 35 years of earnings. Most employees considering transfer would not have 35 years of covered earnings and would receive a lower Social Security benefit than if their entire career had been spent in covered employment.

An even greater discouragement is the windfall elimination provision. Employees eligible for a CSRS retirement annuity who do not have 30 years of substantial Social Security-covered earnings face a monthly Social Security benefit reduction of up to \$194, using the 1995 benefit formula. Many would have to work well beyond retirement age to avoid this penalty if they transfer. Unless employees could make their transfers retroactively or the windfall penalty were waived, these factors create even greater disincentives to transfer now because employees hired before 1984 have even fewer years to build up Social Security coverage.

Regarding the FERS defined benefit component, FERS was developed to follow most non-Federal retirement programs composed of three elements—Social Security, a defined benefit pension plan, and a thrift savings type plan. GAO has found no evidence that private sector plans have significantly changed since the design of FERS. FERS' defined benefit pension should be retained for employees to rely on for a significant portion of their retirement income. This encourages them to maintain their employment and even to postpone retirement to increase retirement income.

Finally, the Federal retirement system must be viewed as part of a total compensation package for Federal employees. The Federal Government is not a model employer. Cuts in Federal pay and benefits since 1981 total \$170 billion. The hope remains that by offering a balanced compensation package which includes a sound retirement plan, we can recruit and keep the talent and skills necessary to maintain vital public services. Reducing retirement benefits could seriously erode that ability and jeopardize maintenance of levels of service acceptable to the tax-paying public.

Thank you, Mr. Chairman.

Senator STEVENS. Thank you very much.

Ms. Carol Bonosaro, President of the Senior Executives Association.

#### **TESTIMONY OF CAROL A. BONOSARO,<sup>1</sup> PRESIDENT, SENIOR EXECUTIVES ASSOCIATION**

Ms. BONOSARO. The Senior Executives Association appreciates the opportunity to present our views today.

Chairman Stevens, when you devoted months of effort to design FERS and secure passage of the legislation, SEA believed that FERS was an intelligent, fair, and fiscally sound system, and we continue to believe it is. As your Subcommittee considers changes which ought to be made to either FERS or CSRS, Federal employees couldn't be in better hands than yours.

Before proceeding to the specific proposals, SEA believes it is important to consider the context of such changes. Neither FERS nor CSRS present the prospect of a rapidly increasing share of the Federal budget. Further, both the Congressional Research Service and the General Accounting Office have discounted the notion that there is any meaningful unfunded liability associated with CSRS. The Federal retirement system, further, is not out of line with private sector practices for large corporations, as the data from both

<sup>1</sup> The prepared statement of Ms. Bonosaro appears on page 257.

a Wyatt Company survey and a 1994 Hay/Huggins benefits report demonstrate.

Over the past 8 years, Congress has not only enacted FERS, but has already taken a variety of substantial cost-cutting measures with regard to retirement benefits. Thus, Federal employees reasonably hold the view that they have already given at the office.

Inevitably, over the years Federal retirement and pay have each been considered separately instead of as a total compensation plan in relation to the human resources policy of the U.S. Government as an employer. We believe this is a serious mistake with long-term consequences.

SEA has twice contracted with the Hay group for a study comparing compensation of SES positions with that of comparable positions in private industry. The 1994 study revealed that SES total cash compensation ranged from 47 to 74 percent of that of average industry total cash compensation for jobs of the precise, same difficulty. Thus, SES total cash compensation for these positions would have had to be increased by from 35 to 114 percent to attain comparability with private industry.

But when total remuneration was compared, the fact that Federal benefits were somewhat more valuable had a relatively minor impact on the disparities seen in the cash compensation comparisons. For career senior executives to attain parity with their private sector counterparts, whose total remuneration ranged from 114 to 193 percent of the SES, SES total remuneration would have had to increase by from 20 to 60 percent. Thus, even if the retirement system is somewhat more generous than those in private industry, that generosity is more than obliterated by the pay gap with private industry.

SEA recognizes that the Congress is clearly inclined to include CSRS and FERS among its deficit-cutting targets. SEA urges you to consider limiting changes with regard to any aspect of the retirement system to new hires. By limiting changes to new hires, the rules of the game will not be changed for those already on the field.

In terms of the various proposals which have been put forth, we feel the most egregious proposal is one to means-test COLA's by applying a full COLA, for example, to the first "x" thousand dollars of a retiree's annuity and a reduced or no COLA to the remainder. We cannot stress too strongly how completely unacceptable such a proposal is both to Federal career executives and managers and to Federal human resources policy. Means-testing of COLA's simply penalizes success and is more appropriate for a social welfare program than for a retirement system.

The proposals to change from a high-3 to a high-5 and to increase the contribution merit our immediate attention. SEA is unequivocally and vehemently opposed to the almost 36-percent increase in the contribution rate because it is unwarranted and constitutes a back-door approach to a pay reduction.

Although the increased contribution would be partially offset for GS employees as a result of the proposed January 1996 pay raise, assuming that holds true, the increased contribution would clearly constitute a pay cut for members of the SES and other career executives. The administration denied to career executives the 2-per-

cent national comparability increase provided in 1995 to the General Schedule employees they supervise.

Further, although the administration has proposed and budgeted funds for a 2.4 percent unspecified pay increase for GS employees in 1996, again, the administration has informed us it does not plan to apply this increase to career executives. Moreover, the Senate has proposed that a 7-year freeze on Congressional, Executive schedule and judicial pay include the SES.

The cumulative effect of the pay and retirement proposals, as well as the proposed increase in FEHBP premiums, will be a substantial cut in SES compensation. It is difficult to imagine a more draconian set of circumstances designed to drive out talented, experienced members of the executive corps and to deter promising candidates from considering entry.

With regard to the proposal to alter the current formula from a high-3 to a high-5, SEA opposes this change for Federal employees over the age of 40. Since employees are eligible for discontinued service retirement as early as age 50 and some law enforcement positions have early mandatory retirement provisions, altering the formula for those 40 and older who have already conducted their retirement planning on the basis of the systems in place will provide them insufficient time and opportunity to alter their planning appropriately.

Further, while the change to a high-5 might speed the departure of those currently eligible for optional retirement, such numbers might be offset by encouraging those close to eligibility but not yet eligible to remain 2 years beyond their expected retirement date, thus diminishing the attrition which might normally be expected and further increasing the likelihood of risk.

Most important, if any changes are made to either contribution rates or benefits of either retirement system, the Congress must permit an open season during which employees currently enrolled in CSRS could consider the features of both systems and determine whether they wish to change their enrollment to FERS.

I would be pleased to respond to any questions that you might have. Thank you.

Senator STEVENS. Thank you very much.

Ms. Helene Benson, President of the Professional Managers Association.

#### **TESTIMONY OF HELENE A. BENSON,<sup>1</sup> PRESIDENT, PROFESSIONAL MANAGERS ASSOCIATION**

Ms. BENSON. Mr. Chairman, thank you for the opportunity to present our views, and thank you, Senator Stevens, for being a good friend to Federal employees over the years.

As you have heard today, employees are really outraged over proposals to change the Federal employee retirement plans. I want to make a point that nobody has—Bob alluded to, but no one else has really tuned in on, and that is that benefits employees have already accrued simply can't be tampered with unless Congress is willing to basically steal from Federal employees and do to Federal

<sup>1</sup> The prepared statement of Ms. Benson appears on page 262.

employees what would be a violation of ERISA in the private sector.

I would like to present for the record Section 204(g) of ERISA and Section 411(d)(6) of the Internal Revenue Code, which specify that private sector employee retirement plans prohibit lowering benefits that employees have already accrued.

[The information referred to follows:]

#### SECTION 204(g) OF ERISA

(g) Decrease of accrued benefits through amendment of plan. (1) The accrued benefit of a participant under a plan may not be decreased by an amendment of the plan, other than an amendment described in section 302(c)(8) or 4281 [29 USCS § 1082(c)(8)].

(2) For purposes of paragraph (1), a plan amendment which has the effect of—

(A) eliminating or reducing an early retirement benefit or a retirement-type subsidy (as defined in regulations), or

(B) eliminating an optional form of benefit,

with respect to benefits attributable to service before the amendment shall be treated as reducing accrued benefits. In the case of a retirement-type subsidy, the preceding sentence shall apply only with respect to a participant who satisfies (either before or after the amendment) the preamendment conditions for the subsidy. The Secretary of the Treasury may by regulations provide that this subparagraph shall not apply to a plan amendment described in subparagraph (B) (other than a plan amendment having an effect described in subparagraph (A)).

(3) For purposes of this subsection, any—

(A) tax credit employee stock ownership plan (as defined in section 409(a) of the Internal Revenue Code of 1986), or

(B) employee stock ownership plan (as defined in section 4975(e)(7) of such Code) [Code Sec. 4975(e)(7)],

shall not be treated as failing to meet the requirements of this subsection merely because it modifies distribution options in a nondiscriminatory manner.

#### SECTION 411(d)(6) INTERNAL REVENUE CODE

(6) Accrued benefit not to be decreased by amendment.

(A) In general. A plan shall be treated as not satisfying the requirements of this section if the accrued benefit of a participant is decreased by an amendment of the plan, other than an amendment described in section 412(c)(8), or section 4281 of the Employee Retirement Income Security Act of 1974.

(B) Treatment of certain plan amendments. For purposes of subparagraph (A), a plan amendment which has the effect of—

(i) eliminating or reducing an early retirement benefit or a retirement-type subsidy (as defined in regulations), or

(ii) eliminating an optional form of benefit,

with respect to benefits attributable to service before the amendment shall be treated as reducing accrued benefits. In the case of a retirement-type subsidy, the preceding sentence shall apply only with respect to a participant who satisfies (either before or after the amendment) the preamendment conditions for the subsidy. The Secretary may by regulations provide that this subparagraph shall not apply to a plan amendment described in clause (ii) (other than a plan amendment having an effect described in clause (i)).

(C) Special rule for ESOPs. For purposes of this paragraph, any—

(i) tax credit employee stock ownership plan (as defined in section 409(a)), or

(ii) employee stock ownership plan (as defined in section 4975(e)(7)),

shall not be treated as failing to meet the requirements of this paragraph merely because it modifies distribution options in a nondiscriminatory manner.

Ms. BENSON. Would you approve of expropriating employees' thrift savings accounts? Surely not. Lowering benefits employees have already accrued in a defined benefit pension plan such as CSRS and the annuity portion of FERS is no different from taking away the amounts that have already been contributed to employees' Thrift Savings Plan accounts.

Accordingly, if the high-3 formula is changed to high-5, all the years employees have already accrued must be based on high-3 unless you are going to be in violation of what private sector employees are protected from. Only future years of service for which benefits have not yet been earned could be based on high-5.

I would like to remind you that Congress recently promised to abide by the rules it imposes on the private sector. For the Government to renege on any of its retirement promises to current Federal employees, even with respect to those benefits employees have not yet earned, is to break faith with employees and break the Government's contract with us. Such an action is akin to defaulting on paying interest on Treasury bonds.

Federal employees' retirement is deferred compensation. It is an earned contractual benefit and part of our compensation package. It is not welfare or charity or an income transfer program. It is a cost the Federal Government has as an employer of more than 2 million employees.

Mr. Chairman, we are really tired of Congress acting as if the Government has no responsibility to its own employees and proposing actions that would be prohibited to private sector employers. Any change in retirement benefits should apply only to future employees. However, we see no reason for changes even for future employees. It wasn't so long ago that FERS was enacted after a lot of study and deliberation. Nothing has happened since then to suggest that there are any real problems with the Federal retirement system.

The purpose of ERISA, which applies to private sector retirement plans, is to see that retirement promises to employees are kept. The purpose of ERISA's funding rules is not to protect companies and their stockholders. It is to ensure that benefits will be there for employees, even if the employer goes out of business, and to ensure that the employer keeps its hands off money belonging to employees for their retirement. There is even insurance of employees' benefits through the Pension Benefit Guaranty Corporation, and if the pension is in danger of not having the funds to pay the promised benefits, the employers, not the employees, is liable for up to a substantial portion of its assets. It is liable to the Pension Benefit Guaranty Corporation.

Now, we know that the unfunded liability is not a real issue, but even if it were a valid issue, it is the employer's, in this case the Government's, responsibility to contribute sufficient funds to pay for its retirement obligation.

I would also like to make a couple of other points. COLA's don't increase annuities. COLA's simply keep Federal retirees from becoming poorer as they age. Although private sector plans are not required to guarantee COLA's, that is often seen as a defect of the private sector system that needs correction and it is not a point that should be emulated by the Federal Government. Without COLA protection, the Federal Government pays retirees in cheaper dollars, allowing the Government to benefit from inflation at the expense of retirees.

No proposals to require Federal employees to work longer, pay more, or receive less should be considered. None of these proposed changes are about making valid reforms or proper funding or eq-



uity. It is unconscionable to take promised benefits from employees to balance the budget or give tax relief or pay for other programs. Please see that the Government keeps its promises to us. It is the right thing to do.

Thank you for the opportunity to present our views and I will be happy to answer questions and work with your staff.

Senator STEVENS. Thank you very much, Ms. Benson.

Mr. Charles Jackson, President of the National Association of Retired Federal Employees.

**TESTIMONY OF CHARLES R. JACKSON,<sup>1</sup> PRESIDENT,  
NATIONAL ASSOCIATION OF RETIRED FEDERAL EMPLOYEES**

Mr. JACKSON. Mr. Chairman, I am Charles Jackson, President of the National Association of Retired Federal Employees and I appreciate the opportunity to appear before you today on behalf of NARFE's 500,000 members.

Proposals regarding Federal retirement in H.R. 1215, the House-approved tax bill, and the Congressional budget resolution have made us very concerned about the future of Federal retirement. For changes so drastic, we believe the deliberative process was simply too short. We hope that your hearings, Mr. Chairman, will reverse this trend.

I want to make it clear that NARFE members share the concern of millions of other Americans with the enormous Federal debt. We believe Congress' determination to reduce this burden is not only commendable, but essential. We recognize that in attempts to reduce Federal spending, our retirement programs will be subject to review. However, those who want to reduce Federal retirement benefits often ignore the fact that these programs have already been singled out for enormous cuts in years past.

Indeed, over the past 10 years, reduced civil service cost-of-living adjustments have been \$40 billion. Those savings swell when reductions in pay and other compensation changes are calculated in the cost savings. Anyone who believes there are major cost savings to be found in these programs is simply wrong.

We are grateful that the fiscal year 1996 budget resolution adopted last month honored the Government's commitment to Federal retirees by not diminishing the inflation protection we depend upon for our economic security, but we remain fearful that Federal retirees will be singled out for COLA reductions in the reconciliation process.

We ask Members of Congress to treat us in a fair and equitable manner by assuring us the same budgetary treatment as Social Security COLA's. Congress initiated the principle of COLA equity between Federal retirement and Social Security in 1984, asserting that inflation adjustments in all federally administered retirement programs should be computed on the same basis and paid at the same time. The delay to achieve this equity resulted in Federal retirees being denied 2.6 percent of measured inflation and has reduced earned retirement benefits by \$15 billion over the past 10 years.

<sup>1</sup> The prepared statement of Mr. Jackson appears on page 264.

One year later, in December 1985, adoption of the Gramm-Rudman-Hollings Deficit Reduction Act canceled our 1985 COLA completely, but the Social Security COLA was not affected. That 1985 COLA cancellation has accrued almost \$5 billion in deferred compensation foregone. Then, in 1986, Congress reinstated the principle of COLA equity and adopted the Gorton amendment to grant Federal COLA's the same sequestration protection as Social Security.

COLA equity remained until the 1993 Omnibus Budget Reconciliation Act broke the equity link by delaying our COLA payment for 3 months. For 2 years now, Social Security recipients have received 3 monthly benefit checks reflecting the previous year's rate of inflation before Federal retirees and survivors received that adjustment.

Mr. Chairman, we know that when Congress looks for short-term savings from the Federal retirement system, our promised COLA dollars are the most tempting target. I would urge your Committee to remember that those same COLA dollars are the most important aspect of economic security and resulting peace of mind of today's annuitants.

Of the COLA options presently circulating, NARFE is most concerned about means-testing proposals. Means-testing our COLA's ignores the intent and eligibility criteria of the Federal retirement system. Means-testing is not part of the eligibility criteria. Therefore, why should it become a criterion for COLA's? Means-testing also penalizes annuitants who were successful in their careers and who spent those full careers working for the Government. In sum, means-testing destroys the career incentive.

Some have suggested that the CSRS COLA's be less than the CPI and deferred until age 62, but it must be understood that a full COLA from the time of retirement was a major factor for many CSRS workers in deciding whether to stay in the old system or transfer to FERS. Changes now would renege on a key factor of that decision when they are powerless to reconsider their option.

Some believe that NARFE and other organizations in the Federal community do nothing but object to any suggested change to our retirement program. That is not true. Almost a decade ago, NARFE and other groups worked long and hard with you to design a retirement system for future Federal workers that would address the Government's desire to be both competitive and cost-efficient. The achievement of that combined effort was the enactment of your FERS legislation. FERS has been tested and it has met the goals it was designed to achieve. We believe this reformed Federal retirement plan should be left intact.

NARFE is also concerned about provisions in the House budget resolution which would require CSRS and FERS employees to contribute 2.5 percent to a smaller retirement. To increase employee contributions is plainly a tax increase on Federal workers.

If the goal of increased contributions to the CSRS fund is to address the issue of the unfunded liability, then policymakers must recognize that there is no unfunded liability attributable to FERS.

You and your colleagues saw fit to assure that FERS was fully funded since its creation. Increased contribution to FERS will compel Federal employees to make smaller contributions to the Thrift

Savings Plan. This is ironic because it requires greater compulsory contributions which would reduce wages available for voluntary contributions to the Thrift Savings Plan. Enhancing the FERS defined benefit at the expense of the Thrift Savings Plan makes no sense when some want Federal employees to become more responsible for their own retirement savings.

Mr. Chairman, the testimony you received 4 weeks ago from the Congressional Research Service and the General Accounting Office shows that there is an adequate balance in the trust fund and asserts there is no funding crisis in the Federal retirement program. The CSRD Trust Fund is not in danger of going broke in the next century because you and former Congressman William Ford anticipated a transition to the new system when you wrote the FERS legislation. FERS and CSRS contributions are deposited in the same trust fund and liabilities to FERS created by CSRS will be paid off through a series of 30-year amortization payments.

NARFE is also disturbed by a proposal in Senate Continuing Resolution 13 to limit the Government/employer contribution for FEHBP premiums to a fixed dollar amount. The Congressional Budget Office estimates that \$9.7 billion would be saved by this proposal. Those costs would be shifted to employees and retirees, and the burden would be substantial.

It is wholly inequitable for the Government to shift the risk of health care inflation on to employees and retirees when little is being done to curb health care inflation at the Federal level. Presently, the Federal Government and FEHBP enrollees share the costs of health care inflation. Large private sector employers bear essentially all of the costs. According to the Congressional Budget Office, the added cost to Federal employees and retirees would be about \$500 per enrollee in 2000 and more in later years. Erosion in the Government/employer contribution would limit the choices of FEHBP enrollees, forcing lower-paid workers and retirees into the least comprehensive plans.

When coupled with proposals to achieve cost savings in Medicare, the Senate's FEHBP's proposal hits Federal retirees with a double whammy. For Federal retirees eligible to enroll in both FEHBP and Medicare, a significant increase in Medicare out-of-pocket costs will be shifted to FEHBP plans. This will force FEHBP plans to increase premiums and hasten the erosion of the Government/employer contribution to FEHBP for all 9 million enrollees.

Finally, we are distressed by recommendations to eliminate OPM. OPM provides Federal retirees with essential services and information regarding their annuities and health benefits. We believe that OPM's role as the administrative agency for Federal benefit programs is crucial and must be maintained.

As we review the budget for savings, we must consider both current and future employees. Today's workers are entitled to be able to plan for their retirement with some sense of trust. The Government should also fully consider the effect of any changes on tomorrow's employees so that the best and the brightest are attracted to, and stay in, Federal service.

I cannot think of a better way to illustrate how benefit cuts will affect the people that NARFE represents than by quoting a letter written by John F. Fleming, a retiree from the U.S. Department of

Agriculture Research Service in Beltsville, Maryland. "When I was young and I had life and talent to bargain with, I was offered a salary, plus retirement with a cost-of-living adjustment, to work for the Government of the United States of America. Now that my life and talent has been used, it is not just to lower the promised benefits years into retirement when I certainly cannot take my life back."

Mr. Chairman, thank you again for this opportunity to present NARFE's views.

Senator STEVENS. Thank you very much, Mr. Jackson.  
Our last witness is Robert Mansker.

### TESTIMONY OF ROBERT MANSKER,<sup>1</sup> CONGRESSIONAL EMPLOYEE

Mr. MANSKER. Thank you, Mr. Chairman. My name is Robert Mansker. I am a staff member of the Joint Committee on Printing, there by the appointment of Congressman Hoyer. I have been a Federal employee for the past 17 years and have been employed in both the House and the Senate.

I represent myself here today officially, but I think unofficially I feel like I represent thousands of other Federal employees who do not have any type of organized body to come and speak for them today. I appreciate the opportunity to be here because I know it is not very often that a staff member in Congress sits on this side of the table.

I have always been a defender of the faith, Mr. Chairman. Whenever I have heard people criticize Congress for not wanting to keep its word, to back up the programs that it passes, I have always come to its defense, particularly with young people today who talk about the Social Security program, saying all this money I am putting into the program, I will never get anything out of it. I have quickly tried to assure them that Congress would do whatever it takes to back up the program.

It was with that belief that I signed up on a retirement program with Congress when I came here, and again with that belief in 1987 when the Federal retirement system was changed and we were given numerous pieces of information and programs to again try to assure us that we could continue under the Civil Service Retirement System with the benefit program intact.

But now comes House Resolution 1215, which must be viewed as no less than truly a sadistic move to cruelly abort all of the planning that we have put into our retirement systems, to unilaterally change the terms of the contract at the very end of many employees' careers. The trust that we placed in our employer may now be shown to have been misplaced.

In my own case, when I retire, this simple formula change that we are considering today from 3 years to 5 years will directly cost me \$6,200 each and every year I live after retirement. Mr. Chairman, that is a direct cost of \$6,200 to this one Government employee. I have taken my figures down to the Senate Disbursing Office and they have calculated all these figures. It is not my own figures. I could never have envisioned taking this kind of punch from

<sup>1</sup>The prepared statement of Mr. Mansker appears on page 268.

the people who contracted with me when I came to work here. That figure is virtually equal to another income tax on me.

I was once told by a law professor that Congress has the authority to do that sort of thing, that they could even go back to, say, 1990 and tax our personal income at a higher rate than it had previously been taxed. But no one would ever seriously try to do that sort of thing because it would actually cause people to revolt.

The difference is that Federal employees have really no clout. We are easy targets, and we can only hope that somewhere within the Congress there are men and women who will revolt at the thought of retroactive taxation, particularly when it deals with the very sensitive issue of a person's retirement.

The Gramm-Rudman programs, for example, were progressive. The Hollings total freeze program in the past that was offered to try and solve the balanced budget problem was progressive. None of them attempted to reduce retirement programs on a retroactive basis. But rather than come and just say that is how I see things, I would like to say that there are basically three things that I would love to see done.

Number one, you have mentioned grandfathering. I think that is essential. Current employees should be grandfathered. The retroactive taking of any earned retirement benefits should not occur, and new rules covering the rate of contribution or calculation of averages should apply only to future years in the system. Without this, Mr. Chairman, Congress will lose all credibility with both the CSRS and the Social Security. No one will ever believe either one is secure.

The second point is that any changes in the Federal savings contribution or any other aspect should be progressive rather than retroactive; then, if Congress does choose to enter into any type of retroactive provision, that there be a damage cap put on it. I would suggest that not more than the taking of a certain dollar figure in comparison between the two programs, the 5-year and the 3-year program, say, of \$1,000—no one can suffer more than a \$1,000 per year—be adopted. I certainly hope that that is not going to be the case, that the grandfathering would be adopted.

Six thousand two hundred dollars in my case, Mr. Chairman, in 10 years, with interest and COLA lost, could easily amount to over \$100,000 in actual loss. So I appear before you today, in essence, repeating thousands of Federal employees earnestly beseeching you to make your actions forward in character, progressive in nature, rather than retroactive, and to take a major step in allowing me and countless numbers of others who have lost faith in the Social Security program to keep the faith in our representative democracy and our Congress. Much too much cynicism about the Federal retirement programs exists in America today. Please don't add to that cynicism by taking away benefits that have already been earned.

Thank you.

Senator STEVENS. Tell me, how do you calculate the \$6,200?

Mr. MANSKER. Sir, on the basis of having a high 3-year income, if you average on a 3-year basis, you come up with a figure, say figure "x." If you extend that out to 2 lower years of income which—

Senator STEVENS. You are assuming there have been 2 years of reduction, right?

Mr. MANSKER. Yes, sir, and there have been already.

If you extend the calculation to 2 additional years, you will literally reduce the annual retirement benefit by \$6,200, and I will be glad to provide you those figures that were provided to me by the Senate Disbursing Office.<sup>1</sup>

Senator STEVENS. I would like to have them because if you have 3 years and they average out to a figure, whatever it is, and you continue at the same income of the last year, by definition, you can't go down.

Mr. MANSKER. But that has not been the case, due to no reason of my own. It was a change of administration.

Senator STEVENS. I see. You have had a reduction in the last year?

Mr. MANSKER. Yes, sir.

Senator STEVENS. I see, but your high-3 would go down, too.

Mr. MANSKER. No, sir. They are set; I have already had those.

Senator STEVENS. I see, all right. Thank you very much. I appreciate that.

I have to tell you that I think I have the message that you all would like me to go back and tilt with the budget resolution that has already been passed. I am not like Garcia; I am not going to shoot the messengers, but I just don't know really how to deal with this problem right now because, unfortunately, I see no alternative but to proceed from the point of view that Congress is going to change the retirement system.

You don't like that and I don't like that, but I think that is not a possibility; it is a probability. Under the circumstances, we need some help, and I understand what you have told me, but again you have been here when I asked these other people questions. I would urge you to give us some ideas of how we might be able to make savings without doing the things that have been suggested.

One of them is to try and induce people to stay longer on the job. There is a direct savings if that occurs. There are others that people have suggested, but I would urge you to examine, with your experience—you have all got long experience in Government and we need some ideas as to how to deal with this problem of making these cuts that we have to make in a way that will not bring about the results that you have predicted. There may not be any, but I would urge you to try.

Mr. Moyer?

Mr. MOYER. Senator, we would like to point out that there is a difference of about \$9 billion between the House and the Senate versions with respect to mandatory spending. There is a considerable increase caused by the 2.5-percent employee contribution.

Senator STEVENS. Yes. I had forgotten that. Pat just reminded me of that, but you are right.

Mr. MOYER. We would urge you and ask for all of your effort to cause the conferees to abide by the responsible approach that the Senate took in drafting its resolution to not go down that road to-

<sup>1</sup> The information referred to appears on pages 353.

ward requiring that 36-percent increase on the part of employees into the trust fund.

Senator STEVENS. I will talk to Senator Domenici about that and emphasize your testimony today.

Mr. MOYER. Thank you.

Senator STEVENS. And we will do our best to keep the Senate figures, obviously, but I am not sure that we will be successful either.

Well, I am pleased you have all come. I am a little discouraged, I will say, because I don't know the answer. The issue puts us between a rock and a hard place. It has just never been easy to get out from between that. Clearly, all of the witnesses today seek no change in terms of the changes that have been suggested, with one exception. One did suggest a 1.5 percent contribution.

I think I am compelled to tell you that our job is to find some way to get a bill that will make changes that will have as good or better a system of retirement than we have now, but results in some savings. I think if you cost out the Social Security plus the total Thrift Savings Plan with no defined pension system, that comes close. But I understand the trauma of trying to think about that right now. So I think we are just going to have some further discussions and maybe some hearings again later. I do commit that we will work with all of you on what we are considering, so there are going to be no surprises as far as this Subcommittee is concerned.

Thank you all very much.

[Whereupon, at 4:58 p.m., the Subcommittee was adjourned.]

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# APPENDIX

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## PREPARED STATEMENT OF SENATOR RICHARD BRYAN

Mr. Chairman and Members of the Committee, my bill, S. 228, is designed to restore equity to the Congressional pension system. To accomplish this objective, Congressional retirement benefits are placed on a parity with the pensions of other Federal civil servants. Under current practice, Members of Congress receive a more generous retirement benefit, which is indefensible and unacceptable.

Under the present retirement system, Members of Congress pay slightly more into their Federal pension plans than do other Federal workers. The benefit formula applicable to Members of Congress provides a larger pension for each year of service than the formula applicable to the rest of the Federal Government, not justified by the slight amount more paid into the system.

This is true whether Members of Congress are covered by the Civil Service Retirement Service (CSRS) or the Federal Employees' Retirement Service (FERS). CSRS covers Members of Congress and Federal employees who were employed before January 1, 1984. The FERS program covers Members of Congress and Federal employees hired after January 1, 1984.

In general, Members of Congress participating in CSRS pay 8 percent of their gross salary into that pension plan; Federal employees covered by the CSRS pay 7 percent of their salary. Members of Congress participating in FERS pay 1.3 percent of their gross salary into that plan; Federal employees covered by FERS pay .8 percent of their salary.

Annual retirement benefits for Members and Federal employees are based on accrual rates. Under the present system, accrual rates for Members are higher than those for Federal employees. The CSRS accrual rate for Members of Congress is 2.5 percent for each year of service; for Federal employees it is 1.5 percent for the first 5 years of service, 1.75 percent for the second 5 years of service, and 2 percent for all service over 10 years. The FERS accrual rate for Members of Congress is 1.7 percent for each year of the first 20 years of service and 1 percent for service over 20 years. For Federal employees, the FERS accrual rate is 1 percent for each year of service if the worker retires before age 62, and 1.1 percent for all service for workers retiring at age 62 or older with at least 20 years of service.

For example, if a Member of Congress retires in 1996, assuming no increase in pay for 1996, their high-3 salary will be \$133,600. A Member of Congress, enrolled in CSRS with 20 years of service, would receive a pension in 1997 of \$66,800. If the pension systems were the same as other Federal employees, the Member of Congress enrolled in CSRS would receive a pension of \$48,764. Again, under FERS, a Member of Congress would receive a pension of \$45,424, after 20 years of service. If the pension systems were the same, the Member of Congress would receive a pension of \$26,720.

As a matter of fairness, Members of Congress should not receive greater retirement pensions than civilian Federal employees. Whether a person works in Congress, the Department of Transportation or the Department of Health and Human Services, all should be treated equally in the Federal retirement system. This bill will restore equity to the system.

My bill will do three things. First, it provides a retirement benefit cap, so that no Member of Congress will receive a retirement benefit that is higher than the Member's final rate of pay, before his or her retirement. Second, it changes the accrual formula under CSRS and FERS so that benefits paid are the same for all Federal employees, including Congress. Third, it changes the percentage contribution paid by Members of Congress into the retirement system to be equal to other Federal employees.

Mr. Chairman, I believe this is essential to show the American people that we are not treating ourselves differently than others in Federal civil service. Members

of Congress should not receive a more generous retirement—this is a matter of fairness.

#### FACT SHEET ON BRYAN PENSION EQUITY BILL

The bill will put the retirement of Members of Congress on complete parity with the retirement of other Federal employees.

In summary, the bill will:

1. Place a cap on the pension of Members of Congress. They will not be able to receive (with COLA's) a pension higher than their final high salary.
2. Change the accrual rate for determining the pension of Members of Congress to equal that of other Federal civil servants. Accrual rates determine pensions when calculated with years of service and high salary. Currently, Members of Congress have a higher accrual rate to determine the amount of their pension. Under CSRS, the accrual rate for Members of Congress (and Congressional staff) is 2.5 percent. For other Federal civil servants, the accrual rate is 1.5 percent for years 1-5, 1.75 percent for years 5-10, and 2 percent for all service over 10 years. Under FERS, the accrual rate for Members of Congress is 1.7 percent for service up to 20 years, and 1 percent for service over 20 years. For other Federal civil servants, the accrual rate is 1 percent for service under age 62 and 1.1 percent for service over age 62.
3. Change the contribution to the retirement system for all Members of Congress to equal that of other Federal civil servants. Currently, under FERS, Members of Congress contribute 1.3 percent to their retirement, other Federal civil servants contribute .8 percent. Currently, under CSRS, Members of Congress contribute 8 percent of their salary to their retirement, other Federal civil servants contribute 7 percent.

Also, years of service under the current system will be grandfathered. For example, anyone retiring with 25 years of service in the year 2000, will receive a pension calculated based on 20 years under the old formula and 5 years under the new formula (if the bill passes this year).

NOTE.—For purposes of the bill, Members of Congress refers to Members and Congressional staff.

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#### PREPARED STATEMENT OF SENATOR ALAN K. SIMPSON

I thank Senator Stevens, the Chairman of the Subcommittee, and Senator Pryor, the Ranking Member, for kindly allowing me to submit "for the record" my comments regarding the Federal retirement system. Having devoted some time to studying this system, I hope I am sensitive to the concerns of both Federal employees and taxpayers. On May 18, I joined Senator Bob Kerrey in introducing a package of bills that include provisions that would restore solvency to the Social Security system and also reform the Federal retirement system.

I wish to emphasize that I have no desire whatever to single out Federal retirees for unfair treatment. I am clearly on record as supporting measures to slow the growth of *all* types of entitlement expenditures. As the fourth largest entitlement program—right there behind Social Security, Medicare and Medicaid—Federal retirement cannot be ignored. One of the principal findings of the Bipartisan Commission on Entitlement and Tax Reform was that, if we continue our present spending patterns, these four programs alone will consume *all of the tax revenues* collected by the Federal Government by the year 2030. I am determined to prevent this from occurring.

Let me further emphasize that even if these budgetary pressures did not exist, I would still believe that the Federal retirement system should be reformed for reasons of "equity." We must not overlook the fact that many of the taxpayers who help to finance this system do not have access to such a generous retirement plan. I have personally detected considerable public discontent regarding the size of Federal pensions. This is particularly true of Congressional pensions.

That is why Senator Kerrey and I have introduced legislation that would reduce accrual rates by one-tenth of one percent *for future years of service* and then equalize both the contribution rates and accrual rates in order that Members of Congress and Congressional staffers are treated exactly the same as other Federal employees. The system currently requires Members and staffers to pay a higher percentage of their salaries into the system. In return, we receive a higher pension than "typical" Federal employees. The rationale for this has always been that the careers of Members and staffers tend to be brief in comparison to the careers of most Federal em-

ployees. However, in cases where some of our colleagues have served for several decades, the pensions they receive are excessively generous—and widely publicized too!

Senator Kerrey and I have also proposed that Federal pensions be based on the five highest annual salaries of Federal employees rather than their three highest annual salaries. Three years is simply not a sufficient period of time to accurately reflect the salary history—and thus the payroll contributions—of a Federal employee whose career spans 30 years or more. Even 5 years may not be enough, but it would certainly be an improvement.

Finally, we propose that limits be placed on the future increases—or Cost of Living Adjustments (COLA's)—that are received by Federal retirees, *except* the 30 percent who receive the smallest COLA. This same provision applies to Social Security beneficiaries and military retirees. This is not a draconian proposal in any way, particularly when you consider that many private sector pensions offer no COLA at all.

Under this approach, the "poorest" 30 percent of Federal retirees would continue to receive their full COLA's. The other 70 percent would also receive a COLA each year, *but* instead of receiving a percentage increase—they would receive only the COLA that is equivalent to the dollar amount of the COLA that is received by recipients who are at the 30 percent level. This proposal allows the benefits of the truly needy to keep pace with inflation—which is all that COLA's were intended to do—while at the same time limiting the exponential growth in benefits of those who receive the largest pensions, including many Members of Congress.

Overall, I believe these reforms are fair and even-handed. They may not be popular, but all Federal employees should ask themselves what kind of pension they will receive if their employer—the Federal Government—collapses under the burden of its debt, which is now swiftly approaching the staggering sum of \$5 trillion. This is a sobering question, but one well worth asking.

Again, I thank the Chairman for his courtesy in allowing me to enter my comments into the record. I am willing and eager to work with the Subcommittee and the Full Committee to implement the reforms that are so badly needed in the Federal retirement system.

#### PREPARED STATEMENT OF WILLIAM E. FLYNN, III

Mr. Chairman and Members of the Subcommittee:

I am pleased to join you this afternoon to assist you in your review of government pension benefits which are currently available to Members of Congress. You have asked me to detail differences between retirement benefits afforded to Members and those for other Federal employees under the Civil Service Retirement System (CSRS) and the Federal Employees' Retirement System (FERS).

The retirement plans available to Members of Congress include: (1) Social Security, which is mandatory for all Members; (2) optional coverage under CSRS which is limited to Members who had elected coverage before 1987; and (3) optional coverage under FERS for Members whose service began too late to join CSRS or who elected to move from CSRS to FERS in 1987. FERS offers pension benefits designed to coordinate with Social Security, and includes a Thrift Savings Plan with government contribution to provide additional retirement income. Individuals covered by CSRS may also participate in the Thrift Savings Plan, but receive no government contribution.

Please note that all Members are covered by Social Security, including those under CSRS. Members under CSRS when Social Security coverage began in 1984 had the option of continuing full CSRS participation on top of Social Security or switching to special "CSRS Offset" rules. Under the CSRS Offset, CSRS benefits are reduced dollar for dollar by the Social Security benefits attributable to Member service and the Member's CSRS contribution amounts to the difference between the usual Member CSRS contribution and the Social Security retirement tax.

Benefits afforded to retired Members of Congress under CSRS and the defined benefit component of FERS are generally higher than those available to most other participants. The main difference is the Member benefit formulas which credit a higher percentage of average salary for certain years of service. The CSRS formula for Members of Congress (and Congressional staff) who have 5 or more years of Congressional service equals 2.5 percent of the high-3-year average salary for each year of Member and Congressional-staff service and for up to 5 years of creditable military service. This results in a benefit of 75 percent of the average salary after 30 years of such service. By comparison, the general CSRS formula provides 1.5 percent of an employee's average salary for up to 5 years of service; 1.75 percent for each of the next 5 years; and 2 percent for service in excess of 10 years. This general formula results in a benefit of 56.25 percent of the high-3 average salary after 30

years. I should note that Members of Congress who retire before age 60 are subject to an annuity reduction amounting to 1 percent a year for each year they are below age 60 and, if they are below age 55, the reduction changes to 2 percent for each year they are under age 55. For employees generally, the earliest opportunity for regular, unreduced retirement is at age 55; for certain earlier retirement—such as in a reduction in force—there is a 2 percent reduction for each year they are under 55. The age reduction for Members who retire before age 60 does not offset the overall advantages of their benefit formula. A Member who retires at age 55 with 30 years of service receives annuity equal to 71.25 percent of average salary compared to 56.25 percent paid to employees generally.

Similarly, under the FERS Basic Benefit Plan, Members receive 1.7 percent of the high-3 average salary for each of the first 20 years of Member or Congressional service and 1 percent of that average salary for each year of service greater than 20. In contrast, benefits for employees generally amount to 1 percent of high-3 average salary for each year of service, when they retire before age 62, or 1.1 percent if they retire at age 62 or older with at least 20 years' service. Accordingly, Members (and Congressional staff, law enforcement officers, firefighters, and air traffic controllers who are subject to the same formula under FERS) would receive 44 percent of their high-3 salary after 30 years of qualifying service while employees generally would be entitled to only 30 percent on retirement before age 62, or 33 percent at age 62 with at least 20 years of service.

In addition to special annuity computation formulas, Members are also eligible under CSRS and FERS to retire voluntarily on immediate annuity at age 50 with 20 years of service and at any age with 25 years, while employees generally must be involuntarily separated or be in an organization undergoing a major reorganization or reduction in force to receive similar benefits. Moreover, Members subject to CSRS may also immediately retire at age 60 with 10 years of Member service (while employees generally would need 20 years) or at age 50 after serving in nine Congresses.

Another notable benefit difference relates to deferred annuity eligibility for Members under CSRS. Both retirement systems provide deferred benefits to participants who complete at least 5 years of creditable civilian service, separate before meeting the requirements for immediate retirement, and leave their contributions in the retirement fund. The earliest age at which unreduced deferred benefits are available under CSRS, other than for Members, is age 62. Members, however, are also eligible for reduced CSRS annuity at age 50 with 20 years of service that includes a minimum of 10 years' Members service, or unreduced annuity at age 60 with at least 10 years' Member service. Moreover should a former Member die after separation and before CSRS deferred benefits commence, survivor annuity benefits would be payable while survivor protection for other separated employees arises only when deferred benefits commence. The CSRS also provides slightly more generous benefits to retired Members who become reemployed, but this involves relatively few cases.

Both CSRS and FERS impose higher contribution rates on Members than are required of employees generally. Under CSRS, Members contribute 8 percent of basic pay to the retirement fund while most participants pay 7 percent. Members under FERS contribute 1.3 percent of basic pay to the retirement fund compared to 0.8 percent for most other participants. These contributions in all cases cover only a small portion of the costs.

The clearest and simplest way to compare the costs of the different retirement plans is to look at their respective "normal costs." The normal cost is the level percent of pay that actuaries estimate would have to be set aside in an interest-bearing account throughout the careers of a typical group of new employees to fully finance post retirement benefits. The government's share of normal costs, that is, the total normal cost minus employee contributions, for traditional CSRS benefits amounts to 18.1 percent of pay for employees generally and 21.3 percent for Congressional Members. For individuals under CSRS offset rules, the government share is 14.4 percent generally and 22.3 percent for Members. For the defined benefit component under FERS, the government share of normal costs amounts to 11.4 percent in the case of employees generally and 17.8 percent for Members.

I will gladly answer any questions the Subcommittee has at this time.

## PREPARED STATEMENT OF JOHNNY C. FINCH FOR MAY 15 HEARING

## CONGRESSIONAL RETIREMENT ISSUES

## SUMMARY

In this statement, GAO summarizes its findings in a report requested by the Subcommittee on how retirement benefits available to Members of Congress and Congressional staff compare with benefits available to other groups of employees under the Civil Service Retirement System (CSRS) and the Federal Employees Retirement System (FERS).

GAO's report showed that, as a rule, the retirement provisions in CSRS for Members are more beneficial than the provisions for other Federal employee groups, particularly general employees. Members can retire at younger ages and with fewer years of service than can general employees and Congressional staff, and the formula for determining Members' benefit amounts, which also applies to Congressional staff, yields greater benefits than the formula applicable to general employees.

Separate CSRS provisions for law enforcement officers, firefighters, and air traffic controllers generally fall between the Congressional and general employee provisions. FERS brought benefits for Members, Congressional staff, law enforcement officers, firefighters, and air traffic controllers more in line with each other, but continued the relative advantages of these groups over general employees.

GAO's review of the Legislative history of CSRS and FERS disclosed little explanation of why preferential provisions were adopted for Members and Congressional staff.

\* \* \*

Mr. Chairman and Members of the Subcommittee:

We are pleased to be here today to discuss the issue of Congressional retirement benefits.

CSRS and FERS each have a number of separate provisions for different employee groups, including Members of Congress, Congressional staff, law enforcement officers and firefighters, air-traffic controllers, and all other employees. The latter group (which we refer to as "general employees") constitutes more than 90 percent of all employees covered by the two systems.

In general, CSRS applies to employees who entered Federal service before December 31, 1983, and FERS applies to employees who entered after that date.<sup>1</sup> CSRS is a "stand-alone" pension program with no supplementation by Social Security or any other source of employment-related income. In contrast, FERS is designed more like private sector retirement programs in that it includes a pension plan, a Thrift Savings Plan to which most covered employees and the government contribute, and Social Security as a three-part retirement package.

#### *Overall Comparison of CSRS and FERS Benefits for Each Employee Group*

Many of the CSRS provisions for Members of Congress are quite different from the provisions for other employee groups, particularly general employees. As a rule, the Member provisions are more beneficial. In some cases, the provisions for Congressional staff are the same as the Member provisions, but more often they are like the provisions for general employees. Law enforcement officer and firefighter benefits in CSRS generally fall between those for Members and Congressional staff. Air traffic controller benefits are superior to general employee benefits but not as superior as the benefits law enforcement officers and firefighters receive.

Many of the relative advantages afforded to Members and Congressional staff over general employees in CSRS were continued under the pension plan part of FERS. However, the provisions for law enforcement officers, firefighters, and air traffic controllers are quite similar to the Member provisions.

<sup>1</sup> Federal employees first hired after December 31, 1983, were included under Social Security by the Social Security Amendments of 1983. The amendments required all Members of Congress to be covered by Social Security on January 1, 1984, regardless of when they entered Congress. Members in CSRS were given the option of being fully covered by both CSRS and Social Security or joining a "CSRS offset plan" whereby the Social Security contributions they made and any Social Security benefits they received from their Congressional service would be deducted from their CSRS contributions and benefits, respectively. Information is not available on which option each of the affected Members elected. A similar offset plan was applied to all other employees who entered the government between December 1983 and January 1987 when the FERS pension plan was implemented.

Office of Personnel Management (OPM) estimates show that the costs of providing the differing retirement benefits under CSRS and FERS vary considerably. For example, according to OPM, the accruing cost of Member benefits under CSRS is 29.3 percent of the Member payroll and the accruing cost of Congressional staff benefits is 34 percent of their payroll, compared to the overall estimated cost for all employees under CSRS of 25.14 percent of payroll. For the FERS pension plan, OPM estimates the Member costs to be 19.1 percent of payroll<sup>2</sup> and Congressional staff costs to be 18.2 percent compared to a cost for general employees of 12.2 percent. The government's contributions to Social Security and the Thrift Savings Plan are in addition to the FERS pension plan costs.

Under CSRS, Members contribute 8 percent of their salaries to the retirement fund, and Congressional staff contribute 7.5 percent. General employees contribute 7 percent. Under FERS, Members and Congressional staff contribute 1.3 percent of their salaries to the pension plan in addition to their Social Security contributions and any Thrift Savings Plan contributions they may make. General employees contribute .8 percent of their salaries to the FERS pension plan along with their Social Security and Thrift Savings Plan contributions.

#### *Specific Provisions of CSRS in Which Members and Congressional Staff Receive Unique Benefits*

In CSRS, Members can retire at younger ages and with fewer years of service than can general employees and Congressional staff. The earliest age at which general employees and Congressional staff can retire under CSRS's optional retirement provisions is age 55. They must have at least 30 years of service to retire at this age. On the other hand, Members can retire at age 50 with 20 years of service or at any age if they have 25 years. Members may also retire at age 60 with 10 years of Member service and at age 50 with service in 9 congresses.

The only other employees who are allowed to retire as early as Members are law enforcement officers, firefighters, and air traffic controllers. They may retire at age 50 if they have at least 20 years of such service. Air traffic controllers may also retire at any age if they have at least 25 years of controller service.

The provision that affords Members and Congressional staff the greatest advantage is the benefit formula. If they have at least 5 years of Congressional service, their formula is 2.5 percent of the average annual salaries they earned during their 3 consecutive highest-paid years (known as the "high-3") for each year of Congressional service.<sup>3</sup> Law enforcement officers and firefighters have the next most generous formula under CSRS. They receive 2.5 percent of high-3 for each of the first 20 years of service and 2 percent for each year of service greater than 20. The least generous formula applies to general employees. It is 1.5 percent of high-3 for each of the first 5 years of service; 1.75 percent for each of the next 5 years; and 2 percent for each year greater than 10. Air traffic controllers are covered by the general employee formula, but they are guaranteed to receive no less than 50 percent of their high-3 at retirement.

One disadvantage for Members under CSRS is that their accrued benefits are reduced when they retire before age 60. The reduction is 1 percent for each year they are between ages 55 and 60 and 2 percent for each year they are younger than age 55. No other group, including Congressional staff, is subject to an age-based reduction under the optional retirement provisions.

As an illustration of the effects of the differing benefit formulas, a Member of Congress would receive an annuity equal to 71.25 percent of high-3 at age 55 and 30 years of service (after the reduction of 1 percent of the accrued annuity for each year the Member is younger than age 60) compared to 75 percent for a Congressional staff member, 70 percent for a law enforcement officer or firefighter, and 56.25 percent for a general employee or an air traffic controller.

Several other provisions of CSRS treat Members of Congress differently from other employee groups. Some of them are less beneficial for Members, but generally they are advantageous to Members. These are as follows:

—When Members lose an election, they may receive immediate benefits if they are at least age 50 with 20 years of service or any age with 25 years. Congressional staff and general employees who lose their jobs through no fault of their own may also receive immediate benefits at the same ages and years of service.

<sup>2</sup>OPM said its cost estimates for Member benefits under CSRS and FERS were done differently and, thus, must be used with caution. The CSRS estimate assumed Members retire at age 65, and the FERS estimate assumed Members retire at age 62.

<sup>3</sup>The same benefit formula applies to employees who are Federal Claims Court judges, bankruptcy judges, United States magistrates, or judges of the United States Court of Military Appeals.

Benefits for all such early retirees are reduced by 2 percent for each year they are under age 55. However, unlike other employees, Members' early retirement benefits are also reduced by 1 percent for each year they are between ages 55 and 60. On the other hand, Members can retire on reduced benefits if they are age 50 and have served in 9 Congresses (18 years). Early retirement after 18 years of service is not available to any other employee group.

- When employees leave their jobs after completing 5 years of service but before qualifying for immediate retirement benefits, they may leave their contributions in the retirement fund and receive their earned benefits later under CSRS' deferred retirement provisions. The deferred retirement provisions are more generous for Members of Congress than for any other group. Deferred benefits for all employees, other than Members, are payable at age 62. Members may receive deferred benefits at age 62 if they had 5 years of Federal service; however, they are also eligible for deferred benefits at age 60 if they had 10 years of Member service or at age 50 if they had 20 years of Federal service of which at least 10 were Member service.
- Members receive another advantage under the deferred retirement provisions that is not available to any other employee group. When former Members die in the interim between their separation from service and the age at which deferred benefits are payable, CSRS provides annuities to their survivors. Other former employees do not have this survivor protection. If they die before deferred benefit payments begin, the contributions they made to the retirement fund are refunded to the survivors and no further benefits are payable.
- The maximum benefit provisions of CSRS are more favorable to Members. The maximum benefit allowed for other employees is 80 percent of high-3. For Members, the maximum is 80 percent of the greater of their high-3 or full final salary amount.
- The CSRS provisions covering the reemployment of retirees are more beneficial to retired Members. When retired Members are reemployed in either elective or appointive positions, their annuities are suspended and they again become covered by and contribute to the retirement system as if they had not retired. When they subsequently separate from their new positions, their annuities can be reinstated and recomputed with credit for their additional service, regardless of the length of the reemployment period.<sup>4</sup> Other retirees who become reemployed by the government continue to receive their annuities, and their salaries are reduced by the amount of the annuity. Unless they are reemployed for at least a year, they earn no additional retirement benefits. They are entitled to a supplemental annuity if they are reemployed for more than a year and make the required contributions, but must work for 5 years or more to have their annuities recomputed based on their total service and new high-3 salary.
- General employees, law enforcement officers, firefighters, and air traffic controllers receive service credit in their benefit calculations for any full months of unused sick leave they have accumulated at the time of retirement. However, CSRS allows the sick leave credit only for employees who are covered by a formal leave system. Since Members of Congress and most Congressional staff are not under a formal leave system, they cannot receive the sick leave credit.

#### *Specific Provisions of FERS in Which Members and Congressional Staff Receive Unique Benefits*

The Social Security and Thrift Savings Plan parts of FERS are the same for all employee groups, but the FERS pension plan continued the CSRS practice of providing preferential benefits to Members of Congress, Congressional staff, law enforcement officers, firefighters, and air traffic controllers. However, some of the differences for Members under CSRS do not exist in the FERS pension plan.

- FERS eliminated the benefit reduction under CSRS that applies to Members of Congress who retire before age 60.
- FERS has no maximum benefit provision. Thus, the higher maximum benefits available to Members of Congress under CSRS do not exist in FERS.
- FERS provides survivor benefits for all employees who die in the interim between separation from service and commencement of deferred annuities if they had completed at least 10 years of service. CSRS makes this benefit available only to Members of Congress.
- FERS does not grant service credit for unused sick leave to any employees, thereby not following the CSRS practice of providing a sick leave credit for all

<sup>4</sup>Alternatively, the Member's previous annuity can be reinstated and increased by the cost-of-living adjustments that occurred during the period of reemployment.

covered employee groups other than Members of Congress and Congressional staff.

—FERS eliminated CSRS' preferential treatment of retired Members of Congress who become reemployed by the government. It requires that annuities for all reemployed retirees, including Members, be continued during the reemployment period but deducted from the retirees' salaries. Any reemployed annuitant, including Members, must be reemployed at least 1 year before a supplemental annuity is payable and must be reemployed at least 5 years before the annuity can be recomputed.

The FERS pension plan raised the retirement age for general employees and Congressional staff by adopting a Minimum Retirement Age (MRA) concept that gradually increases, from age 55 to age 57, the earliest age at which they are eligible for optional retirement.<sup>5</sup> However, it continues to allow Members to retire earlier than general employees and Congressional staff.

General employees and Congressional staff are eligible to retire under the FERS pension plan at the MRA with 30 years of service; at age 60 with 20 years; and at age 62 with 5 years. Members of Congress are eligible to retire at the same age and service combinations, but may also retire without reductions in their accrued benefits at age 50 with 20 years of service or at any age with 25 years. Similarly, law enforcement officers, firefighters, and air traffic controllers can retire at age 50 with 20 years of service or at any age with 25 years.

A FERS provision not in CSRS allows all groups, including Members, to retire at the MRA with 10 years of service. However, the accrued benefits are reduced by 5 percent for each year they are younger than age 62.

The benefit formulas for Members of Congress, Congressional staff, law enforcement officers, firefighters, and air traffic controllers are all the same under the FERS pension plan. They receive 1.7 percent of their high-3 salaries for each of the first 20 years of service and 1 percent for each year of service greater than 20.

The formula for general employees is considerably less beneficial. For employees who retire before age 62, the formula is 1 percent of high-3 for each year of service. Any employee who retires at age 62 or older and has at least 20 years of service receives a benefit calculated at 1.1 percent for each year of service.

To illustrate the different FERS formulas, Members of Congress, Congressional staff, law enforcement officers, firefighters, and air traffic controllers would all receive 44 percent of their high-3 salaries from the pension plan after 30 years of service. General employees would receive 30 percent if they were younger than age 62 and 33 percent if they were age 62 or older.

#### *Reasons for the Congressional Retirement Provisions*

As you deliberate the Congressional retirement issue, we thought you might find a discussion of the background of the provisions for Members and Congressional staff to be helpful.

Accordingly, we reviewed the Legislative history of the two retirement systems in an attempt to identify any reasons that may have been cited for adopting the preferential provisions for Members and Congressional staff. Unfortunately, little information was available to explain why the differing provisions exist.

Neither Members nor staff were covered by CSRS when it was enacted in 1920. In fact, the issue of whether Members should be covered at all was apparently quite controversial at the time. Coverage was first extended to Members in 1942, but was rescinded 2 months later because of adverse public opinion. In 1946, Members were again covered and have been ever since. Documents on the 1946 legislation indicated the supporters felt that, by allowing Members to participate in the system, a sense of security would result and would contribute to independence of thought and action by Members. It was also believed that coverage could bring a larger number of younger Members with fresh energy and new viewpoints into Legislative service. This explains why it was decided to include Members in the retirement system, but it does not explain why differing benefit provisions were adopted for Members.

Neither does more recent history offer explanation. The CSRS Member provisions differed from those for other employees from the beginning, and have changed a number of times as CSRS evolved. We could find no explanation in the Legislative history for the specific provisions covering Members.

Congressional staff were covered by CSRS in 1937—9 years earlier than Members. From 1937 through 1954, these employees were covered by the same provi-

<sup>5</sup>The FERS MRA is age 55 for general employees and Congressional staff born before January 1, 1948. The MRA gradually increases until it reaches age 57 for individuals born after December 31, 1969.



sions as general employees. In 1954, however, a new provision was adopted giving Congressional staff the option of having their annuities calculated under the Member formula for up to 15 years of service with the general employee formula applying to any additional service.

The stated purpose of the 1954 legislation was to recognize the uncertain tenure of Congressional staff and the potential impact of that uncertainty on their opportunity to establish an adequate retirement annuity based on years of service. Accordingly, the change enabled staff members who were unable to serve full careers to receive greater retirement benefits after limited periods of service than the general employee formula would provide. However, 6 years later, in 1960, a change made the higher Member benefit formula applicable to all the staff members' years of service. The effect of the change was to allow staff who work full careers in Congressional jobs to receive greater annuities than other career Federal employees at comparable salary levels. The Legislative history was silent as to the reason for this change.

Similarly, we found no explanation as to why the preferential benefits for Members and staff were continued under the FERS pension plan. Apparently, the differential advantages they received under CSRS were simply extended into the new system.

#### *Some Options to Assist Subcommittee Deliberations*

Our report was a factual comparison of the retirement provisions for the various employee groups in CSRS and FERS. We reached no conclusions about the appropriateness of the differing benefits, nor did we make any recommendations for change. These issues involve policy judgments that should ensue from Congressional deliberations. To assist you in your deliberations toward those judgments, you asked us to identify and share with you in our appearance today some options you might wish to consider along with others on how the CSRS and FERS provisions for Members and Congressional staff could be changed to accomplish cost savings.

Given the lack of historical explanation for the benefits that are currently in place, it seems to us that an approach the Subcommittee could use for identifying savings possibilities might be to examine whether there is a continuing need for those provisions in the two systems that afford preferential and more costly benefits to Members and Congressional staff than general employees receive.

If that examination indicates there is not a continuing need, there are several options for achieving greater consistency among Member, Congressional staff, and general employee retirement eligibility requirements and benefit formulas. One option would be to simply make Member and staff provisions the same as those for general employees. Thus, individuals who work the same number of years for the government would receive the same percentage of their high-3 salaries at retirement. S. 228, introduced by Senator Bryan, would partially achieve this objective. The bill would bring the Congressional benefit formula in line with the general employee formula. However, it would leave in place the earlier retirement eligibility provisions in CSRS and FERS and other features in CSRS that are applicable only to Members of Congress.

Another option might be to construct the Congressional benefit formulas in CSRS and FERS in a manner that would recognize the possibility that Congressional careers for both Members and staff can sometimes be cut short before they reach normal retirement eligibility but not give higher benefits to those who are able to serve full careers. There are a couple of ways this could be done. One would be to follow the earlier arrangement for Congressional staff under CSRS whereby a higher formula was applied to a specified period of service and the general formula was applied to all other years. Another way would be to adopt the arrangement used for air traffic controllers in CSRS or something patterned after that concept. Controller benefits are calculated under the general employee formula, but, to recognize the possibility of shortened careers, they are guaranteed a benefit of 50 percent of high-3 when they serve at least 20 years. Benefits equal to 50 percent of high-3 are available under the general employee formula after about 27 years of service. Thus, controllers who work longer than 27 years receive no advantage over other employees in their benefit calculations.

Yet another option would be to leave the basic CSRS and FERS retirement provisions for Members in place but change CSRS to eliminate the preferences for Members that were not continued under FERS, such as the higher maximum benefits allowed for Members, the preferential survivor benefits Members receive under the deferred retirement provisions, and the more generous treatment accorded retired Members who become reemployed by the government. In the interest of consistency, consideration could also be given to eliminating the benefit reductions Members must take under CSRS when they retire before age 60. This would increase costs

somewhat, but CSRS does not apply age-based penalties to any other groups retiring optionally under CSRS. Moreover, Members under FERS are not subject to an age-based penalty.

Full consideration of the issues in these options involve policy judgments on inducements for Congressional service and tenure. We offer them in response to your request for ideas that the Subcommittee may wish to consider along with options others may suggest as you proceed with your deliberations.

That concludes my prepared statement. We would be pleased to answer any questions the Subcommittee might have.

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United States General Accounting Office

GAO

Report to Congressional Requesters

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May 1995

# FEDERAL RETIREMENT

## Benefits for Members of Congress, Congressional Staff, and Other Employees



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GAO/GGD-95-78



United States  
General Accounting Office  
Washington, D.C. 20548

General Government Division

B-261183

May 15, 1995

The Honorable Ted Stevens  
Chairman, Subcommittee on Post Office  
and Civil Service  
Committee on Governmental Affairs  
United States Senate

The Honorable John L. Mica  
Chairman, Subcommittee on Civil Service  
Committee on Government Reform and Oversight  
House of Representatives

At your requests, we are making a series of analyses of federal and nonfederal retirement programs. As one aspect of the requests, you asked that we compare the benefits available to Members of Congress and congressional staff with those available to other groups of employees under the Civil Service Retirement System (CSRS) and the Federal Employees Retirement System (FERS). This report responds to that part of your requests.

CSRS and FERS are, by far, the two largest retirement programs for federal civilian personnel. In general, CSRS applies to employees who entered federal service before December 31, 1983, and FERS applies to employees who entered after that date. The two programs are very different. CSRS was designed as a "stand-alone" pension program with no supplementation by Social Security or any other source of employment-related retirement income. In fact, CSRS predates the Social Security system by several years.

FERS was developed in response to the Social Security Amendments of 1983 that extended Social Security coverage to federal civilian employees hired after December 1983. FERS includes (1) a pension plan; (2) a Thrift Savings Plan to which most employees and the government contribute; and (3) Social Security, as a three-part retirement package.

The Social Security Amendments of 1983 required all Members of Congress to be covered by Social Security on January 1, 1984, regardless of when they entered Congress. Members in CSRS were given the option of being fully covered by both CSRS and Social Security and making the employee contributions required by each or participating in an "offset plan" whereby the Social Security contributions Members made and any Social Security benefits they received from their congressional service would be deducted from their CSRS contributions and benefits.

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respectively. A similar offset plan was applied to all other employees who entered the government between December 1983, when Social Security coverage began and CSRS was closed to new entrants, and January 1987, when the FERS pension plan was implemented.

CSRS and the FERS pension plan each have a number of separate provisions for the various employee groups they cover. Differing provisions in each plan apply to Members of Congress, congressional staff, law enforcement officers and firefighters, air traffic controllers, and all other employees.<sup>1</sup> The latter group (which we refer to as "general employees") constitutes more than 90 percent of all employees covered by the plans.

Appendixes I and II show all the CSRS and FERS provisions that differ by employee group. The significant differences are highlighted in the next sections. The comparisons do not include several provisions that are the same for all groups, such as disability retirement and annuitant cost-of-living adjustments. Appendixes III and IV illustrate the benefit amounts that are available to each employee group at various ages and years of service.

We derived the information in this report by reviewing chapters 83 and 84 of title 5 of the U. S. Code (chapter 83 covers CSRS and chapter 84 covers the FERS pension plan) and federal regulations on CSRS and FERS contained in parts 831 through 846 of the Code of Federal Regulations. Office of Personnel Management (OPM) specialists on the two retirement systems reviewed the information we developed and made certain suggestions for clarification and/or completeness that we incorporated where appropriate. Our work was done during January through April 1995 in accordance with generally accepted government auditing standards.

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## Results in Brief

The CSRS provisions for Members of Congress are generally more beneficial than the provisions for other employee groups, particularly general employees. The major differences are found in the eligibility requirements for retirement and the formulas used to calculate benefit amounts. The Member benefit formula applies to congressional staff; however, congressional staff are covered by the general employee retirement eligibility requirements. Law enforcement officers and firefighters may retire earlier and are covered by a more generous benefit formula than general employees. Under CSRS, the provisions for air traffic

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<sup>1</sup>Members of Congress and congressional staff can opt out of CSRS and the FERS pension plan. Coverage for all other groups is mandatory.

controllers fall between those for law enforcement officers and firefighters and general employees.

Many of the relative advantages afforded to Members of Congress and congressional staff over general employees in CSRS were continued under the FERS pension plan. However, provisions for law enforcement officers, firefighters, and air traffic controllers are very similar to the Member provisions under FERS. (Unlike CSRS, the FERS provisions for air traffic controllers are the same as those for law enforcement officers and firefighters.)

## Civil Service Retirement System

The CSRS features that differ by employee group are discussed in the following sections.

### Eligibility Requirements for Optional Retirement

Members of Congress can retire at younger ages and with fewer years of service than can general employees and congressional staff. General employees and congressional staff are eligible for optional retirement at age 55 with 30 years of service, at age 60 with 20 years, or at age 62 with 5 years. Members can retire at the same age and service combinations but may also retire at age 50 with 20 years and at any age with 25 years. Additionally, Members may retire at age 60 with 10 years of Member service and at age 50 with service in 9 Congresses.

Law enforcement officers and firefighters may retire at age 50 with 20 years of service as a law enforcement officer or firefighter. Air traffic controllers can retire at age 50 with 20 years of air traffic controller service or at any age with 25 years of air traffic controller service.

### Retirement Benefit Formulas

The CSRS statute specifies the formulas that will be used in calculating benefit amounts for the various groups. For Members of Congress and congressional staff who have 5 or more years of congressional service, the formula is 2.5 percent of the average annual salaries they earned during their 3 consecutive highest-paid years (known as the "high 3") for each year of congressional service. The same benefit formula applies to employees who are federal Claims Court judges, bankruptcy judges, U.S. Magistrates, or judges of the U.S. Court of Military Appeals. For example, the formula provides a benefit of 75 percent of high-3 salary to a Member or congressional staff with 30 years of congressional service. In comparison, the formula for general employees is 1.5 percent of high-3 for

each of the first 5 years of service, 1.75 percent for each of the next 5 years of service, and 2 percent for each year of service greater than 10 years. The general employee formula provides a benefit of 56.25 percent of high 3 after 30 years of service.

The benefit formula for law enforcement officers and firefighters is 2.5 percent of high 3 for each of the first 20 years of service and 2 percent for each year of service greater than 20. Thus, a law enforcement officer or firefighter who retires at age 50 with 20 years of service would receive 50 percent of high 3. After 30 years of service, the benefit would be 70 percent of high 3.

Air traffic controllers are covered by the general employee benefit formula, but they are guaranteed to receive no less than 50 percent of their high 3 at retirement. To illustrate this point, a controller who retires at age 50 with 20 years of service receives 50 percent of his or her high 3 because the general employee formula would provide only 36.25 percent of high 3 after 20 years of service. At 25 years of service, a controller would still receive 50 percent of high 3 because the general employee formula would provide 46.25 percent. The "break-even" point occurs at just under 27 years of service when the general employee formula provides about 50 percent of high 3.

When Members of Congress retire before age 60, their accrued benefits are reduced. The reduction is one-twelfth of 1 percent for each month (1 percent a year) they are between ages 55 and 60 and one-sixth of 1 percent for each month (2 percent a year) they are younger than age 55. There is no age reduction for any of the other groups covered by CSRS when they meet the optional retirement eligibility requirements. However, the reduction for Members younger than age 60 does not eliminate the overall advantages of their higher benefit formula compared with most other employees. A Member who retires at age 55 with 30 years of service receives a benefit equal to 71.25 percent of high 3 rather than the 75 percent he or she would otherwise receive without the age reduction (1 percent of accrued benefits for each of the 5 years the retiree is younger than age 60). General employees receive 56.25 percent of high 3 at age 55 and 30 years of service. Since the age reduction does not apply to congressional staff, they would receive 75 percent.

Several groups, including law enforcement officers, firefighters, customs inspectors, and Veteran's Affairs' physicians, receive an additional advantage in their benefit calculations that is not afforded to other

employee groups. Their high-3 salaries include certain types of premium pay. For example, the high 3 of law enforcement officers includes pay they receive for administratively uncontrollable overtime or availability pay.<sup>2</sup> The high-3 amounts for other groups are limited to basic salaries and do not include any overtime they may have received.

### Early Retirement

In certain circumstances, employees may retire before attaining the requirements for optional retirement or before they intended to retire. For example, general employees might be unable to continue in federal employment because their jobs were abolished or congressional staff might retire involuntarily if the Members of Congress who employ them are not reelected. Also, employees (except congressional staff) might be given the opportunity to voluntarily retire early to save the jobs of younger employees when their agencies are downsizing or transferring functions to other locations.

CSRS does not include any separate early retirement provisions for Members of Congress. The optional retirement provisions apply if a Member loses an election. However, some of the age and service eligibility requirements available to Members for optional retirement are the same as the early retirement eligibility requirements for other employees under CSRS.

General employees and congressional staff may retire early if they are age 50 with 20 years of service or any age with 25 years of service. Benefit amounts are reduced by one-sixth of 1 percent for each month (2 percent a year) they are younger than age 55. As discussed previously, Members may retire optionally at age 50 with 20 years of service, at any age with 25 years, or at age 50 with service in 9 Congresses (18 years). Similar to general employees, when Members retire under these provisions, their benefits are reduced by 2 percent for each year they are younger than age 55. However, unlike other employees, Members' benefits are also reduced by 1 percent for each year they are between ages 55 and 60. Members who resign or are expelled from Congress cannot receive immediate benefits unless they are at least age 55 with 30 years of service, age 62 with 5 years of service, or age 60 with 10 years of Member service.

<sup>2</sup>The administratively uncontrollable overtime program provides premium pay to employees, primarily law enforcement personnel, in positions that require substantial amounts of irregular, unscheduled overtime duty. For law enforcement officers in the criminal investigator job series, The Law Enforcement Availability Pay Act of 1994 provides for mandatory payment of 25 percent of base salaries for working or being available to work an annual average of 2 hours of unscheduled duty each regular work day.



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There are no special provisions for law enforcement officers, firefighters, or air traffic controllers to retire before meeting their age and service requirements for optional retirement. In situations where law enforcement officers, firefighters, or air traffic controllers might voluntarily retire early or might be separated involuntarily, the early retirement provisions (including the benefit formula) used for general employees are applied to these groups.<sup>3</sup>

## Deferred Retirement

Many employees do not continue in their federal jobs long enough to meet the age and service requirements for immediate retirement benefits. Employees who quit their jobs before completing 5 years of service receive no retirement benefits. Their contributions to the system are refunded upon request. Employees who stay longer than 5 years but leave before retirement eligibility may elect to leave their contributions in the retirement fund and receive their earned benefits later under the system's deferred retirement provisions.

The deferred retirement provisions of CSRS are more generous for Members of Congress than for any other group. Deferred benefits for all employees, other than Members, are payable at age 62. Members may receive deferred benefits at age 62 if they had at least 5 years of federal service, but they are also eligible for deferred benefits at age 60 if they had at least 10 years of Member service or at age 50 if they had 20 years of federal service of which at least 10 were Member service (with the same benefit reductions as applied to Member optional retirements before age 60).

Members of Congress receive another advantage under the deferred retirement provisions that is not available to any other employee group. CSRS provides benefits to the survivors of former Members who die in the interim between their separation from federal service and the age at which their deferred annuities would have commenced. Other former employees do not have this survivor protection. If they die before deferred benefit payments begin, their survivors are not eligible for survivor benefits. Rather, the former employees' contributions to the retirement fund are refunded to the survivors and no further benefits are payable.

<sup>3</sup>For example, these employees may be age 50 with 20 or more years of federal service, including service in other occupations but do not have the 20 years of service as a law enforcement officer, firefighter, or air traffic controller required for optional retirement.

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### Maximum Retirement Benefits

The maximum benefit allowed under CSRS for general employees and congressional staff is 80 percent of high 3. For general employees, about 41 years and 11 months of service are necessary to accrue benefits equal to 80 percent of high 3. Congressional staff benefits reach 80 percent after 32 years of congressional service. The same maximum benefit applies to law enforcement officers, firefighters, and air traffic controllers, but, because of their mandatory retirement requirements (see pp. 8-9), these employees generally cannot work long enough to earn benefits of 80 percent of high 3.

Maximum benefits for Members of Congress are determined somewhat differently, and this difference is more favorable to Members. Their maximum benefit (reached after 32 years of service) is 80 percent of the greater of their high 3 or final salary as a Member of Congress. If a Member leaves Congress to accept an appointive position, the final salary of that position is used as the basis for the maximum benefit if it is greater than the former Member's high-3 salary or final salary as a Member.

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### Reemployment of Annuitants

In some cases, retirees are reemployed by the government. The CSRS provisions covering reemployment of retired Members of Congress are significantly different from the provisions covering the reemployment of other retirees.

In general, retirees (other than retired Members of Congress) who are reemployed by the government continue to receive their annuities, but their salaries are reduced by the amount of the annuity.<sup>4</sup> A reemployed annuitant does not contribute to the retirement fund unless the individual chooses to have such deductions withheld. Reemployment for less than a year does not earn additional retirement benefits. However, annuitants reemployed for a year or more in positions subject to the retirement system are entitled to a supplemental annuity upon subsequent separation if they make retroactive contributions or already had deductions withheld. The supplemental annuity is based on the salary received during the reemployment period. Reemployed annuitants who serve for 5 years or more may, upon separation, elect to pay their retirement contributions retroactively (if they had not elected to have them withheld from pay) and have their annuities recomputed using their total service and new high-3 salary.

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<sup>4</sup>The prohibition against receipt of both full salary and annuity may be waived to deal with an exceptional need to recruit and retain qualified employees. These decisions are made on a case-by-case basis. The prohibition may also be waived when temporary reemployment of a retiree is necessary in an emergency involving a direct threat to life or property or other unusual circumstances.

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When retired Members of Congress are reemployed in either elective or appointive positions, their annuities are suspended, and they again become covered by the system as if they had not retired. Reemployed Member retirees make contributions in the amount required for the positions they hold. Upon separation, they receive either (1) reinstated annuities increased by the cost-of-living adjustments that occurred during reemployment or (2) recomputed annuities with credit for their additional service, regardless of the length of the reemployment.<sup>5</sup>

### Employee Contribution Requirements

In recognition of the differing retirement provisions for the various groups, the CSRS statute requires most groups with preferential benefits to make greater contributions to the retirement fund than general employees. General employees and air traffic controllers contribute 7 percent of their salaries. Members of Congress contribute 8 percent, and congressional staff, law enforcement officers, and firefighters contribute 7.5 percent. Any employee who has a premium pay included in the high-3 salary average must also make contributions from his/her premium pay. For example, law enforcement officers must contribute 7.5 percent of their administratively uncontrollable overtime or availability pay because these premium payments are included in their high-3 salary averages.

### Other Differences in CSRS Provisions for Members, Congressional Staff, and Other Employees

General employees, law enforcement officers, firefighters, and air traffic controllers receive service credit in their benefit calculations for any full months of unused sick leave they have accumulated at the time of retirement. Sick leave is not used in determining retirement eligibility or high 3.<sup>6</sup> For example, the benefit amount for a general employee at age 55 with 30 years of service and 1 year of unused sick leave would be calculated as if the employee had 31 years of service. The CSRS statute allows the sick leave credit only for employees who are covered by a formal leave system. Since Members of Congress and most congressional staff are not under a formal leave system, they cannot receive the sick leave credit.

**Of all the employee groups covered by CSRS, only law enforcement officers, firefighters, and air traffic controllers are subject to mandatory retirement**

<sup>5</sup>The annuity of the former Member is recomputed as if the service had been performed before separation as a Member.

<sup>6</sup>The 80 percent maximum benefit otherwise payable to employees may be exceeded by application of the sick leave credit. For example, a general employee with 1 year of unused sick leave could receive benefits equal to 82 percent of high 3.

provisions. Law enforcement officers must retire by age 57 or as soon thereafter as they complete 20 years of service. Firefighters must retire by age 55 or as soon thereafter as they complete 20 years of service. Individual employees in both groups can be retained to age 60 if their agency heads determine it is in the public interest for them to stay. The mandatory retirement age for air traffic controllers is age 56, regardless of their years of service, and they can be retained to age 61 when the agency head determines it is in the public interest.

## Federal Employees Retirement System

The basic design of FERS is much different from CSRS. In addition to a pension plan, FERS provides Social Security coverage to all employee groups and includes a Thrift Savings Plan<sup>7</sup> in which all groups may participate. The Social Security and thrift plan provisions do not vary by employee group.

The FERS pension plan continued the CSRS practice of providing preferential benefits to Members of Congress, congressional staff, law enforcement officers, firefighters, and air traffic controllers. However, some of the differing benefits under CSRS do not exist in the FERS pension plan.

- FERS eliminated the benefit reduction under CSRS that applies to Members of Congress who retire before age 60.
- FERS has no maximum benefit provision. Thus, the higher maximum benefits available to Members of Congress under CSRS do not exist in FERS.
- FERS provides benefits to the survivors of all employees and Members who have completed at least 10 years of service and die in the interim between their separation from federal service and the age at which their deferred annuities would have commenced. CSRS makes this benefit available only to Members of Congress.<sup>8</sup>
- FERS does not grant service credit for unused sick leave to any employees, thereby not following the CSRS practice of providing a sick leave credit for

<sup>7</sup>For each employee covered by FERS, including Members of Congress, the government contributes 1 percent of salary to the employee's Thrift Savings Plan account. The government contributes additional amounts to match any contributions the employee makes to the thrift plan. The government matches, dollar-for-dollar, employee contributions up to 3 percent of salary and 50 cents on the dollar for each of the next 2 percent of salary the employee contributes. Employees may contribute another 5 percent of salary to the plan with no government matching.

Employees in CSRS may also participate in the thrift plan. They can contribute up to 5 percent of their salaries to the plan. However, the government makes no contributions to their accounts.

<sup>8</sup>In CSRS, a benefit may be paid to the survivor of a Member who separated from service but was not yet receiving his/her deferred annuity if the Member had completed 5 years of service.

all employee groups other than Members of Congress and most congressional staff.

- FERS eliminated CSRS' preferential treatment of retired Members of Congress who become reemployed by the government. It requires that annuities for all reemployed retirees, including Members, be continued during the reemployment period but deducted from the retirees' salaries. Any reemployed annuitant, including Members, must be reemployed at least 1 year before a supplemental annuity is payable and must be reemployed at least 5 years before the annuity can be recomputed.

The features of the FERS pension plan that differ by employee group are discussed in the next section.

## Eligibility Requirements for Optional Retirement

The FERS pension plan raised the retirement age for general employees and congressional staff. It adopted a Minimum Retirement Age (MRA) concept that gradually increases, from age 55 to age 57, the earliest age at which general employees and congressional staff are eligible for optional retirement.<sup>9</sup> However, FERS continued the CSRS practice of allowing Members of Congress to retire at younger ages and with fewer years of service than general employees and congressional staff.

General employees and congressional staff are eligible to retire at the MRA with 30 years of service, at age 60 with 20 years, and at age 62 with 5 years. Members of Congress are eligible to retire at the same age and service combinations but may also retire at age 50 with 20 years of service or at any age with 25 years.

FERS allows law enforcement officers, firefighters, and air traffic controllers to retire at age 50 with 20 years of service or at any age with 25 years. In this manner, the eligibility requirements for all three groups were made the same under FERS. (Under CSRS, eligibility to retire at any age with 25 years of service is available to air traffic controllers only.) FERS also continued the mandatory retirement requirements and associated provisions in CSRS for law enforcement officers, firefighters, and air traffic controllers.

FERS added a provision not included in CSRS that allows Members of Congress, congressional staff, and general employees to retire at the MRA with 10 years of service. However, the accrued benefits for persons who

<sup>9</sup>The FERS MRA is age 56 for general employees and congressional staff born before January 1, 1948. The MRA gradually increases until it reaches age 57 for individuals born after December 31, 1969.

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retire under this provision are reduced by five-twelfths of 1 percent for each month (5 percent a year) they are younger than age 62.

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### Retirement Benefit Formulas

The benefit formulas for Members of Congress, congressional staff, law enforcement officers, firefighters, and air traffic controllers are all the same under the FERS pension plan. They receive 1.7 percent of their high-3 salaries for each of the first 20 years of service and 1 percent of high 3 for each year of service over 20 years.

The FERS benefit formula for general employees is considerably less beneficial than the formula for the other groups. Benefits for general employees who retire before age 62 are calculated at 1 percent of high 3 for each year of service. To encourage later retirements, FERS uses a more generous benefit formula for general employees who retire at age 62 or older with at least 20 years of service. These employees' benefits are calculated at 1.1 percent of high 3 for each year of service.

To illustrate the effect of the different benefit formulas under the FERS pension plan, Members of Congress, congressional staff, law enforcement officers, firefighters, and air traffic controllers would all receive 44 percent of their high-3 salaries after 30 years of service. General employees would receive 30 percent if they were younger than age 62 and 33 percent if they were age 62 or older.

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### Early Retirement

Like CSRS, the FERS pension plan allows general employees and congressional staff to retire before attaining the age and service requirements for optional retirement. The age and service requirements for early retirement and the conditions under which early retirement may be granted are the same as those under CSRS. Also like CSRS, FERS does not include any separate early retirement provisions for Members of Congress, although some of the age and service requirements available to Members for optional retirement are the same as the early retirement requirements applicable to general employees and congressional staff. FERS also continued the CSRS practice of not allowing law enforcement officers, firefighters, and air traffic controllers to retire before meeting their age and service requirements for optional retirement unless they qualify for early retirement by adding service in other federal occupations. In such cases, the general employee provisions apply.

A major difference between the CSRS and FERS provisions on early retirement is that FERS does not require reductions in earned benefits for employees who retire before attaining optional retirement eligibility. While CSRS requires benefits to be reduced by 2 percent for each year a retiree is younger than age 55, there is no such reduction in the FERS pension plan.

### Deferred Retirement

The deferred retirement provisions under the FERS pension plan are considerably different from CSRS. The earliest age at which deferred benefits are available under CSRS, other than for Members of Congress, is age 62. However, FERS makes deferred benefits available to general employees and congressional staff when they would have qualified for optional retirement if they had not left the government. Under FERS, unreduced deferred benefits are paid to these employees at the MRA if they had at least 30 years of service, at age 60 if they had at least 20 years, and at age 62 with at least 5 years. To illustrate this point, an employee who resigns his job at age 52 after completing 30 years of service is eligible for deferred benefits at his MRA (age 55 to 57, depending on date of birth). Under CSRS, the employee must wait until age 62 for the deferred benefits to begin.

The FERS pension plan allows Members of Congress, law enforcement officers, firefighters, and air traffic controllers to receive deferred benefits at the same ages and years of service as general employees if they were not eligible for optional retirement at the time of separation. Deferred benefits for law enforcement officers, firefighters, and air traffic controllers under these circumstances are calculated under the general employee formula, but Members of Congress and congressional staff retain their special benefit formula.

The FERS pension plan also provides deferred benefits to all groups at the MRA if they had completed at least 10 years of service. Deferred benefit amounts paid in these circumstances are reduced by 5 percent for each year the former employees are younger than age 62.

### Employee Contribution Requirements

Like CSRS, the FERS pension plan requires the groups with preferential benefits to make greater contributions to the retirement fund than general employees. General employees are required to contribute 7 percent of their salaries less the Social Security tax rate (now 6.2 percent), exclusive of Medicare. The current general employee contribution rate to the FERS pension plan is 0.8 percent of salary. Members of Congress, congressional

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staff, law enforcement officers, firefighters, and air traffic controllers must contribute 7.5 percent of salary less their Social Security taxes. Their current contribution rate to the FERS pension plan is 1.3 percent of salary.

### Agency Comments

We requested comments on a draft of this report from the Director of OPM or his designee. On May 8, 1995, we met with the Chief of the Retirement Policy Division to discuss the report. He agreed that the report accurately portrayed the major features of CSRS and FERS. He also suggested certain wording changes that he felt would better describe the differing provisions for the various employee groups. In general, we incorporated the suggested changes.

A copy of this report is being sent to Congressman Dan Miller, who also asked us for information on congressional retirement. Copies of the report are also being sent to the Director of OPM and other parties interested in federal retirement matters and will be made available to others on request.

Assistant Director Robert E. Shelton and Senior Evaluator Laura G. Shumway developed the information for this report. Please contact me on (202) 512-5074 if you or your staffs have any questions about this report.



Nancy R. Kingsbury  
Director  
Federal Human Resources  
Management Issues



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**Abbreviations**

CSRS	Civil Service Retirement System
FERS	Federal Employees Retirement System
MRA	Minimum Retirement Age
OPM	Office of Personnel Management

## Appendix I

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## Features of the Civil Service Retirement System (CSRS)

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This appendix lists CSRS provisions that differ for the various employee groups they cover. Not only do the provisions vary by employee group, but they also vary by the type of retirement. The types of retirement shown in table I.1 include:

- optional retirement in which employees may opt to retire and receive an immediate annuity;
- early retirement in which employees may retire and receive an immediate annuity before attaining the age and service requirements for optional retirement. The circumstances include (1) involuntary separations such as loss of employment through job abolishment or reduction-in-force and (2) voluntary separations occurring when an agency is undergoing a major reorganization, a major reduction-in-force, or a major transfer of function where a significant percentage of employees will be separated or have their salary grades reduced;<sup>1</sup> and
- deferred retirement in which employees leave federal service before qualifying for optional or early retirement, i.e., before qualifying for an annuity that can begin immediately. Their annuities are deferred until they reach a specified age.

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<sup>1</sup>Early retirement, both voluntary and involuntary, is not available to Members of Congress. Early voluntary retirement is not available to congressional staff.

**Appendix I  
Features of the Civil Service Retirement  
System (CSRS)**

**Table I.1: Features of the Civil Service Retirement System (CSRS)**

<b>CSRS features<sup>a</sup></b>	<b>General federal employee</b>
<b>Optional retirement</b>	
Age and service requirements	Age 55, 30 years
	Age 60, 20 years
	Age 62, 5 years
Formula for determining the annuity amount	1.5% of high 3 <sup>b</sup> for each of first 5 years
	1.75% of high 3 for each of next 5 years
	2% of high 3 for each year over 10 years
Reduction in annuity amount	None
Maximum benefit allowed	80% of high 3, excluding credit for unused sick leave <sup>c</sup>
<b>Early retirement<sup>d</sup></b>	

Appendix I  
Features of the Civil Service Retirement  
System (CSRS)

Law enforcement officer and firefighter <sup>a</sup>	Air traffic controller <sup>b</sup>	Congressional staff <sup>c</sup>	Member of Congress <sup>d</sup>
Age 50, 20 years as law enforcement officer or firefighter	Age 50, 20 years as an air traffic controller  Any age, 25 years as an air traffic controller	Same as general employees <sup>e</sup>	Age 60, 10 years of Member service  Age 62, 5 years  Age 55, 30 years (with reduction)  Age 50, 20 years (with reduction) <sup>f</sup>  Any age, 25 years (with reduction) <sup>f</sup>  Age 50, service in nine Congresses (with reduction) <sup>f</sup>
2.5% of high 3 <sup>g</sup> for each of first 20 years as law enforcement officer or firefighter	Higher of amount produced by the general employee formula or 50% of high 3	If less than 5 years of congressional service, same as general employee formula  If 5 or more years of congressional service	Same as congressional staff formula, except that military service performed while on leave of absence as a Member during wartime or national emergency is not subject to the maximum 5 years' military service creditable under the 2.5% multiplier
2% of high 3 for each year over 20 years as law enforcement officer or firefighter and any other federal service		2.5% of high 3 for each year of congressional service and up to 5 years' military service,  2% of high 3 for each year of other noncongressional federal service <sup>h</sup>	
None	None	None	None at age 60 and older  Annuity reduced by one-twelfth of 1% for each month Member is between ages 55 and 60 (1% a year) and by one-sixth of 1% for each month Member is under age 55 (2% a year)
80% of high 3, excluding credit for unused sick leave	80% of high 3, excluding credit for unused sick leave	80% of high 3	80% of the greater of - final basic pay of the Member, - high 3 of the Member, or - final basic pay of the appointive position of a former Member

(continued)

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**Appendix 1**  
**Features of the Civil Service Retirement**  
**System (CSRS)**


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<b>CSRS features*</b>	<b>General federal employee</b>
Age and service requirements	Age 50, 20 years  Any age, 25 years  (with reduction if under age 55)
Formula for determining the annuity amount	Same as optional retirement formula with reduction if under age 55
Reduction in annuity amount	Annuity reduced by one-sixth of 1% for each month the employee is under age 55 (2% a year)
<b>Deferred retirement*</b>	
Age and service requirements	Annuity payable when former employee reaches age 62 with at least 5 years of service
Formula for determining the annuity amount	Same as optional retirement formula
Reduction in annuity amount	None
Survivor benefit	Refund of contributions if former employee dies before deferred annuity begins
<b>Other features</b>	
Employee contribution rate	7% of salary
Mandatory retirement age	None

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Appendix I  
 Features of the Civil Service Retirement  
 System (CSRS)

Law enforcement officer and firefighter <sup>a</sup>	Air traffic controller <sup>b</sup>	Congressional staff <sup>c</sup>	Member of Congress <sup>d</sup>
Same as general employees  (with reduction if under age 55)	Same as general employees  (with reduction if under age 55)	Same as general employees <sup>d</sup>	None. See optional and deferred retirement provisions
Same as general employee formula with reduction if under age 55	Same as general employee formula with reduction	Same as optional retirement formula with reduction if under age 55	None
Annuity reduced as general employees	Annuity reduced as general employees	Annuity reduced as general employees	None
Same as general employees	Same as general employees	Same as general employees	Annuity payable when former Member reaches:  - age 62 with at least 5 years of service - age 60 with at least 10 years of Member service - age 50 with at least 20 years of federal service, including at least 10 years Member service (with reduction) <sup>e</sup>
Same as general employee formula	Same as general employee formula	Same as optional retirement formula	Same as optional retirement formula
None	None	None	Same as optional retirement
Same as general employees	Same as general employees	Same as general employees	Immediate survivor annuity upon death of former Member
7.5% of salary	7% of salary	7.5% of salary	8% of salary
Law enforcement officers must retire at age 57 or as soon thereafter as they complete 20 years of service <sup>f</sup>	Air traffic controllers must retire at age 56, regardless of years of service <sup>g</sup>	None	None
Firefighters must retire at age 55 or as soon thereafter as they complete 20 years of service <sup>f</sup>			

(continued)

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Appendix I  
Features of the Civil Service Retirement  
System (CSRS)

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**CSRS features\***

Reemployment of annuitants<sup>a</sup>

**General federal employee**

Annuity continues upon reemployment, but the salary is reduced by the amount of the annuity

as long as required contributions are made<sup>a</sup> an individual employed:

- at least one year can receive a supplemental annuity upon separation, and
  - at least five years can have the annuity recomputed based on total service and a new high 3
-



Appendix I  
Features of the Civil Service Retirement  
System (CSRS)

Law enforcement officer and firefighter <sup>a</sup>	Air traffic controller <sup>b</sup>	Congressional staff <sup>c</sup>	Member of Congress <sup>d</sup>
Same as general employees	Same as general employees	Same as general employees	Annuity suspended upon reemployment and Member again makes required contributions  Upon separation, the annuity recommences and is either (1) recomputed with credit for additional service regardless of how long the Member was reemployed or (2) reinstated with the cost-of-living adjustments that occurred during reemployment

<sup>a</sup>In general, employees or Members must have at least 5 years of federal civilian service to receive any CSRS benefits. The CSRS features that are the same for all employee groups are not included in this table. These features include disability retirement, cost-of-living adjustments, etc. The CSRS was closed to new hires as of January 1, 1984.

<sup>b</sup>In order to qualify for the special retirement benefits granted to law enforcement officers, firefighters, and air traffic controllers, an employee must be (1) age 50 and have served at least 20 years as a law enforcement officer, firefighter, or air traffic controller, or (2) any age and have served at least 25 years as an air traffic controller. Otherwise, the general employee provisions apply.

<sup>c</sup>Congressional staff and Members have the option of not participating in CSRS. Beginning in 1984, Members were required to pay Social Security taxes regardless of whether they participated in CSRS.

<sup>d</sup>According to OPM records, 50-60 percent of congressional staff who had retired from Congress with immediate nondisability annuities and were on the CSRS retirement rolls as of October 1, 1994, retired involuntarily under the early retirement provision. About 10 percent of general employees who had retired with immediate nondisability annuities retired involuntarily.

<sup>e</sup>Members cannot receive an annuity under these age and service requirements if they resign or are expelled from Congress.

<sup>f</sup>The high 3 is the largest annual rate resulting from averaging an employee's or Member's rates of basic pay in effect over any 3 consecutive years of creditable service.

<sup>g</sup>The high 3 for law enforcement officers includes availability pay or pay for administratively uncontrollable overtime.

<sup>h</sup>For congressional staff with at least 5 but fewer than 10 years of congressional and military service calculated at the 2.5% formula, a 1.75% multiplier is applied to each year of other noncongressional federal service until the total of congressional and noncongressional service reaches 10 years. The 2% multiplier is then applied to all other noncongressional federal service. If the 2.5% service is 10 years or greater, the 1.75% multiplier is not used and the 2% multiplier is applied to all noncongressional federal service.

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**Appendix I  
Features of the Civil Service Retirement  
System (CSRS)**

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<sup>1</sup>Under CSRS, an employee's full months of unused sick leave accumulated under a formal leave system is included in the total years and months of creditable service but not in determining retirement eligibility or the high 3. Members and most congressional staff do not have a formal leave system.

<sup>2</sup>Employees who are fired for cause cannot receive an early retirement annuity. They must wait until age 62 to receive benefits.

<sup>3</sup>To be eligible for deferred retirement, employees or Members must not have received refunds of all their contributions to the retirement fund.

<sup>4</sup>Law enforcement officers and firefighters may be retained to age 60 when the agency head believes the public interest requires that they stay.

<sup>5</sup>Air traffic controllers may be retained to age 61 when the agency head believes the public interest requires that they stay.

<sup>6</sup>Under special circumstances such as exceptional difficulties recruiting and retaining qualified employees or when a direct threat to life and property exists, the provisions to deduct the annuity from the salary of a reemployed annuitant, to not recompute an annuity for fewer than 5 years' additional service, to withhold contributions, or to suspend the annuity of a reemployed Member may be waived on a case-by-case basis.

<sup>7</sup>Reemployed annuitants may elect to have the required contributions withheld from their pay or to pay the contributions retroactively.

Source: Chapter 83 of title 5 of the United States Code and parts 831 through 838 of the Code of Federal Regulations.

## Appendix II

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## Features of the Federal Employees Retirement System (FERS)

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This appendix lists FERS provisions that differ for the various employee groups they cover. Not only do the provisions vary by employee group, but they also vary by the type of retirement. The types of retirement shown in table II.1 include:

- optional retirement in which employees may opt to retire and receive an immediate annuity;
- early retirement in which employees may retire and receive an immediate annuity before attaining the age and service requirements for optional retirement. The circumstances include (1) involuntary separations such as loss of employment through job abolishment or reduction-in-force and (2) voluntary separations occurring when an agency is undergoing a major reorganization, a major reduction-in-force, or a major transfer of function where a significant percentage of employees will be separated or have their salary grades reduced;<sup>1</sup> and
- deferred retirement in which employees leave federal service before qualifying for optional or early retirement, i.e., before qualifying for an annuity that can begin immediately. Their annuities are deferred until they reach a specified age.

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<sup>1</sup>Early retirement, both voluntary and involuntary, is not available to Members of Congress. Early voluntary retirement is not available to congressional staff.

Appendix II  
 Features of the Federal Employees  
 Retirement System (FERS)

Table II.1: Features of the Federal  
 Employees Retirement System (FERS)

FERS features*	General federal employee
<b>Optional retirement</b>	
Age and service requirements	MRA <sup>1</sup> , 30 years Age 60, 20 years Age 62, 5 years MRA, 10 years (with reduction)
Formula for determining the annuity amount	1 1% of high-3 <sup>2</sup> for each year of service if age 62 or older with 20 years  1% of high-3 for each year of service if under age 62, or age 62 or older with less than 20 years
Reduction in annuity amount	None at ages MRA and 30 years, age 60 and 20 years, or age 62 and 5 years  For employee retiring at MRA and 10 years, annuity <b>reduced</b> by five-twelfths of 1% for each month employee is under age 62 (5% a year)
Maximum benefit allowed	None
<b>Early retirement<sup>3</sup></b>	
Age and service requirements	Age 50, 20 years Any age, 25 years
Formula for determining the annuity amount	Same as optional retirement formula
Reduction in annuity amount	None

**Appendix II  
Features of the Federal Employees  
Retirement System (FERS)**

<b>Law enforcement officer and firefighter<sup>a</sup></b>	<b>Air traffic controller<sup>b</sup></b>	<b>Congressional staff<sup>c</sup></b>	<b>Member of Congress<sup>d</sup></b>
Age 50, 20 years as a law enforcement officer or firefighter	Age 50, 20 years as an air traffic controller	Same as general employees	MRA, 30 years
Any age, 25 years as a law enforcement officer or firefighter	Any age, 25 years as an air traffic controller		Age 60, 20 years Age 62, 5 years Age 50, 20 years* Any age, 25 years*
1 7% of high-3 <sup>e</sup> for each of first 20 years as law enforcement officer or firefighter	1 7% of high-3 for each of first 20 years as air traffic controller	If less than 5 years of congressional service, same as general employee formula	MRA, 10 years (with reduction) Same as congressional staff formula
1% of high-3 for each year over 20 years as law enforcement officer or firefighter and any other federal service	1% of high-3 for each year over 20 years as air traffic controller and any other federal service	If 5 or more years of congressional service 1 7% of high-3 for each of first 20 years of congressional service 1% of high-3 for each year over 20 years of congressional service and any other federal service (including military service)	
None	None	Same as general employees	None at ages MRA and 30 years, age 60 and 20 years, age 62 and 5 years, age 50 and 20 years, or any age and 25 years  For Member retiring at MRA and 10 years, annuity <b>reduced</b> by five-twelfths of 1% for each month Member is under age 62 (5% a year)
None	None	None	None
Same as general employees	Same as general employees	Same as general employees	None See optional and deferred retirement provisions
Same as general employee formula	Same as general employee formula	Same as optional retirement formula	None
None	None	None	None

(continued)

Appendix II  
 Features of the Federal Employees  
 Retirement System (FERS)

FERS features*	General federal employee
<b>Deferred retirement<sup>†</sup></b>	
Age and service requirements	Annuity payable when former employee reaches the age requirement for optional retirement  - MRA with at least 30 years - age 60 with at least 20 years - age 62 with at least 5 years - MRA with at least 10 years <b>(with reduction)</b>
Formula for determining the annuity amount	Same as optional retirement formula
Reduction in annuity amount	None at age 62, age 60 and 20 years, or MRA and 30 years  For MRA and 10 years, annuity <b>reduced</b> by five-twelfths of 1% for each month the former employee is under age 62 (5% a year)
Survivor benefit	If at least 10 years of service, annuity begins on the day after the former employee would have been  - age 62, if less than 20 years service - age 60, if 20 through 29 years service - MRA, if 30 or more years service  Alternatively, annuity can begin the day after death, but annuity computed actuarially equivalent to waiting for above age and service combinations
<b>Other features</b>	
Employee contribution rate	Currently 0.8% of salary (7% of salary less the Social Security tax rate, other than Medicare)
Mandatory retirement age	None

**Appendix II  
Features of the Federal Employee  
Retirement System (FERS)**

<b>Law enforcement officer and firefighter<sup>a</sup></b>	<b>Air traffic controller<sup>b</sup></b>	<b>Congressional staff<sup>c</sup></b>	<b>Member of Congress<sup>d</sup></b>
Same as general employees	Same as general employees	Same as general employees	Same as general employees
Same as general employee formula	Same as general employee formula	Same as optional retirement formula	Same as optional retirement formula
Same as general employees	Same as general employees	Same as general employees	Same as general employees
Same as general employees	Same as general employees	Same as general employees	Same as general employees
Currently 1.3% of salary (7.5% of salary less the Social Security tax rate, other than Medicare)	Same as law enforcement officers and firefighters	Same as law enforcement officers and firefighters	Same as law enforcement officers and firefighters
Law enforcement officers must retire at age 57 or as soon thereafter as they complete 20 years of service <sup>e</sup>	Air traffic controllers must retire at age 56 or as soon thereafter as they complete 20 years of service <sup>f</sup>	None	None
Firefighters must retire at age 55 or as soon thereafter as they complete 20 years of service <sup>g</sup>			

(continued)

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Appendix II  
Features of the Federal Employees  
Retirement System (FERS)

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**FERS features\***

Reemployment of annuitants'

**General federal employee**

Annuity continues upon reemployment, but the salary is reduced by the amount of the annuity

As long as required contributions are made<sup>10</sup>, an individual employed

- at least one year can receive a supplemental annuity upon separation, and
  - at least five years can have the annuity recomputed based on total service and a new high 3 upon separation
-



**Appendix II  
Features of the Federal Employees  
Retirement System (FERS)**

<b>Law enforcement officer and firefighter<sup>a</sup></b>	<b>Air traffic controller<sup>b</sup></b>	<b>Congressional staff<sup>c</sup></b>	<b>Member of Congress<sup>d</sup></b>
Same as general employees	Same as general employees	Same as general employees	Same as general employees

<sup>a</sup>In general, employees or Members must have at least 5 years of federal civilian service to receive FERS benefits. The FERS features that are the same for all employee groups are not included in this table. These features include disability retirement, cost-of-living adjustments, etc.

<sup>b</sup>In order to qualify for the special retirement benefits granted to law enforcement officers, firefighters, and air traffic controllers, an employee must be (1) age 50 and have served at least 20 years as either a law enforcement officer, firefighter, or air traffic controller, or (2) any age and have served at least 25 years as either a law enforcement officer, firefighter, or air traffic controller. Otherwise, the general employee provisions apply.

<sup>c</sup>Congressional staff and Members have the option of not participating in FERS. Beginning in 1984, Members and newly hired congressional staff must pay Social Security taxes regardless of whether they participate in FERS.

<sup>d</sup>MRA is the minimum retirement age. The MRA is age 55 for an individual born before January 1, 1948, and gradually increases until it reaches age 57 for employees born after December 31, 1969. For example, an individual born in 1950 has a MRA of 55 years and 6 months.

<sup>e</sup>Members cannot receive an annuity under these age and service requirements if they resign or are expelled from Congress.

<sup>f</sup>The high 3 is the largest annual rate resulting from averaging an employee's or Member's rates of basic pay in effect over any 3 consecutive years of creditable service.

<sup>g</sup>The high 3 for law enforcement officers includes availability pay or pay for administratively uncontrollable overtime.

<sup>h</sup>Employees who are fired for cause cannot receive an early retirement annuity. They must wait until they meet the age and service requirements for deferred annuities.

<sup>i</sup>To be eligible for deferred retirement, employees or Members must not have received refunds of all their contributions to the retirement fund.

<sup>j</sup>Law enforcement officers and firefighters may be retained to age 60 when the agency head believes the public interest requires that they stay.

<sup>k</sup>Air traffic controllers may be retained to age 61 when the agency head believes the public interest requires that they stay.

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**Appendix II**  
**Features of the Federal Employees**  
**Retirement System (FERS)**

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<sup>1</sup>Under special circumstances, such as exceptional difficulty recruiting and retaining qualified employees or a direct threat to life and property exists, the provisions to deduct the annuity from the salary of a reemployed annuitant, to not recompute an annuity for fewer than 5 years of additional service, or to withhold contributions may be waived on a case-by-case basis

<sup>2</sup>In FERS, deductions are withheld from reemployed annuitants' pay

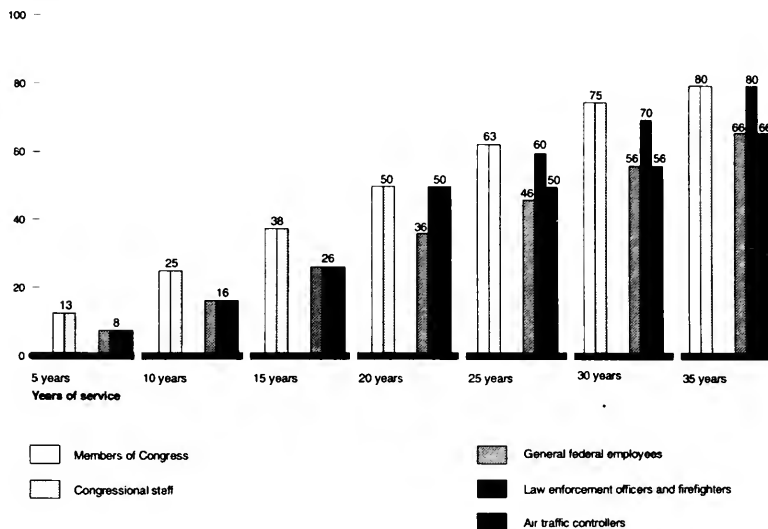
Source Chapter 84 of title 5 of the United States Code and parts 841 through 846 of the Code of Federal Regulations

## Appendix III

## Data on CSRS Annuity Levels

**Figure III.1: Maximum CSRS Annuities Immediately Available to Employee Groups Under the Optional Retirement Provisions**

Percent of high 3



Note 1 The CSRS optional retirement provisions are described in appendix I. Under these provisions an individual may voluntarily retire with an immediate annuity, which may be unreduced or reduced depending on his/her age and years of service at the time of retirement. Special early out voluntary retirements, disability retirements, and involuntary retirements are not considered optional.

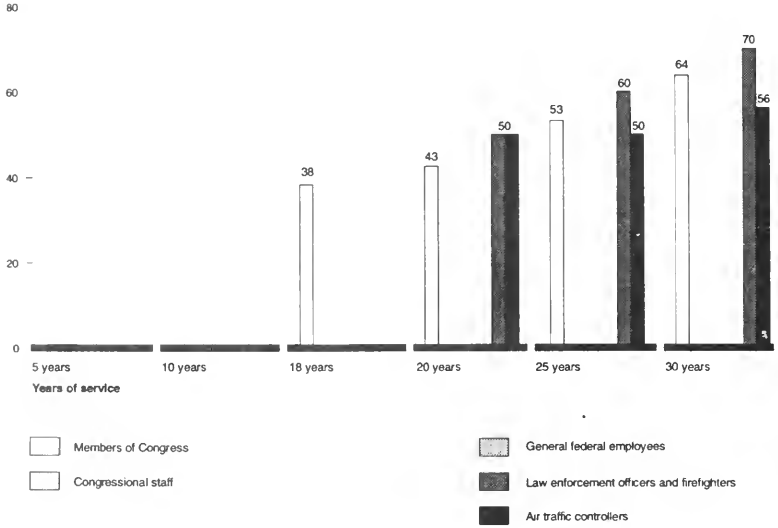
Note 2 These bars represent the maximum percentage of high-3 that is available at the years of service shown. The ages required to obtain these maximum percentages vary by group.

Note 3 The percentages shown above the bars are rounded. For example, the 56 percent shown for general federal employees and air traffic controllers at 30 years of service is actually 56.25 percent.

Appendix III  
Data on CSRS Annuity Levels

Figure III.2: CSRS Annuities Immediately Available at Age 50 for Employee Groups Under the Optional Retirement Provisions

Percent of high 3



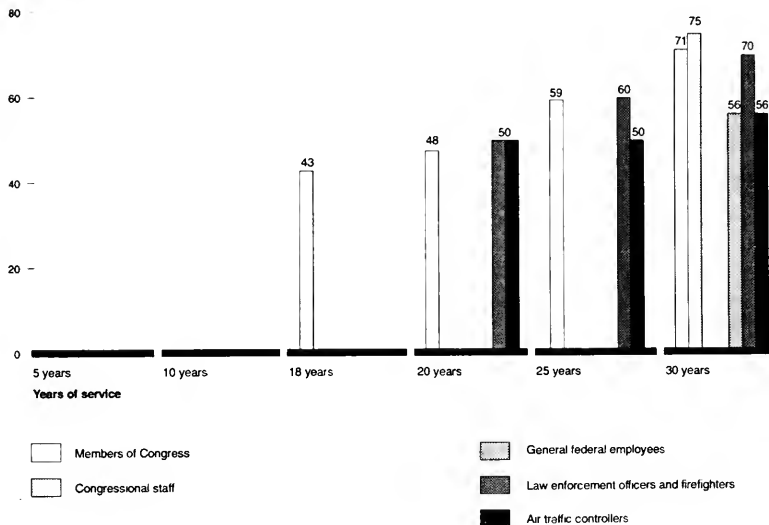
Note 1. A missing bar means the employee group cannot retire at that age and years of service under the optional retirement provisions.

Note 2. The percentages shown above the bars are rounded. For example, the 56 percent shown for air traffic controllers at 30 years of service is actually 56.25 percent.

Appendix III  
Data on CSRS Annuity Levels

Figure III.3: CSRS Annuities Immediately Available at Age 55 for Employee Groups Under the Optional Retirement Provisions

Percent of high 3



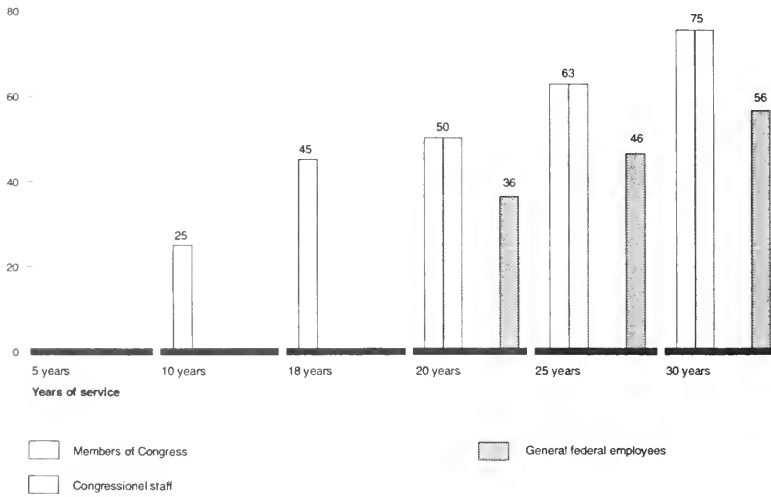
Note 1. A missing bar means the employee group cannot retire at that age and years of service under the optional retirement provisions.

Note 2. The percentages shown above the bars are rounded. For example, the 56 percent shown for general federal employees and air traffic controllers at 30 years of service is actually 56.25 percent.

Appendix III  
Data on CSRS Annuity Levels

Figure III.4: CSRS Annuities immediately Available at Age 60 for Employee Groups Under the Optional Retirement Provisions

Percent of high 3



Note 1 A missing bar means the employee group cannot retire at that age and years of service under the optional retirement provisions

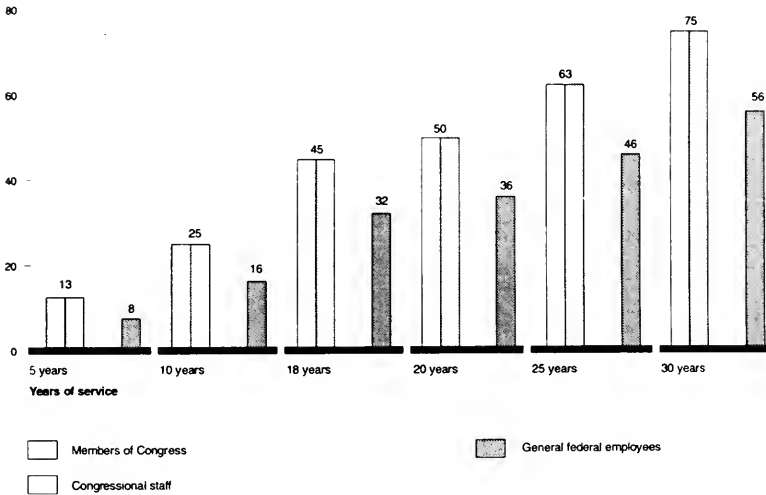
Note 2 The percentages shown above the bars are rounded. For example, the 56 percent shown for general federal employees at 30 years of service is actually 56.25 percent

Note 3 Law enforcement officers, firefighters, and air traffic controllers are not shown in this figure. In most cases, they have already retired because of their mandatory retirement ages

Appendix III  
Data on CSRS Annuity Levels

Figure III.S: CSRS Annuities Immediately Available at Age 62 for Employee Groups Under the Optional Retirement Provisions

Percent of high 3



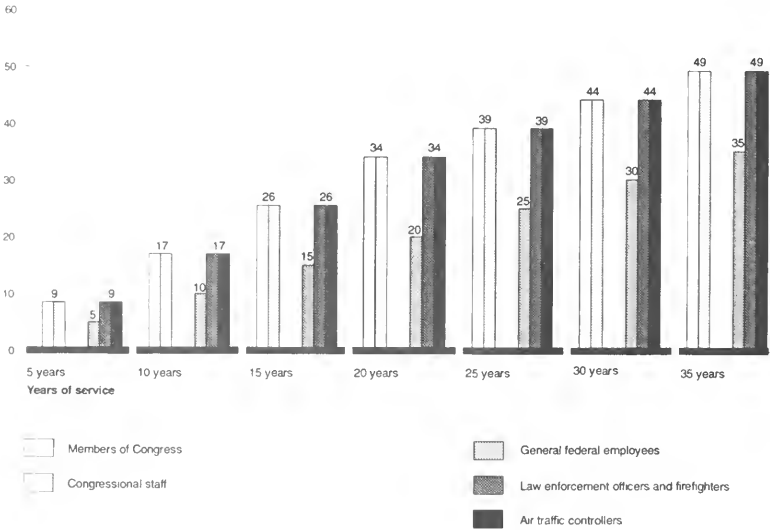
Note 1 The percentages shown above the bars are rounded. For example, the 56 percent shown for general federal employees at 30 years of service is actually 56.25 percent.

Note 2 Law enforcement officers, firefighters, and air traffic controllers are not shown in this figure. In most cases, they have already retired because of their mandatory retirement ages.

# Data on FERS Annuity Levels

Figure IV.1: Maximum FERS Annuities Immediately Available to Employee Groups Under the Optional Retirement Provisions

Percent of high 3



(Figure notes on next page)



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**Appendix IV**  
**Data on FERS Annuity Levels**

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Note 1 The FERS optional retirement provisions are described in appendix II. Under these provisions an individual may voluntarily retire with an immediate annuity, which may be unreduced or reduced depending on his/her age and years of service at the time of retirement. Special early out, voluntary retirements, disability retirements, and involuntary retirements are not considered optional.

Note 2 These bars represent the maximum percentage of high-3 that is available at the years of service shown. The ages required to obtain these maximum percentages vary by group.

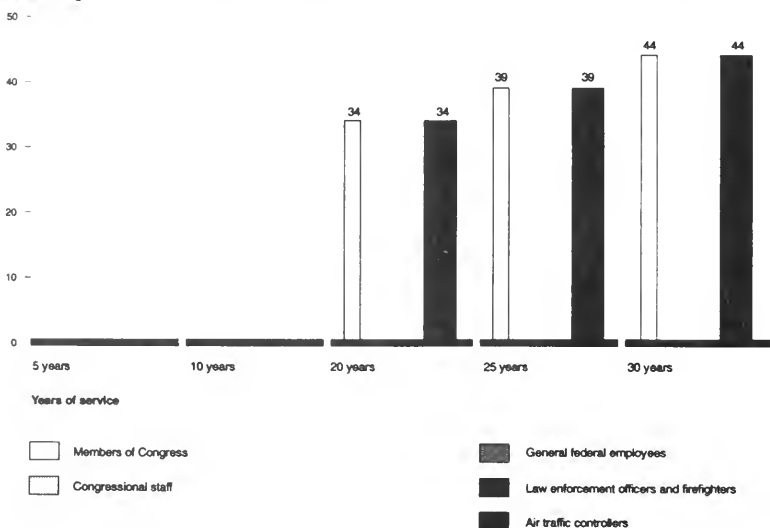
Note 3 The percentages shown above the bars are rounded. For example, the 9 percent shown for Members of Congress at 5 years of service is actually 8.5 percent.

Note 4 If a general federal employee is age 62 with at least 20 years of service, the percentages are 22 percent with 20 years, 27.5 percent with 25 years, 33 percent with 30 years, and 38.5 percent with 35 years, because the multiplier increases from 1 percent for each year of service to 1.1 percent for each year of service.

Appendix IV  
Data on FERS Annuity Levels

Figure IV.2: FERS Annuities Immediately Available at Age 50 for Employee Groups Under the Optional Retirement Provisions

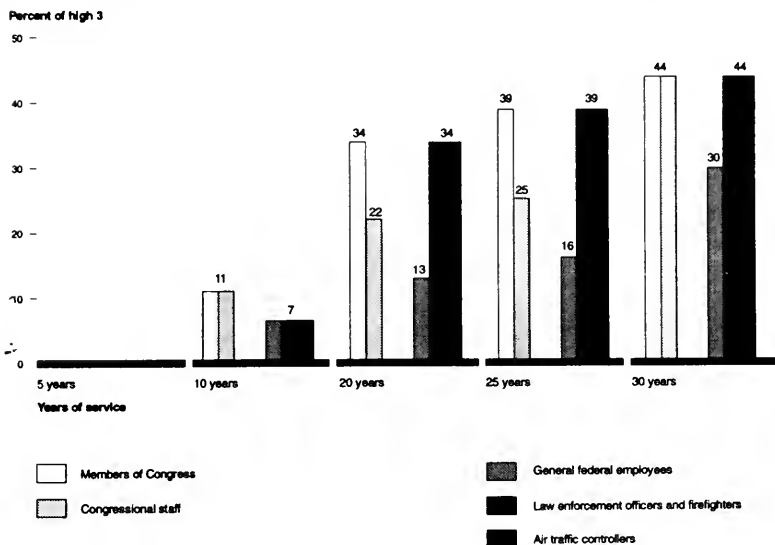
Percent of high 3



Note 1 A missing bar means the employee group cannot retire at that age and years of service under the optional retirement provisions

Appendix IV  
Data on FERS Annuity Levels

**Figure IV.3: FERS Annuities Immediately Available at Age 55 for Employee Groups Under the Optional Retirement Provisions**



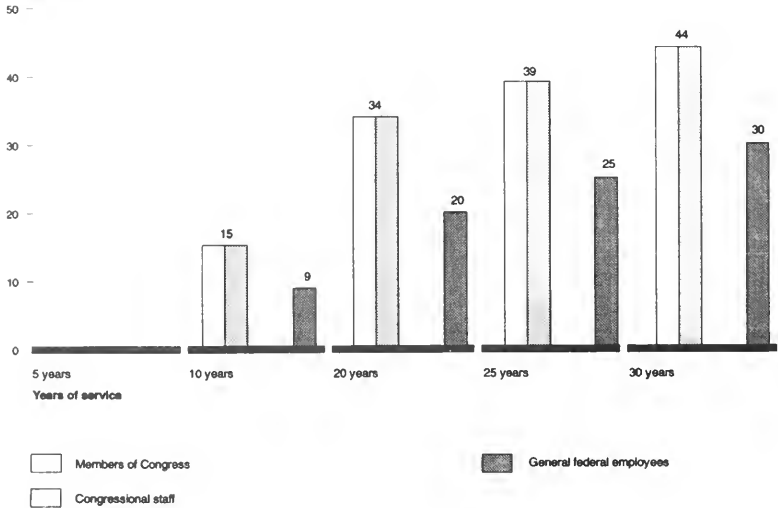
Note 1. A missing bar means the employee group cannot retire at that age and years of service under the optional retirement provisions.

Note 2. The percentages shown above the bars are rounded. For example, the 7 percent shown for general federal employees at 10 years of service is actually 6.5 percent.

Appendix IV  
Data on FERS Annuity Levels

Figure IV.4: FERS Annuities Immediately Available at Age 60 for Employee Groups Under the Optional Retirement Provisions

Percent of high 3



Note 1. A missing bar means the employee group cannot retire at that age and years of service under the optional retirement provisions.

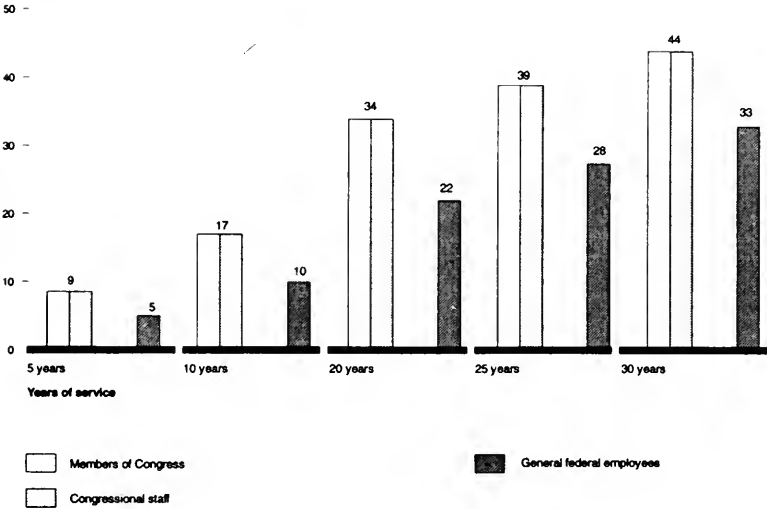
Note 2. The percentages shown above the bars are rounded. For example, the 15 percent shown for Members of Congress at 10 years of service is actually 15.3 percent.

Note 3. Law enforcement officers, firefighters, and air traffic controllers are not shown in this figure. In most cases, they have already retired because of their mandatory retirement ages.

Appendix IV  
Data on FERS Annuity Levels

Figure IV.5: FERS Annuities Immediately Available at Age 62 for Employee Groups Under the Optional Retirement Provisions

Percent of High 3



Note 1. The percentages shown above the bars are rounded. For example, the 9 percent shown for Members of Congress at 5 years of service is actually 8.5 percent.

Note 2. Law enforcement officers, firefighters, and air traffic controllers are not shown in this figure. In most cases, they have already retired because of their mandatory retirement ages.

## PREPARED STATEMENT OF CAROLYN L. MERCK

Good afternoon Mr. Chairman and members of the committee. My name is Carolyn Merck, and I am a Specialist in Social Legislation with the Congressional Research Service (CRS). I am pleased to have this opportunity to assist the committee in its review of the Federal Civil Service Retirement Systems. As you know, CRS is a nonpartisan organization. We advocate no position on issues before the Congress and make no recommendations. My statement this afternoon is intended to be factual and explanatory.

The witnesses from the General Accounting Office (GAO) have provided substantial background on the development, objectives, and design of the Federal retirement systems. I am going to focus my statement on the financing of the retirement programs, their costs, and the factors that influence costs.

## FINANCING FEDERAL CIVIL SERVICE RETIREMENT

The Civil Service Retirement System (CSRS) and the pension component of the Federal Employees' Retirement System (FERS) are "defined benefit" plans. This means that retirement benefits to participants are determined by a formula, not an accumulating account balance. Although employees must pay into the systems throughout their years of Federal work, the amount of those payments is not a factor in the benefit formula and has no direct relationship to the amount of the pension. A worker's payments do not establish a right to any given level of benefits or to any post-retirement benefit increases. Congress can change the eligibility criteria, the benefit formula, or the provisions for post-retirement cost-of-living adjustments (COLA's) at any time, regardless of the amounts workers have paid. Although some have characterized the retirement plan for Federal workers as an implicit labor agreement between the Government as employer and Federal workers, there is no legal contractual relationship. Rather, public retirement systems generally are considered entitlements granted by legislatures.

Like all other employer-provided defined benefits plans, the Federal civil service plans are financed mostly by the employer. The employer of Federal Government workers is the American taxpayer. Although public sector retirement systems customarily require employees to pay into the retirement system, the Bureau of Labor Statistics reports that in the private sector 97 percent of employees in medium and large firms are in pension plans fully financed by contributions from the employer. Nevertheless, under the CSRS, employee payments taken in from payroll withholding from *today's workers* (generally 7 percent of gross salary for those under CSRS), finance approximately 12 percent of the cost of benefits paid to *today's retirees*. FERS employee payments (0.8 percent of pay) will finance a much smaller share of the outlays for retirees.

Looked at from the standpoint of the individual, the payments a career-long CSRS worker makes equal about 10 percent of the total lifetime annuity payments he or she will receive, although this proportion can vary substantially for different individuals. Under FERS, employee payments would be significantly lower as a proportion of the defined benefit pension.

Both the CSRS and the FERS pension plans are financed on a pay-as-you-go basis, as are the military retirement systems and social security. This means that, despite the existence of a trust fund, benefits to current retirees are paid from current revenues. Congress set up this system for the CSRS in 1920, and it has operated as a pay-as-you-go system for the past 75 years. Moreover, this is the way benefits are and will be paid under the defined benefit pension component of FERS.

If the retirement systems are pay-as-you-go, what, then, is the role of the trust fund, and what are the issues pertaining to program liabilities?

## TRUST FUND OPERATIONS

*The Nature of the Trust Fund*

There is one civil service retirement trust fund that holds securities for both CSRS and FERS. A Federal trust fund is an account set up in the Department of the Treasury to which are credited Federal securities equal in value to the sums withheld from Federal employee paychecks, payments from the U.S. Postal Service for Postal worker retirement, and certain other intragovernmental transfers required by law. The CSRS/FERS trust fund is not like private trust funds in that no money is actually deposited into it for investment outside the Treasury. Although the terms "payment" and "deposit" are often used to describe amounts credited to the fund, no payments are actually retained in the fund in the form of cash, and the trust fund is not a source of cash to the Government.

The credits in the trust fund are technically referred to as non-marketable interest-bearing securities of the U.S. Government. The securities are "non-marketable" because they are not sold to the general public. Every year securities are credited to the fund (about \$64 billion in fiscal year 1994), and, as benefits are paid to retirees and survivors (about \$36 billion in fiscal year 1994), securities recorded in the trust fund are reduced accordingly. The trust fund is actually an accounting ledger used to keep track of revenues earmarked for the retirement programs, benefits paid under those programs, and certain future benefit costs. *The major purpose of the trust fund is to provide automatic budget authority for the payment of benefits up to the total value of the securities in the trust funds.* Thus, the trust fund authorizes the Government to pay benefits without annual Congressional appropriations. The cash to pay current benefits and other costs comes from general revenues and from mandatory contributions paid by employees and the U.S. Postal Service. Thus, in times of tight budgets, Congress often considers benefit cuts in order to reduce Federal spending or the deficit.

As of the start of fiscal year 1994, the civil service retirement trust fund held \$312 billion in securities. This balance grew to about \$340 billion by the start of fiscal year 1995, and will be an estimated \$366 billion at the start of fiscal year 1996.

#### *Annual Trust Fund Receipts and Disbursements*

As I noted earlier, all receipts to the trust fund are in the form of Federal securities. In fiscal year 1994, the receipts to the fund totaled \$63.5 billion, of which about \$9.7 billion represented cash deposited in the Treasury, and \$53.8 billion represented securities deposited as intragovernmental transfers. Disbursements totaled \$36.4 billion. (See Table 1.)

TABLE 1. RECEIPTS AND DISBURSEMENTS OF THE CIVIL SERVICE RETIREMENT AND DISABILITY FUND, FY 1994

	[In billion dollars]
Payments to retirees .....	\$30.0
Payments to survivors .....	5.6
Lump sums (old law contribution withdrawals and payments to estates) .....	0.4
Refunds to resigning employees .....	0.3
Administrative costs and misc .....	0.1
<b>Total Fund Disbursements:</b> .....	<b>\$36.4</b>
(liquidated securities to authorize cash Treasury disbursements).	
<hr/>	
<i>Receipts representing cash deposited in the general fund of the Treasury:</i>	
Receipts representing cash from employees: .....	\$ 4.4
U.S.P.S. payments (cash) .....	5.1
Miscellaneous .....	0.2
<i>Receipts representing intragovernmental transfers:</i>	
Agency "matching" contributions .....	\$ 7.9
Payments required by P.L. 91-93 .....	19.7
Miscellaneous .....	1.3
Interest on the balance of securities .....	24.8
<b>Total Fund Receipts</b> .....	<b>\$63.5</b>

Source: U.S. Budget Appendix for FY 1996, p. 914

#### THE TRUST FUND AND THE BUDGET

##### *Cash Receipts*

Although cash from employee payroll withholding and from the U.S. Postal Service is earmarked for Federal retirement, the trust fund has no way to receive or hold cash. All cash paid into the Government is deposited in the general receipt accounts of the U.S. Treasury and can be used for any purpose for which the Government spends money, including paying current retiree annuities. It can also be used to reduce the deficit or Government borrowing, or to offset revenue losses than might be caused by a tax cut.

However, even though the cash is deposited in the Treasury, securities of equal value are credited to the trust fund to note that the Government had in fact received cash for the retirement system. Nevertheless, unlike social security, for ex-

ample, the cash coming into the Treasury earmarked for Federal retirement (\$9.7 billion in fiscal year 1994) is less than the annual cost of benefits (\$36 billion in fiscal year 1994). Thus, there is no cash brought into the Treasury in excess of the amount needed to pay benefits on an annual basis.

### *Intergovernmental Transfers*

When the Congress established the Civil Service Retirement System in 1920, it set up the trust fund and called for employee and employer contributions. The employer contributions were to be made by employing agencies from appropriations made to them for that purpose. The agency payments were to match the amount of the contributions paid by employees. However, for many years, these agency payments were not made systematically, but it didn't matter because there were so few retirees that the cash from employees was enough to pay fully for the benefits to retirees without additional budget authority.

As the program matured it became necessary to establish a formal accounting system to take into consideration the effects of benefit obligations that had been incurred but that had not been accounted for in the employee-employer matching scheme and those that would continue to result from coverage of new groups of workers and Federal pay raises (Federal pay raises increase the pre-retirement salary on which an annuity is based and therefore affect the cost of annuities). Thus, in P.L. 91-93 in 1969, Congress established three types of credits that are added annually to the retirement fund in the form of Federal securities: (1) the amount necessary to amortize, over a 30-year period, any increase in the program's liability for benefits resulting from salary increases or coverage of new groups of employees; (2) the amount of the employer share of costs of benefits attributable to military service; and (3) interest, set at the fixed rate of 5 percent, on the estimated previously accrued or "static" liabilities of the program for which no securities were credited to the fund, estimated to be \$185.5 billion at the end of fiscal year 1993 ("static liability" meaning liabilities accrued up to the date of measurement, but excluding estimates for future pay raises, retiree COLA's, or changing interest rates).

Also in 1969, the CSRS employee payments were set at 7 percent of pay, which required an equal amount to be paid from funds appropriated to employing agencies. At that time, the "static" normal cost of the program was estimated to be 14 percent of payroll. (The "static normal cost" is that percentage of every dollar of employee salary that should be set aside to pay for the cost of benefits accrued up to the time of the estimate, but not including estimated future employee pay raises or retiree COLA's.) Thus, the static cost of the program was accounted for or "financed" through the combination of employee and agency payments, and the additional payments required by P.L. 91-93 were to finance pay raises as they occurred (but not in advance) through the 30-year amortization payments. Thus, although there was "50-50" cost sharing for some of the system's costs, the Government assumed responsibility for other costs not included in the ongoing static normal cost measure.

The static normal cost is currently lower than 14 percent, although OPM has not recomputed it since 1969. It would be 9.5 percent if OPM's current interest rate assumption of 7.0 percent were used rather than the 5 percent used in 1969. (Using the 5-percent rate, the current static cost might be roughly 11 or 12 percent.) The "dynamic" normal cost of the CSRS (which includes estimated future pay raises, COLA's, and 7-percent interest) is currently 25.14 percent of payroll (including the employee share of 7 percent). Thus, the current 14 percent of CSRS pay that is credited to the fund from employee and agency payments "overfunds" the CSRS according to the static funding measure set up in the 1969 law, but less than fully funds the system if the estimates include future pay raises, retiree COLA's, and current interest rates. Congress has not changed the 1969 law, and thus there is no requirement for the program to be funded according to dynamic cost estimates.

The three credits required by P.L. 91-93, plus agency matching payments, and interest on the balance of the fund, are all "intragovernmental transfers" that are received by the trust fund, and because the trust fund is an account within the Treasury, they do not constitute outlays from the Treasury and have no effect on the deficit.

### *Outlays*

The only cost of the CSRS and FERS defined benefit retirement systems that are outlays from the budget and that contribute to the deficit are: (a) the cost of benefits to retirees and survivors; (b) payments to individuals who resign from the Government and withdraw their contributions (generally without interest); (c) repayment of employee contributions to the estates of deceased workers or retirees who have no survivors eligible for a survivor annuity; and (d) administrative costs. The cost



of the programs and the need for general tax revenues to pay for Federal retirement has never, and will never, exceed the cost of these payments.

In fiscal year 1994, the total Federal outlays for these programs was \$36.4 billion; the total cash received by the Treasury and earmarked for retirement was \$9.7 billion; thus, the difference between these costs and receipts, \$26.7 billion, was the total cost of the system that was paid from general revenues without an offsetting earmarked receipt. In the analogy with the private sector, this would be the employer-paid share of the cost of the defined benefit pension plan for Federal employees.

#### PROGRAM LIABILITIES

The liabilities of a retirement system are the costs of benefits promised to workers and retirees. A retirement system is "fully funded" if a trust fund holds assets approximately equal to the present value of all benefits promised to retirees and vested employees ("vesting" in the Federal plans requires 5 years of employment covered by the system). "Unfunded liabilities" are estimates of benefits for which assets have not been set aside in a retirement fund and for which no future deposits are scheduled.

Total pension liabilities can be estimated using "dynamic" assumptions which include estimated projected benefits including estimates of future pay raises and retiree COLA's, or using "static" assumptions, which account for pay levels and benefit accruals up to the date of the estimate, but excluding estimates of pension increases that might result from future pay raises or COLA's.

According to the Office of Personnel Management (OPM), at the end of fiscal year 1993, the estimated dynamic liability of the CSRS (net of future scheduled contributions) was \$815 billion. The estimated dynamic future liability of FERS was \$42.5 billion. Thus, total Federal liabilities for current and future retirees was \$857.5 billion. (The FERS liability is smaller because it is a new system with comparatively few vested participants.)

Although CSRS and FERS use one trust fund, as of the end of fiscal year 1993, the securities deposited in it for CSRS totaled \$276.7 billion. This fund balance can be characterized as the "funded" liabilities of the CSRS and constituted about 34 percent of all estimated current and future liabilities. Securities deposited for FERS totaled \$40.7 billion, which are the "funded" liabilities of that system. Thus, the total trust fund balance (total "funded liabilities") was \$317.4 billion.

Congress designed the FERS defined benefit pension as a fully funded system. Thus, from the start, securities have been deposited in the trust fund equal to the full dynamic cost of that program. As these estimated costs have changed since 1987 when FERS began, the amount of the securities deposited as the "Government's" share have been adjusted (no change is made to the employee share.) Consequently, there is no controversial issue regarding the funding status of FERS. Nevertheless, FERS benefits are and will be paid with cash from general revenues, authorized by the securities in the fund.

However, the unfunded liability of the CSRS, about \$538.3 billion at the end of fiscal year 1993, is currently a controversial issue. But what do liabilities, funded or unfunded, really mean in terms of costs to the Government or taxpayers? The total liability of the CSRS (\$815 billion) is the estimated amount the Government would have to pay all at one time if everyone who is or who ever has been a vested CSRS participant could demand a check for the present value of all the benefits to which they would be entitled from that time throughout their retirement until their death (or their survivor's death), taking into account estimated future pay raises they might receive (which affect the annuity at retirement) and retiree COLA's after retirement. *This event cannot happen in the Federal system.* Federal pension obligations cannot come due all at one time, unlike the situation that arises in the private sector when an employer goes out of business and must pay all promised pension obligations at once. Some of the Government's liabilities represent payments due to current retirees who receive their benefits one month at a time throughout retirement; others represent payments that will not commence for years to come because the workers are not yet eligible to retire. By the time they become eligible, others currently retired will have died. Thus, unlike private employers, the Government need not fully prefund the retirement system in order to insure against having to pay off all earned benefits simultaneously. It should be noted that the same reasoning applies to the social security system, which, throughout its 55 year history, has been largely pay-as-you-go.

Nevertheless, there is no shortage of securities in the retirement trust fund to authorize benefit payments on an ongoing basis. For example, benefit payments totaled \$36 billion in fiscal year 1994 when the trust fund balance was \$317 billion,

including \$277 billion for CSRS, and OPM projections show trust fund balances continuing to grow.

### THE FUTURE OF THE CSRS

Currently, about half of the Federal workforce is still covered by CSRS and about half is covered by FERS. Over the next two decades or so the number of CSRS workers will decline as they resign or retire, and the workforce will include mostly FERS participants. As the number of CSRS-covered workers declines, the assets credited to the trust fund for CSRS will decline, not because of loss of payroll contributions from workers, but primarily because the Government's payments will decline. Employee contributions "pay for" only about 12 percent of current annual benefit costs. However, the formulas by which the Government's share of CSRS costs are determined are based on projections of long-term benefits; as long-term benefit projections decline in anticipation of the demise of the CSRS, the Government's funding will decline, although there will still be CSRS retirees and survivors entitled to benefits. According to OPM, CSRS benefit payments will begin to exceed the amount of assets credited annually to the trust fund for CSRS in about 2008, and the assets attributable to the CSRS will be depleted by about 2025.

When Members of Congress wrote the new FERS law in 1986, they understood that there would have to be a financial transition from CSRS to FERS in the next century, and they wrote the law to provide for that transition. First, the law provides for one trust fund in which CSRS and FERS assets are combined. *Therefore, there is no separate CSRS trust fund that will be depleted.* Second, Congress established a system whereby benefit payments under the CSRS will be authorized by FERS trust fund securities as needed until there are no more CSRS benefits to be paid. Thus, the securities that are building up for FERS, and that are in excess of the amount needed to authorize FERS payments for some time, will be reduced each year by the amount by which CSRS benefits exceed CSRS assets. This will cause an increase in the FERS liability, but that liability will be "paid off" through a series of 30-year amortization payments. Using a 75-year projection period, OPM estimates that the total value of securities in the trust fund will grow throughout the projection period, ultimately reaching about 4.2 times payroll, or nearly 18 times the amount needed to pay annual benefits. This means that in the next century the trust fund will reach an ongoing steady state in which it will have a balance sufficient to *authorize* advance payment of 18 years of benefits.

In general, although OPM does not project the dynamic unfunded liability of the CSRS, that liability might increase slightly on a temporary basis early in the next century. However, it will have no economic effect, just as the current unfunded liability that accrued in the past has no current economic effect. The unfunded liability has no effect on the cost of the program, on the budget, on the deficit, or on taxpayers, either now or in the future. The only retirement system costs that affect current or future taxpayers are budget outlays for monthly benefit payments to retirees and survivors. The amount of those benefits are determined by formulas set in law by the Congress.

Although the total liability of the Federal pension plans, including the "funded" amount (securities in the fund) and the "unfunded amount," are irrelevant to the payment of benefits or the "solvency" of the programs, they do measure the projected, cumulative future cost of benefits, and some maintain that a reason to prefund plan liabilities is to ensure that taxpayers, who are the employers sponsoring these plans, know the magnitude of the commitment for future payments. Others say the Federal plans should be fully prefunded because the Federal Government requires private employers to prefund their plans, and they decry a double standard.

Others respond that although the unfunded liability of the Federal retirement system *per se* does not represent a risk to taxpayers, a fully funded program does not provide taxpayers or retirees with any particular protections either. The trust fund holds no cash and does not represent a source of cash from outside the Treasury. Even if the CSRS were fully funded, like FERS, the cash needed to write checks to retirees and survivors would be drawn from tax revenues.

### PROGRAM COSTS

The cost of any defined benefit plan is a function of the size of the eligible population, the benefits for which they are eligible at the time of retirement as written in law, and postretirement COLA's. Thus, if Congress were to determine that the cost of the program is too high and should be reduced, there are a limited number of options for reducing the costs.

First, there is little that can be done to limit the number of retirees. All workers who vest in the system and who work long enough to qualify for a benefit are entitled to that benefit for as long as they live. One factor affecting program costs is the increasing longevity of the population. Increasing the earliest age at which CSRS and FERS workers may retire with unreduced benefits (currently age 55 for workers with at least 30 years of service) is sometimes suggested. However, the average age at which workers elect voluntary retirement is 61.5. Thus, raising the minimum age to 62, for example, saves little. However, a variation on this idea that is often used in the private sector is to allow retirement before age 60 or 62, but pay less than the full accrued benefit. This is an option Congress wrote into the FERS plan to offer workers more flexibility in their retirement options.

Second, the factors in the benefit formula that influence the amount of benefits for which a retiree is eligible at the start of retirement are the *preretirement salary base* used in the formula and the *benefit accrual rate*. Currently, the salary base is the average annual pay of the employee's highest-paid 3 consecutive years ("high-3"). Before 1969, the salary base was the high-5 years. The longer the period included in the salary base, the lower the average preretirement pay on which the annuity is computed, assuming pay increases over time.

The accrual rate is the percentage of the preretirement salary base workers earn in pension benefits for each year of service. A high accrual rate yields a larger annuity than a lower rate. (Under the CSRS workers accrue benefits at 1.5 percent of high-3 for the first 5 years of service, 1.75 percent for years 6 through 10, and 2 percent for years over 10. Under FERS the accrual rate is 1 percent of high-3 for all years, or 1.1 percent for all years if the worker retires at age 62 or over.)

Thus, to reduce benefits at the start of retirement, the salary base could be lengthened, or the accrual rate could be reduced, or both.

COLA's are another factor influencing costs. Under CSRS all retirees receive COLA's annually equal to the rise in the Consumer Price Index (CPI). FERS retirees under age 62 receive no COLA's, and FERS COLA's may be limited to up to 1 percentage point less than the CPI if the CPI increase is over 2 percent.

Increasing employee contributions is another option, and is included in Title IV of H.R. 1215, the Tax Fairness and Deficit Reduction Act (which passed the House of Representatives on April 5, 1995). Increasing contributions shifts the costs of paying benefits to *current retirees* from the Government to *current workers*, and thus reduces outlays. However, it does not reduce the total cost of the benefits, that is, it addresses the cost issue on the "revenue side" but not on the "benefit side."

A final note about the future costs of the CSRS and FERS. The Congressional Budget Office (CBO) projects the cost of these programs as a percent of GDP to remain flat for a while and then decline in the next century. As CSRS phases out and FERS is the system under which most workers retire, the Government's cost for pension benefits under that program will be less than they are under the CSRS defined benefit plan because the FERS benefit formula is lower.

Although the nominal dollar cost of benefits will grow somewhat into the next century, most of the growth will be attributable to retiree COLA's, and some will be attributable to ongoing salary growth which is always passed through to the salary base on which benefits are determined. If benefit costs were computed in *constant dollars*, that is, removing the effects of inflation, there would probably be quite modest growth in program costs, since most of the growth would be attributable to wage growth in excess of inflation and to increasing longevity of retirees.

It is important to note that, in comparison with the social security program, *the retirement of the baby boom generation will have little effect on the Federal retirement programs*. Unlike Social Security, the size of the Federal retiree population is a function of the size of the Federal workforce, not the population as whole. Nevertheless, the Federal workforce is aging. This has occurred for a number of reasons, including hiring freezes over the past 15 years that have limited the number of younger workers hired who might otherwise create pressure for more turnover among older workers, and, some say, the design of the CSRS that prevents mid-career workers from leaving their Federal job because of lack of "portability" of the retirement benefits. About 50 percent of the current workforce will reach age 62 by the year 2111. Thus, there may be an increase in retirement rates early in the next century, but nothing like the magnitude of new retirees that will enter the social security system.

Thank you, and I will be glad to answer any questions.

## PREPARED STATEMENT OF JOHNNY C. FINCH FOR MAY 22 HEARING

## SUMMARY OF STATEMENT

The purpose of GAO's statement is to assist the Subcommittee as it examines Federal retirement issues by describing how the retirement systems work, the benefits they provide, and how they compare with programs in the non-Federal sector. The statement concentrates on the Civil Service Retirement System (CSRS) and the Federal Employees Retirement System (FERS) because they are the largest retirement systems for Federal civilian personnel.

CSRS has been closed to new entrants since 1983. It is a "stand alone" pension system with no Social Security coverage or other source of employment-related retirement income. FERS generally applies to employees who entered Federal service after 1983. It includes Social Security coverage, a pension plan, and a Thrift Savings Plan to which most covered employees and the government each contribute. At the end of fiscal year 1994, CSRS and the FERS pension plan, together, were paying annuities to about 1.7 million retirees and about 600,000 survivors of deceased employees and retirees at an annual rate of about \$36 billion.

GAO describes the history of CSRS and FERS and discusses four issues that are often raised in relation to Federal retirement: (1) retirement eligibility provisions, (2) benefit formulas, (3) cost-of-living adjustments, and (4) system financing. Among GAO's observations are:

- Although CSRS allows employees to retire at age 55, employees must have 30 years of service to retire at this age. Most employees do not have 30 years of service at age 55 or elect not to retire when first eligible. Thus, the average CSRS retirement age is about 61.5. FERS raises the retirement age requirement to 57 over a period of time. Employees in FERS have retired, on average, at age 63.5.
- CSRS generally provided greater benefits at age 55 than non-Federal plans, but non-Federal benefits were superior at age 62 when Social Security benefits become available to non-Federal retirees. As mentioned previously, retirees in CSRS averaged age 61.5. GAO has not yet compared non-Federal plans with FERS.
- CSRS provides greater inflation protection for retirees than do typical non-Federal plans. However, non-Federal plans often adjust benefit amounts, and CSRS adjustments have been cut back significantly in the past 10 years. The FERS pension plan affords less inflation protection than CSRS.
- CSRS, FERS, and the Social Security funds all share the common characteristic of being financed through investments in Treasury securities.

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## OVERVIEW OF FEDERAL RETIREMENT PROGRAMS

Mr. Chairman and Members of the Subcommittee:

We are pleased to be here today to discuss Federal retirement issues. This is an area in which we have done considerable work over the years. This work has given us a basis from which we can offer some perspectives that the Subcommittee may find useful as it examines these issues.

Our observations today are based on the premise that retirement programs are an integral part of the employee compensation package. We recognize the pragmatic concerns raised by budget issues. However, we also believe that budget concerns should be viewed, at least in part, from the context that retirement benefits are income that employees earn while performing service for their country during their working years but receive when their working years are over. As with private sector, State, and local government employees, Federal employees should be able to expect that the benefits they earn while they are working will, in fact, be paid to them when they retire.

While important to employees, retirement programs also have important management objectives. Retirement programs are tools that can help an organization keep its workforce vibrant and productive. They can be key employee recruitment and retention tools for employees and managers alike. It seems reasonable to assume that quality employees will be much more likely to want to work for and stay with an organization that has a good retirement program.

We also believe it is important to keep in mind that, about 10 years ago, the retirement program for most Federal civilian employees was completely reformed. The resulting Federal Employees Retirement System (FERS) bears little resemblance to CSRS. CSRS has been closed to new entrants since the end of 1983. Currently, the

great majority of retirees on the retirement rolls retired under CSRS, but CSRS and FERS each now cover about half of the 2.8 million active Federal civilian employees not covered under other Federal retirement systems such as the Foreign Service, Central Intelligence Agency, and Federal Reserve Board retirement systems. These other systems are much smaller than CSRS or FERS and cover a minor percentage of all Federal civilian employees.

None of the above should be interpreted to suggest that we believe there are no Federal retirement issues that should be considered. Quite the contrary. We believe it is important for all decisionmakers to know how the retirement systems work, the benefits they provide, and how they compare with programs in the non-Federal sector. To the extent that we are able, the chief purpose of our statement today is to help get the facts on the table. Because they are, by far, the largest retirement systems for Federal civilian employees, our statement concentrates on CSRS and FERS.

#### RETIREMENT PROGRAM STATISTICS

In a government with a civilian workforce as large as ours, it stands to reason that the number of retirees and the total amount of retirement benefit payments they receive each year will dwarf the statistics of any non-Federal retirement program. According to Office of Personnel Management (OPM) statistics, at the end of fiscal year 1994, approximately 2.3 million people, including retirees and survivors of retirees and employees, were receiving monthly annuity payments from either CSRS or the FERS pension plan. At the monthly rates they were being paid, the annual payments would amount to about \$36 billion.

For the 1.6 million CSRS retirees, the average monthly benefit was \$1,537, or \$18,444 a year. Of the just over 41,000 FERS retirees, the average monthly benefit was \$662, or \$7,944 a year. These averages included all the various types of retirement available under the systems, including optional, disability, deferred, early voluntary, and early involuntary, as well as the amounts for retirees who were covered by the special provisions for Members of Congress, Congressional staff, law enforcement officers, firefighters, and air traffic controllers. When limited to general employees who retired at age 55 or older under the optional retirement provisions, the averages were \$1,665 a month, or \$19,980 a year, for CSRS retirees and \$627 a month, or \$7,524 a year, for FERS retirees. Since FERS retirees also receive benefits from Social Security and the Thrift Savings Plan, any benefits from those programs would be in addition to their pension plan amounts.

One statistic that may be surprising to many observers is that about a quarter of the 2.3 million annuitants receiving CSRS and FERS benefit payments at the end of fiscal year 1994 were widows, widowers, children, and other survivors of deceased employees and retirees. In total, about 600,000 survivors were receiving monthly benefits from CSRS and the FERS pension plan. Their benefits averaged \$791 a month, or \$9,492 a year, under CSRS and \$262 a month, or \$3,144 a year under the FERS pension plan.

#### HISTORY OF RETIREMENT PROGRAMS FOR FEDERAL CIVILIAN EMPLOYEES

You asked that we include in our statement a discussion of the history of CSRS and FERS.

CSRS has a much longer history as it was established in 1920. It even pre-dates the Social Security system by several years. It was the first retirement program for employees in the Federal civil service and was born out of a pressing management need to remove from employment permanently tenured personnel who could no longer perform effectively because of age or infirmities. Many employees had grown quite old and often became inefficient in their work and incompetent for continued service. Because most elderly workers had not been able to make provisions for their old age, and because isolated instances of removing them had drawn adverse public reaction, it was very difficult to induce managers to dismiss them. As a result, an unofficial, unauthorized pension system had evolved that simply retained on the employment rolls, under various pretexts, all superannuated employees with many years of service and paying them full salary for little or no work. Needless to say, this practice impaired the efficiency of government operations and retarded the advancement of more competent employees.

When initially enacted, CSRS provided only two types of retirement—mandatory and disability. Mandatory retirement was set at age 70, and if employees had completed at least 15 years of service at that age, they were paid annuities. Disability retirement annuities were paid to all employees with at least 15 years of service who became totally disabled for useful and efficient service before reaching the mandatory retirement age. Mandatory and disability annuities were determined in the

same manner and provided annuity amounts ranging from a minimum of \$180 to a maximum of \$720 a year.

Many changes were made to CSRS in ensuing years. Optional retirement provisions were added in 1930. They allowed employees who had completed 30 or more years of service to retire 2 years earlier than the mandatory separation age with no reduction in annuity. The rationale behind the provisions was that certain individuals become superannuated and inefficient earlier in life than others and affording such employees the opportunity to retire a few years early with fair remuneration for long service would enhance government efficiency.

In 1942, the optional retirement provisions were liberalized. The new provisions permitted voluntary retirement at age 60 with 30 years of service, at age 62 with 15 years, or (with a reduced annuity) between ages 55 and 60 with 30 years. According to the Legislative history, this change was made because most other public retirement systems provided earlier retirement options and the change would reduce the number of employees retiring on disability, thereby effecting a savings in administrative costs.

The current CSRS optional retirement provisions for general employees were adopted in 1956 and 1967. In 1956, the provision for optional retirement at age 62 with 15 years of service was changed to age 62 and 5 years, and the annuity reduction for employees electing to retire at age 55 with 30 years of service was eliminated in 1967. Also in 1967, the service requirement for optional retirement at age 60 was changed from 30 to 20 years. The Legislative history shows that these changes were prompted by arguments that 30 years is a full career, justifying retirement without penalty, and a report to the President by a Cabinet committee recommending the age 55, 30 years service option with unreduced annuity be adopted. The Cabinet committee also recommended the age 60, 20 years service option as a meaningful intermediate option between the 55/30 and 62/5 provisions and to establish a more consistent relationship between age and service requirements.

An annuity formula was first used for CSRS in 1926. Under that formula, annuities were based on employees' annual average salaries during their final 10 years of service (not to exceed \$1,500) and years of service (up to 30). The formula produced a maximum annuity of \$1,000. In 1930, the formula and salary base were changed. The new base was a 5-year average (limited to \$1,600). The new formula produced a maximum annuity of \$1,200.

Through the years, several other changes were made to the benefit formula. In 1942, the ceiling on the high-5 average salary was eliminated, and, in 1948, a new formula was adopted that computed benefits by multiplying the high-5 salary by 1.5 percent for each year of service or, if a greater amount would result, by 1 percent plus \$25. The 1948 legislation also established a maximum annuity of 80 percent of high-5.

The current 3-step benefit formula, using a high-5 salary base, was adopted in 1956. It calculated benefits for general employees at 1.5 percent of high-5 for each of the first 5 years of service, 1.75 percent for each of the next 5 years, and 2 percent for each year of service greater than 10. This formula was an apparent compromise between a formula contained in a Federal employee union-supported bill and a formula recommended by the Civil Service Commission, the predecessor of OPM. The union-supported bill provided for using the 1948 formula for the first 5 years of service and using 2 percent of high-5 for all remaining years. This would have produced a basic annuity of 57.5 percent of high-5 after 30 years of service. The Commission's proposed formula would have provided a 30-year benefit of 52.5 percent of high-5. The formula ultimately adopted provided 56.25 percent of high-5 for 30 years of service.

In 1969, the salary base for computing annuities was changed from the high-5 average to a high-3 average. The rationale for this change was that the high-5 tended to keep employees working beyond the time they would have, or should have, retired because pay increases prompted employees to postpone their retirements in order to improve their high-5 averages which could increase appreciably with each additional year of service.

Over the years, many other changes were made to CSRS. The disability retirement provisions were revised at least six times; discontinued service and deferred retirement provisions were added and also changed several times; and, since 1939, the system has provided annuities to surviving spouses and children of employees who die during their working years and of retirees who elect survivorship coverage by accepting reduced annuities.

CSRS was also frequently changed to extend coverage and/or provide preferential benefits to particular employee groups, including Members of Congress, Congressional staff, law enforcement and firefighter personnel, and air traffic controllers.

Separate provisions for these groups allow higher annuities and/or earlier retirement eligibility than provided to general employees.

Several changes to the CSRS statute have reduced its costs substantially. Much of the savings have come from changes to the retiree cost-of-living adjustment (COLA) provisions. From 1969 to 1976, CSRS COLA's were based on monthly increases in the Consumer Price Index (CPI), and a 1 percent "kicker" was added to each adjustment. The add-on was eliminated and twice-a-year adjustments equal to the percentage increase in the CPI were instituted in 1976. In 1981, the manner in which initial adjustment amounts after retirement were determined was changed to reduce them considerably, and annual adjustments were adopted in 1981. We recommended all these changes based on our analytical findings that the practices tended to overcompensate retirees for their loss of purchasing power.

Other changes to CSRS COLA's have been primarily budget driven. Scheduled COLA's have often been reduced, delayed, or skipped as part of budget reduction efforts. For example, in 1983, the CSRS COLA was delayed 1 month and was limited to one-half the increase in the CPI for nondisabled retirees under age 62; the 1984 COLA was delayed for 9 months; in 1986, the President and Congress decided not to grant any COLA's to Federal retirees that year; and for fiscal years 1994, 1995, and 1996, the COLA's were delayed to April of each year instead of the scheduled January effective dates. Our calculations indicate that the COLA delays and reductions imposed during the 10-year period from 1985 through 1994 caused the COLA's to be equal to about 80 percent of the CPI increase during that period.

Other significant savings have come from changes we recommended to tighten the CSRS disability and early retirement provisions to eliminate system abuses and close loopholes. As a result, the conditions under which disability and early retirement can be granted were changed, and disability benefits were reduced or eliminated for many individuals who were receiving benefits under conditions that were not in keeping with system objectives.

FERS has a much shorter history. It was adopted because the Social Security Amendments of 1983 brought all Federal civilian employees first hired after December 1983 under Social Security. The amendments were primarily intended to resolve financial difficulties in the Social Security system, but they also had the effect of requiring that a new Federal retirement program be developed to supplement the benefits new employees would earn from Social Security. The ultimate design of FERS was determined after extensive analyses of non-Federal retirement programs and how non-Federal practices could be applied in the government. FERS adopted the non-Federal approach of providing Social Security coverage, a defined benefit pension plan, and the Thrift Savings Plan in which employees may participate to increase the retirement income provided by the other two parts of the FERS package. The FERS pension plan also provides substantially reduced retiree COLA's as compared to the full COLA's provided by the CSRS statute.

FERS was implemented in 1987. For employees who entered the government during the 3-year interim between January 1984, when Social Security coverage began and CSRS was closed to new entrants, and January 1987, a "CSRS offset plan was instituted whereby employees were covered by both CSRS and Social Security. Under this arrangement, the Social Security contributions employees made and any Social Security benefits they received from their Federal service were deducted from their CSRS contributions and benefits, respectively. Also, Members of Congress were covered by Social Security in January 1984, regardless of when they entered Congress. Members in CSRS were given the option of participating in the offset plan or being fully covered by both CSRS and Social Security. After FERS became operational in 1987, Members and employees in CSRS and the offset plan were given the option to switch to FERS.

To our knowledge, no substantive changes have been made to FERS since its inception other than the same COLA delays applied to CSRS retirees in fiscal years 1994, 1995, and 1996.

#### FEDERAL RETIREMENT MATTERS OFTEN AT ISSUE

The issues we most often see raised in relation to Federal retirement are (1) the ages at which employees are allowed to retire, (2) the amount of benefits the systems pay to retirees, (3) the Federal COLA provisions in comparison to the COLA's paid by non-Federal retirement programs, and (4) how the systems are financed. Our observations based on current and past work on each of these issues are discussed below.

### Retirement Age

As mentioned previously, CSRS provides general employees the options to retire at age 55 with 30 years of service, at age 60 with 20 years, and at age 62 with 5 years. Earlier optional retirement provisions are available to Members of Congress, law enforcement officers, firefighters, and air traffic controllers.

One of the frequent criticisms of CSRS is that the option of unreduced benefits at age 55 is generally not available in non-Federal pension plans. Indeed, our 1984 analysis of private sector plan features showed that age 62 or younger was the prevailing age at which unreduced benefits were available.<sup>1</sup> However, we also found that the age requirement should not be considered in a vacuum. Rather, it should be viewed in the context of the length of service requirement that accompanies the age requirement. Some private sector plans allowed long service employees to retire with unreduced benefits at ages younger than 62, and very few private sector plans that used age 62 required employees to have 30 years of service before benefits would be paid.

More recent data indicate that retirement age provisions in private plans have changed little, if at all. For example, a 1993 Bureau of Labor Statistics (BLS) survey of benefits provided to employees in a representative sample of private establishments employing 100 or more workers showed that about half of the employees were in plans that would provide unreduced benefits at age 62 or younger, often with 10 or fewer years of service. The survey also showed about 8 percent of the employees were in plans that allowed retirement at age 55 with 30 or fewer years of service. Another 3 percent were in plans that allowed retirement at any age when an employee's combined age and years of service totaled 80 or less. Thus, a number of private plans follow the CSRS practice of distinguishing between long- and short-service employees in their retirement eligibility provisions, as was the CSRS framers' objective.

The practice of allowing employees to retire on unreduced annuities at ages younger than 62 is quite prevalent in retirement plans for State and local government employees. According to a 1992 BLS survey of benefit programs in a sample of governmental units employing 100 or more workers, about 34 percent of all employees were in plans that allowed optional retirement at any age with 30 or fewer years of service. Another 23 percent were in plans that allowed optional retirement at age 55 with 30 or fewer years of service, and 5 percent were in plans that allowed optional retirement when an employee's age and years of service together totaled 85 or less.

It should also be recognized that, because of the 30-year service requirement, most Federal employees do not qualify for optional retirement at age 55. And, many of the employees who have 30 years of service do not retire immediately upon reaching retirement eligibility. In fact, on average, the 38,550 employees retiring under CSRS' optional retirement provisions in fiscal year 1994 were age 61.5 and had 30 years of service. About 35 percent of these employees retired at the ages of 55 to 59. They averaged age 57 and had almost 35 years of service.

Consideration of the retirement age issue should also take into account the fact that the optional retirement age has been raised under FERS. FERS instituted a Minimum Retirement Age (MRA) concept that gradually increases, from age 55 to age 57, the earliest age at which general employees under FERS are eligible for optional retirement.<sup>2</sup> Like in CSRS, employees in FERS must have 30 years of service to retire without a benefit reduction at the MRA.

FERS has another provision intended to serve as an incentive for employees to extend their careers beyond the MRA. Employees who retire at age 62 or older and have completed at least 20 years of service receive annuities calculated at a formula that provides a 10 percent greater benefit amount than the formula applied to employees who retire before age 62. The provision may be having an effect on the average FERS retirement age. The 5,965 employees who retired optionally under FERS in fiscal year 1994 averaged age 63.5, 2 years older than CSRS retirees in that year.

In our view, the incentive in FERS for employees to extend their careers is in keeping with demographic changes that are occurring. In a 1992 report,<sup>3</sup> we described the significant demographic changes that have occurred and are occurring in the U.S. labor force, including its increasing age as a result of the "middle-aging" of the baby boom generation and the comparatively low birthrates that followed the baby-boom era. The report observed that workforce aging is a trend that may have

<sup>1</sup> See *Features of Non-Federal Retirement Programs* (GAO/OCG-84-2, June 26, 1984).

<sup>2</sup> The FERS MRA is age 55 for employees born before January 1, 1948. The MRA gradually increases until it reaches age 57 for individuals born after December 31, 1969.

<sup>3</sup> *The Changing Workforce: Demographic Issues Facing the Federal Government* (GAO/GGD-92-38, March 24, 1992).



a profound impact on the world of work in the first half of the 21st century. The median age of the Nation's civilian workforce rose from 34.3 in 1980 to 36.6 in 1990, and is expected to reach 40.6 by 2005. The government's workforce in 1990 was, on average, 5 years older than the workforce in general.

In a 1993 report,<sup>4</sup> we discussed how the government and most non-Federal employers had done little to prepare for the challenges presented by workforce aging. Among the actions most experts agreed employers should be taking was to encourage their valued older workers to extend their careers.

A 1991 survey we made of Federal employees who were within 5 years of retirement eligibility showed that many of the government's older workers would be willing to extend their careers if certain incentives were included in the retirement programs.<sup>5</sup> For example 59 percent of the respondents said they would probably stay longer than they had planned if the benefit formula for retirement-eligible employees were increased; about 41 percent said an increase in the government's contributions to their Thrift Savings Plans after they were eligible to retire would make it likely that they would delay their retirements; and about 33 percent said a reduction in employee contribution requirements after retirement eligibility would probably cause them to extend their careers. These findings suggest that exploring the possibility of adding incentives for later retirements to CSRS and FERS could help enhance workforce capacity by retaining employees with needed knowledge, skills and abilities. Such incentives could also possibly generate cost savings in that the government would not be paying concurrent retirement benefits to a retiree and salary to a current employee to achieve the performance of a given job.

The data show that almost all private and State and local government plans allow employees to retire before they attain the age and service requirements necessary for the payment of unreduced benefits. Typically, they allow employees to retire by age 55 with 10 or fewer years of service at reduced benefit amounts. FERS incorporated this concept by allowing employees to retire at the MRA if they have at least 10 years of service. Benefits for employees who elect this option are reduced by 5 percent for each year they are younger than 62. CSRS does not have a similar provision.

### *Benefit Comparisons*

Comparing retirement benefits is not an easy task. There is wide variation in the designs of retirement programs and the amounts of benefits they provide. As we noted earlier, even CSRS and FERS bear little resemblance to one another.

When FERS was being developed, the Congressional committees of jurisdiction asked us to assist by identifying the features and benefit levels typically found in non-Federal retirement programs. We issued two reports in response to this request.<sup>6</sup> At your and the House Subcommittee on Civil Service's requests, we are updating these analyses. We have not yet completed this work, but, thus far, we have seen nothing to indicate that significant changes have occurred in the design of non-Federal retirement programs or the level of benefits they provide.

In our earlier reports we found that, like the eventual design of FERS, private companies' retirement programs typically consisted of three parts—a defined benefit pension plan, one or more capital accumulation plans (most commonly, a Thrift Savings Plan to which the employees and companies contributed but also including programs such as profit-sharing plans and stock-ownership plans), and Social Security. It appears from our current work that the basic structure of non-Federal programs is essentially the same. As one 1994 study<sup>7</sup> of non-Federal retirement programs noted, "Defined benefit pension plans . . . continue to play an integral role in most organizations benefit packages. A majority [of the organizations studied] offer a defined benefit plan, and almost all of these . . . supplement their plan with some type of [capital accumulation plan]."

All the States have retirement programs, and most States also cover their employees under Social Security. The States often have capital accumulation plans as well, but the plans generally do not provide for employer matching of employee contributions.

Very few private pension plans require employee contributions toward plan costs. State pension plans generally require employee contributions, but in most cases the

<sup>4</sup> *Federal Personnel: Employment Policy Challenges Created by an Aging Workforce* (GAO/GGD-93-138, Sept. 23, 1993).

<sup>5</sup> *Federal Employment: How Federal Employees View the Government as a Place to Work* (GAO/GGD-92-91, June 18, 1992).

<sup>6</sup> *Features of Non-Federal Retirement Programs* (GAO/OCG-84-2, June 26, 1984) and *Benefit Levels of Non-Federal Retirement Programs* (GAO/GGD-85-30, Feb. 26, 1985).

<sup>7</sup> Reprinted with permission from *The Hay Report: Compensation and Benefits Strategies for 1995 and Beyond*, Copyright 1995, Hay Group Inc. All rights reserved.

States have "employer pick-up" plans whereby taxes on the part of the employee's income used for pension plan contributions are deferred.

Our earlier analyses disclosed that benefit formulas in the non-Federal pension plans varied considerably. The majority of private plans based benefit amounts on employees' average salaries earned during their 5 highest paid years. Some private plans, particularly in large companies, and a majority of the State plans used a high 3-year average. The benefit accrual rates differed, and the approaches to recognizing Social Security benefits and the early retirement reduction provisions also differed from plan to plan.

We could not identify one formula as being representative of all plans included in our various data sources. Accordingly, we applied the plan formulas to a series of salary levels, retiree ages, and years of service and calculated the benefit amounts produced by the formulas as a percentage of final salary. In this manner, we could determine the average benefit levels provided by the plans. We also calculated the benefits available from Social Security and the typical Thrift Savings Plan to determine the total retirement income the retirees would receive. The benefits varied somewhat by salary level, but, to illustrate our findings, Table 1 shows the retirement incomes available to private sector and State employees from all three sources at a final salary of \$40,000 and at various ages and years of service. The retirement incomes available from CSRS are also shown. We have not yet compared FERS and non-Federal program benefits.

TABLE 1: BENEFITS AS A PERCENTAGE OF FINAL SALARY

Age	Years of service	Private sector retiree <sup>1</sup> [Percent]	State retiree [Percent]	CSRS retiree <sup>2</sup> [Percent]
55	10	12.2 to 14.0	9.6	None
55	30	38.8 to 45.5	35.9	56.25
62	20	45.6 to 48.7	40.5	36.25
62	30	65.1 to 70.3	57.8	56.25
65	20	53.9 to 56.5	48.5	36.25
65	30	74.2 to 77.3	64.5	56.25

<sup>1</sup> Because our various data sources covered different pension plans, the average benefits available from the plans also varied somewhat by data source. The higher amounts were generally provided by the larger plans.

<sup>2</sup> The benefits for the CSRS retiree are as a percentage of high-3 rather than final salary.

The retirement amounts for State retirees were generally lower than the amounts for private sector retirees principally because, at the time of our analyses, most State governments did not make contributions to employee capital accumulation plans. Thus, we did not include any benefits from capital accumulation plans in the retirement calculations for State retirees.

It is apparent that the relative benefits of CSRS and non-Federal programs depended heavily on when employees retired and how much service they had. CSRS provided greater benefit amounts to general employees retiring optionally at age 55 and 30 years of service than did the typical non-Federal program. On average, retirees in CSRS were age 61.5 in fiscal year 1994. However, non-Federal benefits were superior at age 62 when Social Security benefits were available to non-Federal employees. Also, even though the benefit amounts available to non-Federal employees at age 55 with 10 years of service were rather small, general employees in CSRS can receive no optional retirement benefits at age 55 unless they have at least 30 years of service.

It is possible that the more current data we are developing will show different results. However, non-Federal employers would have had to make major changes to their retirement programs since we did our earlier work if appreciable differences in comparisons with the CSRS are to be found.

Another factor that makes comparisons difficult is Social Security coverage that provides additional benefits, such as spousal and dependent benefits. Our comparisons and those of others focused only on the benefits accruing to individuals and did not include these additional Social Security benefits. The Social Security spousal benefit is 50 percent of the primary benefit and is paid in addition to the primary benefit while both spouses are alive (unless the spouse is eligible for a larger primary benefit in his or her own right). The primary benefit is paid to the surviving spouse upon the other spouse's death. Neither CSRS nor the FERS pension plan provides a spousal benefit while the retiree is living, and survivor benefits are less than the amount the retiree was receiving before death.

### *Cost-of-Living Adjustments*

The CSRS statute calls for annual adjustments equal to the increase in the CPI. This was instituted to protect the purchasing power of retirees' annuities. Without inflation protection, the value of an annuity after several years of retirement could be far less than its value at the time of retirement.

The private sector has also recognized this concept, but to a more limited degree and in a less structured way. Our earlier studies showed that private sector pension plans often adjusted benefit amounts in recognition of the effects of inflation on retirees' purchasing power. These adjustments were generally granted ad hoc rather than the result of a pension plan feature. Moreover, the amount and frequency of the ad hoc adjustments tended to vary with plan size. According to a Department of Labor study of a statistical sample of private sector retirees completed in the late 1970's, the retirees received average adjustments during 1973-1979 equal to 37.9 percent of the increase in the CPI, ranging from 5.5 percent for retirees in the smallest plans (1 to 99 participants) to 57.2 percent for retirees in the largest plans (10,000 and more participants).

More current information from BLS and several benefits consulting firms again shows wide variation in adjustment practices by employer size as well as by industry. A study of 50 large companies showed 70 percent of them gave at least one adjustment during the 10-year period of 1984 to 1993, some of which were sizeable. For example, one company gave adjustments in 1985 ranging from 1.5 to 18 percent depending on the date of retirement, and in 1991 the company gave another adjustment of 2 to 20 percent, again based on date of retirement. Another study of employers of all sizes showed 38 percent had given at least one adjustment during the same 10-year period. As a rule, the more current studies contain very limited information on the size of the adjustments.

In addition to the cost-of-living adjustments that may be made to their pension amounts, private sector retirees receive annual adjustments to their Social Security benefits to offset the effects of inflation. It is important to note that Federal employees in CSRS are not in Social Security. Also, annual Social Security COLA's have been given without exception for many years, while CSRS COLA's have often been reduced, delayed, or skipped for budgetary reasons in the past 10 years.

FERS retirees receive full inflation protection for their Social Security benefits, but their pension plan adjustments are limited. Pension plan COLA's for non-disabled FERS retirees are not paid until the retirees reach age 62. When paid, the COLA's are equal to the increase in the CPI if the price increase is 2 percent or less. The adjustment is 2 percent if the price increase is between 2 and 3 percent. If the price increase is 3 percent or greater, the adjustment is equal to the price increase less 1 percent. Thus, the current pension plan for Federal employees has less inflation protection than the CSRS plan.

### *Retirement System Financing*

There are several similarities in how CSRS and FERS are financed, but there are significant differences as well. It is our understanding that the witness from the Congressional Research Service plans to provide an indepth discussion of system financing, so we will limit our discussion to the highlights of the issue and an explanation of the positions we have taken in the past.

CSRS and the FERS pension plan require employees to contribute toward system costs. As the employer, the government is responsible for funding all costs not covered by employee contributions. If there were no cost to the government, employees, in effect, would not be receiving any retirement benefits from their Federal employment. We believe this reality must be kept in mind when one hears concerns being expressed about taxpayers being required to "subsidize" the systems. The cost of the retirement system is part of the overall costs taxpayers pay for the government services they receive.

Both CSRS and the FERS pension plan are "funded" programs, in that amounts are set aside (in the same fund) from which benefit payments are made. Both plans are funded using a "normal cost" approach. Normal cost is expressed as a percentage of payroll and represents the amount of money that should be set aside during employees' working years that, with investment earnings, will be sufficient to cover future benefit payments. Normal cost calculations require that many assumptions be made about the future, including mortality rates, quit rates, interest rates, employee salary increases, and cost-of-living increases over the lifespans of current and future retirees.

The amounts employees in CSRS and their agencies contribute to the retirement fund are approximately equal to the system's "static" normal cost, that is, the cost of future benefits calculated under the assumptions that employees will receive no pay increases and retirees will receive no COLA's. However, when normal cost is

calculated on a "dynamic basis", including assumptions for future pay increases and COLA's, the cost is about doubled. It has long been our position that the dynamic approach is the appropriate way to calculate and fund CSRS costs since it identifies the full cost of providing benefits to covered employees. Unlike CSRS, the FERS pension plan is funded on a dynamic normal cost basis. Agencies are required to contribute the difference between dynamic normal cost and employee contributions.

Even though the amount of agency contributions covers far less than the actual cost to the government of providing CSRS benefits, much of the remaining costs are covered by other government contributions to the retirement fund. OPM makes annual contributions to the fund from its appropriation to amortize the liabilities created by employee pay raises and other benefit improvements; the Postal Service makes contributions to the fund to cover retirement system liabilities resulting from collective bargaining agreements with its employee unions and COLA's Postal retirees receive; and Treasury pays the cost of benefits attributable to military service and interest on the system's unfunded liability as if it were funded. No provision exists to fund COLA's received by non-Postal retirees.

Because of the manner in which CSRS costs are determined and funded, the system has accumulated a sizeable unfunded liability. However, that liability is dealt with by the FERS statute. That statute requires that, when the amount in the retirement fund set aside to pay CSRS benefits is exhausted (because of CSRS' unfunded liability), annual appropriations will be made to amortize the shortfall over 30 years.

An understanding of CSRS and FERS financing practices and unfunded liabilities requires a realization that Federal retirement benefits are not prefunded in the manner that private pension plans set aside money during employees' working years to cover the accruing costs of their retirement benefits. Rather, the Federal retirement fund is "invested" in special issue Treasury securities. These are non-marketable securities available only to the retirement fund. There is no cash in the fund. It is only when the securities are redeemed to pay retirement benefits that Treasury must obtain the necessary money through tax receipts or borrowing. This is the point at which actual outlays occur. To the extent that these outlays are met by borrowing, they add to the deficit. (It should be noted that the Social Security trust fund is invested in the same manner as the CSRS and FERS fund.)

Thus, the CSRS and FERS retirement fund represents that portion of estimated future benefit obligations that the government has recognized *on paper*. The unfunded liability is that portion of estimated future benefit obligations that has no paper backing in the form of special issue Treasury securities. Being simply an actuarial estimate, the unfunded liability itself has no effect on the budget or current outlays and is not a measure of the government's ability to pay retirement benefits in the future. In fact, appropriations to increase the amount of non-marketable Treasury securities in the fund so as to eliminate the unfunded liability (as the FERS statute requires be done eventually) would not affect Federal outlays or the deficit or require additional payments by employees or the taxpayers.

Our major concern with the funding process has been that agencies are charged less than the full accruing cost of CSRS, thus understating the cost of government programs. Our recommendation to charge agencies all accruing retirement costs not covered by employee contributions was adopted for the FERS pension plan but not for CSRS. The President's budget proposals for fiscal years 1995 and 1996 called for the FERS funding approach to be applied to CSRS as well.

#### IS A NEW RETIREMENT SYSTEM NEEDED?

You asked for our views on whether Congress should consider a new Federal pension system as a refinement of CSRS and FERS. You also asked if we had any thoughts on whether there should be another "open season" for employees in CSRS to join FERS and, if so, how employees could be encouraged to switch to FERS and how much money Congress might have to appropriate to cover any added costs.

The budgetary implications related to Federal employee retirement, as with any other government program, would certainly be a consideration in deciding whether a new pension system is needed. While recognizing this, our assessments of retirement matters have traditionally used the criteria of what practices make good retirement policy, including reasonableness and competitiveness with non-Federal plans. Also, since CSRS has been closed to new entrants for several years, our comments are primarily focused on FERS.

We have seen nothing thus far in our work that would suggest that FERS is a poorly designed program or that it will not meet the government's and employees' needs. The three-part FERS is designed like many private sector plans. It is a much more portable system than CSRS because it includes Social Security coverage that

applies to all other employment in the country and the Thrift Savings Plan that a separating employee can convert to another plan outside the government or keep with the government when he or she leaves before retirement eligibility. Moreover, FERS includes incentives to encourage employees to make the Federal service their careers and to continue those careers beyond the minimum retirement age. It seems to us that this is a reasonable, balanced design for accomplishing portability and career service objectives.

Thus, the central question on this issue is whether there is a better approach than FERS, and if so, what it would be. Some options to explore might include moving more towards a defined contribution program by making the Thrift Savings Plan a greater part of the package, or even eliminating the pension plan portion in favor of an enhanced Thrift Savings Plan and Social Security. In this manner, government costs could be more easily identified and controlled. COLA's, for example, would not be an issue. However, our work shows that having both defined benefit and defined contribution plans is a common approach in non-Federal retirement programs. Moreover, defined benefit plans, including CSRS and FERS, generally include protections for employees who die or become disabled early in their careers. Such employees would have had insufficient time to earn benefit amounts of any significance from a Thrift Savings Plan. From our perspective, considerable additional study is needed to develop possible courses of action on this issue.

You asked about another open season to allow employees in CSRS to switch to FERS. According to OPM, the total current cost of the three FERS components is very similar to the cost of CSRS, when measured on a dynamic normal cost basis. Thus, there would be no apparent savings to the government from allowing employees to switch plans. The employees in question have already had an opportunity to elect FERS coverage and did not do so. We have seen no information to indicate that sizeable numbers of employees in CSRS would elect FERS coverage if given another opportunity.

That concludes my statement, Mr. Chairman. We would be pleased to answer any questions the Subcommittee may have.

GAO RESPONSES TO QUESTIONS RECEIVED AFTER THE HEARING

Following the Subcommittee's hearing of May 22, 1995, on federal pension plans, a number of additional questions were forwarded to us for written responses. Following are our responses to each question.

Question 1. H.R. 1215, a revenue bill pending before the Senate Finance Committee, would increase employee contributions to the retirement system by 2.5% generally and would change the high-3 salary years for computing retirement benefits to high-5 years. This latter change would dilute to some extent federal employees' retirement. Am I interpreting your testimony on page 5 to mean that there is precedent dating back to 1930 for using high 5?

Response:

Yes, a high-5 year salary average was first adopted in 1930. It remained in effect until 1969 when the high-3 average was incorporated as part of a major retirement reform package.

Although we found no indication that it was based on empirical evidence, supporters of the change maintained that the high 5 was causing employees to stay longer than they or their agencies desired in order to build larger high-5 averages through pay raises. Thus, while the high 3 is an important part of the benefit formula, it was also intended to serve as a personnel management tool.

Question 2. Can you comment on whether in today's environment of economic belt tightening, where everyone is being asked to participate in slimming down the federal budget, we would see a similar process occur if we went to a high 5? In other words, would federal employees stay longer to increase their benefits?

...or, would there be a mass exodus of retirement eligible employees?

...or, could both occur?

Response:

It is difficult to predict how going to a high-5 salary average would affect employees' retirement decisions. An employee's decision on when is the appropriate time to retire is a very personal matter involving a number of considerations, such as the degree of satisfaction with the federal job, health status, the extent to which retirement income will be sufficient to meet economic needs, and the comparative attractiveness of other possible pursuits. Adopting a lower salary base with its attendant reduced benefits would add another consideration to the decision.

It seems logical to us that a high 5's effect on retirement decisions would depend in large part on each employee's retirement eligibility status at the time the change is made. Employees who are already eligible to retire would probably be inclined to leave earlier than they otherwise may have planned in order to avoid the benefit cut a high 5 would cause. However, employees who are not eligible to retire wouldn't have much recourse. Unless they resigned their jobs, they would have to stay until retirement eligibility regardless of what salary average is used. Whether they might stay longer after retirement eligibility to build their high-5 averages or leave sooner because of disappointment over the benefit cut is anybody's guess at this point.

It also seems to us that the salary average issue should not be viewed in isolation. The salary average, along with the benefit accrual percentages, is an essential part of the formula for determining benefit amounts. As pointed out in our statement, we found that nonfederal programs often provided greater benefit amounts than CSRS at age 62 and older. A high-5 salary base would increase this nonfederal advantage.

**Question 3.** Can a conclusion be drawn that if we went to something less than a high 3, say a high 2 or high-1 year salary, that employees would be encouraged to leave federal service earlier?

**Response:**

Again, there are too many variables involved in individual retirement decisions to predict with any certainty what effect adopting a higher salary base would have. However, it seems apparent that the increased benefit amounts that would result from such a change would provide an incentive for employees to retire earlier.

**Question 4.** Money Magazine recently published an article describing the "princely" sums received by federal retirees. Could you comment on that suggestion and whether or not Money Magazine was accurate in its description of federal retirements?

**Response:**

Among other things, the article compared retirement benefits for federal, state and local government, and private sector employees retiring at age 65 after 30 years of service at a final salary of \$35,000 a year. According to the article, a state or local government worker would receive an annual pension of about \$18,000 a year, a federal worker about \$19,700, and a private worker about \$10,000, or about half the federal amount. The

article also maintained that federal COLAs were much superior to private sector COLAs, thereby making federal retirement even more generous than private retirement programs.

We found much of the article to be based on incomplete and sometimes misleading information. For example, the article concentrated on CSRS and did not mention the fact that FERS is the current federal employee retirement program. More importantly, no recognition was made of the fact that employees under CSRS receive no Social Security benefits from their federal employment and the government does not contribute to a thrift savings plan or other capital accumulation plan on their behalf. Even though retirement programs for private sector employees generally include benefits from these sources in addition to pension plans, the article included no amounts from Social Security or capital accumulation plans in the private sector benefits it compared with CSRS.

Our 1985 report (Benefit Levels of Nonfederal Retirement Programs, GAO/GGD-85-30, Feb. 26, 1985) showed how misleading it can be to ignore Social Security and capital accumulation plans in estimating the value of the retirement package available to private sector employees. According to the various data sources we used to obtain information on private sector retirement programs, total retirement benefits available to employees retiring in 1983 at age 65 with 30 years of service and a final salary of \$30,000 (we did not make calculations at the \$35,000 salary level used in the article) ranged from about 79 to 83 percent of final salary depending on the specific employers covered by each data source. Less than half these benefits came from the pension plans alone. In comparison, CSRS provides an annuity equal to 56.25 percent of high-3 salary at 30 years of service. The CSRS percentage would be even smaller in relation to final salary.

Similarly, we found the article's discussion of federal and private sector COLA practices to be somewhat incomplete. The article did not acknowledge, for example, that full COLAs have been given without exception for many years to the Social Security portion of private sector retirees' retirement benefits, while CSRS COLAs have frequently been reduced, delayed, or skipped in the past 10 years. Nor did the article discuss the fact that some private sector pension plans often give significant adjustments to retirees on an ad hoc basis. There was also no mention that FERS pension plan COLAs are much less generous than COLAs under CSRS.

As is evident from the above, we do not believe the Money Magazine article presented an accurate portrayal of the federal retirement situation.



**Question 5.** Comparing GAO's private sector retirement plans research today with your work in the 1980s, can you tell if there is any comparability between the pension COLAs given to federal retirees and private sector retirees?

**Response:**

In general, it appears that the CSRS COLA provisions are superior to private sector practices. However, we are finding that current information on private sector COLAs is hard to come by, primarily because they are given ad hoc rather than as part of a pension plan feature. While we have not seen any information to suggest that any private pension plans fully adjust for inflation, it must be remembered that, unlike CSRS, Social Security is a key part of private sector retirement programs and it is fully indexed for inflation. Also, full CSRS COLAs have not been given for several years.

We cannot reach a conclusion at this stage of our work on how the COLAs under the FERS pension plan compare to COLAs in private sector plans.

**Question 6.** Would you briefly outline any federal pension plans that may exist besides CSRS and FERS?

**Response:**

Along with the Uniformed Services Retirement System, CSRS and FERS are the largest retirement programs for federal personnel. However, there are a number of smaller programs. Back in 1978, we issued a report analyzing all the various federal retirement programs (Need for Overall Policy and Coordinated Management of Federal Retirement Systems, FPCD-78-49, Dec. 29, 1978). That report identified some 38 programs that were established and maintained by the government and its instrumentalities. All these programs were exempted from the statutes that apply to private plans because of their federal nature. While it was questionable whether some of them actually covered federal personnel (like 15 plans maintained by individual Farm Credit Districts and Banks), the report identified 11 programs in addition to CSRS that were clearly designed for federal personnel and administered by federal agencies. These were:

1. Uniformed services retirement system. (Although counted as one system, there were actually four separately administered systems for specific groups of federal uniformed personnel--military personnel in the Department of Defense, the Commissioned Corps of the U.S. Public Health Service, the Commissioned Corps of the National Oceanic and Atmospheric Administration, and the U.S. Coast Guard. All four systems provided the same benefits.)

2. Foreign Service Retirement System
3. Federal Reserve Board Retirement System
4. Tennessee Valley Authority Retirement System
5. Federal Judiciary Retirement System
6. U.S. Tax Court Judges Retirement System
7. Comptrollers General Retirement System
8. Director of Administrative Office of the U.S. Courts Retirement System
9. Director of Federal Judicial Center Retirement System
10. Central Intelligence Agency Retirement System
11. U.S. Presidents Retirement System

Seven other programs covered nonappropriated fund employees in the Department of Defense (such as the system for employees of the Army and Air Force Exchange Service); one program was administered by a private organization for three groups of employees (private roll employees of the Smithsonian Institution, Graduate School of the Department of Agriculture, and faculty members of the Uniformed Services University of the Health Sciences); and there were three closed systems, such as the Federal Lighthouse Retirement System.

We have not updated this work, but, as far as we know, each of these systems still exists.

Question 7. If Congress were to consider a new pension system to improve upon FERS, what elements should be included?

Response:

As mentioned in our statement, we believe FERS' basic design is sound. The Social Security and thrift plan features provide needed benefits portability for employees who do not make careers of federal employment, and the pension plan portion is designed to reward employees who elect to work past the usual retirement age. To us, this seems to be a reasonable, balanced design for accomplishing portability and career service objectives.

FERS has been in place nearly 10 years now. Probably enough time has passed to make it worthwhile for reviews of how well some of the FERS provisions that differ from CSRS, such as the Social Security supplement, the disability retirement provisions, and

the survivor benefit provisions, are working in actual practice. It is possible that such reviews would identify areas in which FERS needs to be fine tuned, but the extent to which this may be the case is unknown at this time.

Otherwise, the only suggestions we would offer for possible changes to FERS (and CSRS) are to make the benefits for future service more generous in some manner for employees who are eligible to retire so that they will be encouraged to extend their careers. As discussed during the hearing, this is an issue in which you expressed considerable interest and asked us to examine further in our future reviews of federal retirement matters.

Question 8. Please provide any thoughts you may have on tying benefits to performance as an incentive to stay on the job, particularly for those federal employees within 5 years of retirement eligibility.

Response:

While our work shows that the government needs to be developing programs and incentives to encourage its older employees to continue working, it is also apparent that many older persons may be unwilling, unable, or unqualified to remain in the workforce, regardless of any incentives they may be offered. In these and perhaps other instances, it also would seem reasonable to assume that employing agencies would prefer not to retain certain older employees. Thus, we agree with your observation that some criteria would be needed to govern the circumstances in which career continuation incentives would be offered to retirement-eligible employees under the retirement systems. The idea of using performance or other work-related measures as a basis for determining whom might be offered such incentives strikes us as being a workable, common sense approach to making these determinations.

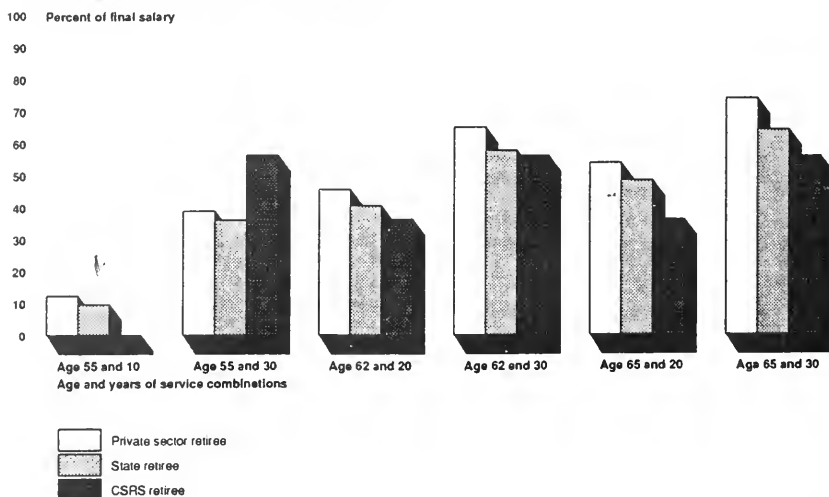
Your question implies that incentives to stay might be offered to employees who are as many as 5 years away from retirement eligibility. We are not sure that any incentives are needed for employees who are not yet eligible to retire. It may be more appropriate to limit the incentives to those employees who have attained the age and service requirements for optional retirement eligibility. It is these employees who are free to leave with immediate annuities unless they are given some reason to keep working.

Question 9. Please make a graph of the table on page 14 of your testimony.

Response:

The following bar chart contains the information from the table on page 14. Please note that the table included ranges of benefits percentages for private sector retirees since the average benefit amounts varied depending on the plans covered by each of our data sources. The bar chart uses the lowest of the private sector benefit percentages for each of the age and service combinations.

Benefits as a Percentage of a Final Salary of \$40,000



Question 10. How many Members of Congress are receiving annuities under CSRS?...under FERS?

Response:

According to Office of Personnel Management (OPM) records, as of September 30, 1994, 381 former Members of Congress were receiving annuities from CSRS or the FERS pension plan. Of the 381 former Members, 354 had retired from Congress. The other 27 had served in Congress but retired from other federal jobs. The following

breakdown shows how many of the Members retired under CSRS and how many retired under FERS.

	<u>Number of CSRS retirees</u>	<u>Number of FERS retirees</u>
Retired as Members of Congress	336	18
Retired from other federal jobs	<u>26</u>	<u>1</u>
Total retired Members	362	19

Question 11. How much are the annuities Members are receiving on average under CSRS?...under FERS?

Response:

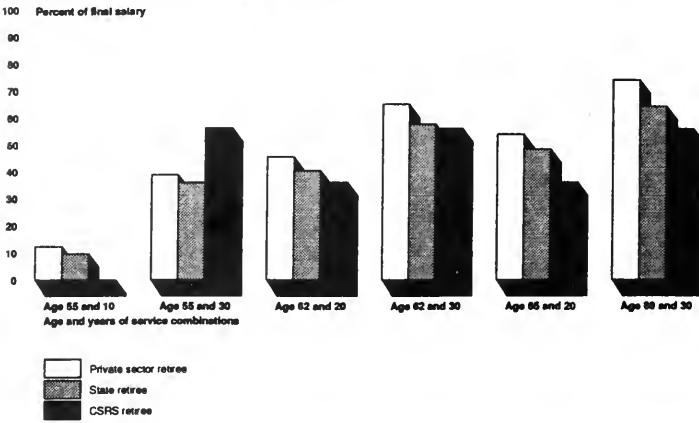
The OPM records show that, as of September 30, 1994, the 362 Members retired under CSRS were receiving monthly annuities averaging \$3,760. The 19 Members retired under FERS were receiving monthly annuities averaging \$4,094 from the FERS pension plan. The following shows the average monthly amounts being received by the Members who retired from Congress and the former Members who retired from other federal jobs.

	<u>Monthly CSRS annuities</u>	<u>Monthly FERS annuities</u>
Retired as Members of Congress	\$3,835	\$4,287
Retired from other federal jobs	2,786	624
Overall average annuities	3,760	4,094

The Members who retired from Congress under FERS averaged about 4.5 more years of federal service than the Members who retired from Congress under CSRS (24.8 years compared to 20.3 years). Similarly, the Members who retired from Congress averaged more years of federal service than the former Members who retired from other federal jobs (16.8 years for the persons retired under CSRS and 6.2 years for the one person retired under FERS).

Any benefits the FERS retirees receive from Social Security and the thrift plan are in addition to the above FERS pension plan amounts.

## Benefits as a Percentage of a Final Salary of \$40,000



## PREPARED STATEMENT OF LOUIS J. FREEH

Good afternoon, Mr. Chairman. On behalf of the 23,390 men and women of the FBI, I would like to express my appreciation for this opportunity to appear before your Subcommittee today. Your hearings into Federal pension systems are of intense interest to thousands of FBI employees who have chosen the public's safety as their life's work.

I am here today with DEA Deputy Administrator Greene to discuss what could be severe, profound and damaging changes to the FBI and DEA's workforces if Federal employee pension systems are drastically altered. DEA Administrator Constantine and I recently wrote you about our concerns.

Since becoming director, I have made it a point to meet with as many FBI employees as possible. I have been to 43 of our 56 field offices. I place great value in employee ideas and suggestions and want to hear firsthand their personal concerns.

FBI employees, like most Federal workers, are very apprehensive about many of the proposals being discussed to change their retirement and other benefits. Many of our retirement-eligible employees are seriously contemplating advancing their retirement plans to avoid the expected impact. Although some of the changes would reduce annuities only by a small percentage, FBI employees are concerned that other reductions may be in the offing. Thus, many FBI employees are considering retirement now rather than risk what they perceive to be further reductions in their annuities. I would expect that these concerns would be shared by other agencies as well.

The sudden retirement of a significant number of FBI employees is of great concern to me because this would come on top of the large numbers of retirements that we are already experiencing—almost all are the FBI's most seasoned investigators. At the FBI our special agent complement was significantly enhanced in the late 1960's and early 1970's to meet the growing challenges of organized crime, violent crime, and foreign counterintelligence. The majority of agents hired during those years have attained retirement eligibility. They also have become some of the most experienced and talented agents in law enforcement. The "typical agent" at retirement is 53 years of age with 26 years of law enforcement experience. Four hundred and seventy-eight FBI agents retired last year and, through May of this year, another 274 have retired. Of the 9,846 special agents now on-board, almost 2,000 can retire this year. Another 700 agents will become eligible during the next 2 years. This represents almost 30 percent of our agent population. Ninety percent of these retirement-eligible agents are veteran street agents assigned to our 56 field offices and legal attache offices. They represent the front line of defense against terrorism, violent crimes, drug trafficking, health care fraud and all of the other Federal crimes the FBI investigates. More importantly, they collectively represent almost 70,000 years of Federal law enforcement experience—experience for which there is no substitute.

Based on a recent survey, we estimate that 1,100 special agents will retire before any adverse changes will take effect. This is double what we previously expected. A surge in agent retirements would have a devastating impact on our day-to-day investigative operations, as well as the critical support which the FBI furnishes on a daily basis to countless State and local law enforcement agencies including—"safe streets" task forces that have been so successful in the fight against violent crime.

In recognition of the seriousness of the crime problem and the increasing threat of terrorism, Congress last year restored the FBI to its 1992 record high level of 10,662 agents. The 1996 counterterrorism supplemental would add another 131 agents to escalate the fight against terrorism. Between these critically needed increases, the first of which came after a "hiring gap" of almost 2 years, and the already accelerated retirements the FBI was faced with, a vacuum was created. It requires a minimum of 4 to 8 months to process an agent applicant from beginning to end. This includes testing, interviews and a full background investigation. A new agent once hired requires over 4 months of intensive training at our Quantico Training Academy. Operating at its maximum capacity and without sacrificing quality, the FBI can hire, train and put in the field only about 1,200 new agents a year. There is a current agent staffing shortfall of almost 800 that was created by a hiring freeze. Coupled with the 2,700 agents now or soon able to retire and the necessary enhancements to cope with burgeoning crime problems, the FBI faces a critical staffing shortfall for the foreseeable future. The picture becomes even more harsh and crippling if hundreds of senior and experienced agents retire unexpectedly.

Accelerated retirements would also cause massive repercussions in the FBI's supervisory and senior management ranks. This would be particularly devastating in the field, where 70 percent of our special agents-in-charge of field divisions are now eligible to retire. A reasonable turnover in supervisory and management positions

is healthy for any organization where personal stress levels are unusually high. But problems caused by large numbers of premature retirements of special agents in our most senior command positions would be difficult to overcome. The wealth of investigative skills and experience that these senior people possess cannot be overstated. For example, immediately following the Oklahoma City bombing, I dispatched four of the FBI's most experienced special agents-in-charge to Oklahoma City to oversee the investigation. Three of the four are currently eligible to retire, but like most special agents, they have continued to work beyond their retirement eligibility date. Should adverse changes in the retirement laws cause these managers and many others to retire at about the same time, the impact on the management of FBI field investigative operations would be devastating.

Beyond the FBI, the loss of critical investigative and technical expertise will be felt throughout the law enforcement community. Our most senior agents are also our best police instructors in our important training programs for law enforcement officers serving at the State and local levels. The FBI annually provides training for over 100,000 law enforcement officers worldwide. Other FBI training programs which are available to all of law enforcement—such as the National Academy, the Law Enforcement Executive Development Seminar and the National Executive Institute—will also lose our most experienced experts. Cooperative services which the entire law enforcement community depends upon—like the FBI Laboratory and the National Center for the Analysis of Violent Crime—will also feel a negative impact. FBI scientific and technical research and development are areas where senior FBI personnel are constantly recognized for their innovation and expertise. The work they do benefits all law enforcement and their career-long experience is impossible to duplicate.

I am also concerned that any reductions in retirement and other employee benefits could harm the FBI's ability to recruit and retain special agents and professional support personnel. Federal employee benefits, including retirement benefits are important assets in recruiting the high quality of candidates needed to successfully perform the FBI's mission. Beyond recruitment, these benefits serve as an enticement to retain these highly qualified candidates in a career in Federal law enforcement.

The FBI must continue to hire the very best if we are to remain effective against terrorism, violent crime, drugs, growing international crime and the rise of extremely complex white collar crime. To do that, we must compete with not only State and local law enforcement agencies but also with the most competitive of private industry for the highest quality applicants. In today's challenging environment, the FBI needs the very best of scientists, engineers, accountants, linguists, and many other professional disciplines. As the National Advisory Commission on Law Enforcement found, the retirement and benefits packages of many State and local agencies already exceed, in many instances, those of Federal law enforcement. A law enforcement career has unique and extraordinary personal and family demands. Thus, one determining factor in attracting and retaining the highest quality employee is certainly a favorable retirement and benefits package. If we are to attract top quality applicants and retain a competitive edge, the FBI as a prospective employer must be able to offer a stable benefits package.

Throughout the FBI's history, the availability of a dependable and stable retirement system for our employees has greatly contributed to making the FBI a career service for both special agents and professional support personnel. Historically, our agent turnover rate is under 3 percent—envious by anyone's standards. The importance of attracting high quality people and the importance of retaining experienced veteran investigators were the foundation stones on which Congress acted in 1990 to pass the Federal Law Enforcement Officers Pay Reform Act. I am concerned that diminishing these programs will undo what that law achieved. The retirement and other benefits that the Federal Government currently offer have been successful in promoting a professional, highly effective and respected law enforcement agency—an agency that is vital to the public's safety. The retirement and benefits package which attracts and retains the best qualified people must be preserved—it is a modest cost for such excellence. The public's safety is too important to permit any changes that would accelerate the retirement of our most experienced special agents and professional support staff.

I would now like to discuss a final concern which focuses on the FBI's limitations to aggressively hire and train large numbers of investigative personnel. After I became director, a 22-month hiring freeze was lifted and I am now in the process of replacing a substantial number of special agents who retired years previously. My goal has been to restore the FBI to its staffing level of 10,662 agents for the 1996 fiscal year. As a result, our training academy at Quantico will soon reach maximum



capacity as we push to hire 720 new agents this fiscal year and another 1,300 next fiscal year.

Though these hiring numbers appear impressive, they cannot begin to compensate for the "brain drain" that would accompany an immediate and overwhelming exodus of our most experienced retirement-eligible employees if adverse changes occur in Federal retirement systems.

Because of the huge number of retirement-eligible employees on our rolls who would normally continue to work for several more years, and in light of the enormous task of hiring and training a sufficient number of new agents to replace those lost through normal attrition or newly authorized to meet our increasing investigative demands, these changes to the retirement system would work a tremendous hardship on the FBI. I understand that these concerns are shared by other Federal agencies as well.

Mr. Chairman, I am grateful for this opportunity to appear before you and I welcome any questions you or other Members of the Subcommittee may have.





## U.S. Department of Justice

## Federal Bureau of Investigation

Office of the Director

Washington, D. C. 20535

FIELD RETIREMENT SURVEY

An informal survey conducted in 28 field offices revealed that 56% of the retirement-eligible agents in those offices would retire if Congress changes the annuity computation formula. The 28 offices surveyed contain 40% of all field Agents and 51% of the retirement-eligible Agents. If the Agents surveyed are representative of all retirement-eligible Agents, almost 1100 would retire. This is more than twice the anticipated number of retirements if there is no change.

FIELD OFFICE	TOTAL AGENTS	AGENTS ELIGIBLE	PERCENT ELIGIBLE	NUMBER WHO WILL RETIRE	PERCENT WHO WILL RETIRE
ALBANY	61	11	18%	3	27%
ANCHORAGE	25	6	24%	3	50%
ATLANTA	191	71	37%	26	34%
BALTIMORE	185	55	30%	12	58%
BOSTON	241	64	27%	34	53%
CHARLOTTE	90	30	33%	23	77%
CINCINNATI	72	25	35%	18	72%
HONOLULU	64	14	22%	2	14%
HOUSTON	247	30	12%	16	53%
INDIANAPOLIS	81	23	28%	12	52%
JACKSON	59	11	19%	8	73%
KNOXVILLE	61	24	39%	15	63%
LITTLE ROCK	71	14	20%	8	57%
LOUISVILLE	70	26	37%	20	77%
MEMPHIS	82	20	24%	13	65%
MINNEAPOLIS	91	26	29%	18	69%
NEWARK	101	29	10%	12	41%
NEW HAVEN	92	21	23%	15	71%
NORFOLK	47	20	43%	12	60%
OMAHA	62	12	19%	10	83%
PHILADELPHIA	297	80	27%	41	51%
PHOENIX	150	39	26%	30	77%
PORTLAND	70	20	29%	11	55%
SALT LAKE	122	29	24%	12	41%
SAN ANTONIO	153	27	18%	7	26%
SAN FRANCISCO	286	75	26%	58	77%
SEATTLE	101	25	25%	16	64%
TAMPA	132	48	36%	22	46%

Check accompanying Director's Letter to Field Offices. Indicate U. S. Senator Governmental Activities Committee. 01/00/03  
 PERCENT ELIGIBLE: 56%  
 PERCENT AGENTS ELIGIBLE: 51%



# FBI Special Agent Retirement Eligibility



	FY 1995	FY 1996	FY 1997	% of Total
ADIC/SAC	44	7	5	89%
Street Agents	1,448	298	226	24%
Total Agents	1,958	407	311	27%

# FBI Special Agent Experience Level



	FY 1995	FY 1996	FY 1997
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5 years or less

1,379 (14%)	2,052 (19%)	2,678 (24%)
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10 years or less

3,246 (33%)	4,057 (38%)	4,663 (42%)
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(%) of total Special Agent complement

# Federal Law Enforcement Community

Selected Agencies

AGENCY	GS-1811	
	Total Law Enforcement Officers	Eligible to Retire Current next 12 months
FBI	9,846	1,958 (20%)
DEA	3,452	487 (14%)
INS	6,250	320 (5%)
Marshals Service	2,401	169 (7%)
ATF	1,948	335 (17%)
Customs	3,000	350 (12%)
IRS	3,300	430 (13%)
Secret Service	2,000	481 (24%)
Postal Inspection Service	2,021	204 (10%)
<b>TOTAL</b>	<b>34,218</b>	<b>4,734 (14%)</b>

Chart accompanies Director Louis J. Freth testimony before U.S. Senate Governmental Affairs Committee, 6/1995

## PREPARED STATEMENT OF STEPHEN H. GREENE

Chairman Stevens and Members of the Subcommittee: It's a privilege for me to appear before you today to provide you with my views on the effect proposed reductions in Federal retirement benefits will have on the Drug Enforcement Administration (DEA). Before discussing the specific effects a reduction in Federal retirement benefits will have on DEA, I would like to provide a brief assessment of the drug and crime situation in the United States, and what we at DEA are doing to address the situation.

For the first time in history, the United States is under siege, not from home-grown criminals, but from highly-organized international criminal enterprises that conduct their business from foreign countries. These include Colombian drug traffickers who have become the largest and best-organized drug mafia in history, and well-organized Asian drug traffickers.

These drug traffickers could not flood the U.S. with cheap, pure drugs without active organized drug gangs operating in the U.S. drug gangs use violence and intimidation to terrorize their communities. The main resource we have to combat these threats are the men and women of DEA, our 3,450 special agents and the personnel that support them. Incidentally, in the last 10 months, DEA has lost 7 special agents and 4 support staff in the line of duty.

Now, let me turn to H.R. 1215 and its implications for our workforce. H.R. 1215 would increase the amount DEA employees contribute for their retirement by 2.5 percent (1.5 percent in 1996, .5 percent in 1997 and 1998).

And, beginning January 1, 1996, retirement benefits would be calculated on a high 4-year average versus 3-years under current law. This would increase to a high 5-year average on January 1, 1997. The net effect is that Federal employees would be required to pay more for their retirement, while getting less.

As the President stated in his April 5th letter to Speaker Gingrich on H.R. 1215, he does "not believe we should reduce the retirement benefits of Federal employees and increase their required retirement contributions in order to help finance a tax cut for wealthy individuals and corporations." It goes without saying that any reduction in Federal retirement benefits will affect the retirement decisions of Federal employees. These effects will vary by agency, depending primarily on the age and the number of years of service of the employees.

I am concerned that retirement reduction proposals in H.R. 1215 are affecting the morale of the special agent workforce, and more important, our ability to retain those special agents who are eligible to retire. These mature, experienced veterans are essential to DEA's ability to successfully perform its mission.

I have spent my entire law enforcement career with DEA and its predecessor agency, and have worked my way up through the special agent ranks to my present position. I can tell you from first-hand experience that agents do consider changes in their retirement benefits—and legislation that effects their retirement pay—when determining when to retire.

For example, DEA had only 17 special agents retire in 1991. We had 34 retire in 1992, and 27 in 1993. In 1994, however, 100 agents retired, and so far this year, 80 have retired.

This tremendous increase in agent retirements can be attributed to agents who held off retiring, waiting to see if they could take advantage of "buyout" legislation that passed Congress in 1993. In 1994, many agents in our largest offices became eligible for higher retirement pay because of special pay adjustments of up to 16 percent which took effect in 1992.

By the end of next year, there will be over 600 special agents eligible to retire. Because of H.R. 1215 and similar proposals, those agents who were not thinking about retiring soon are now thinking about it. Those who were already seriously considering it are deciding to leave Government service.

If large numbers of agents eligible for retirement decide to leave Government rather than take cuts in their benefits, DEA would face two substantial challenges.

One would be that DEA might have difficulty properly training agents hired to replace the retirees because our current hiring requirements are already over taxing the joint DEA/FBI training facilities. The second would be that DEA might have difficulty maintaining small offices in many small communities throughout the United States because of the lack of veteran agents.

Mr. Chairman, I strongly believe that DEA's ability to function as the lead Federal drug enforcement agency, whose mission it is to stem the flow of illegal drugs that are fueling the violence on our streets, would be impaired if large numbers of special agents retire because of reductions in retirements benefits.

This concludes my prepared remarks, and I would be happy to answer any questions that the Subcommittee may have.

TOTAL 34,218

-4,734 (14%)

Chairman, Committee on Governmental Reform, U.S. Senate, Subcommittee on Retirement, 10/1/94

**AFGE**

**American Federation of  
Government Employees, AFL-CIO**

**80 F Street, N.W.  
Washington, D.C. 20001  
(202) 737-8700**

STATEMENT BY

THE AMERICAN FEDERATION OF GOVERNMENT EMPLOYEES, AFL-CIO

BEFORE

THE POST OFFICE AND CIVIL SERVICE SUBCOMMITTEE

SENATE GOVERNMENTAL AFFAIRS COMMITTEE

ON

FEDERAL RETIREMENT

JUNE 19, 1995

**CONGRESSIONAL  
TESTIMONY**



1987



**INTRODUCTION**

Mr. Chairman and Members of the Subcommittee: My name is John Sturdivant, and I am the National President of the American Federation of Government Employees, AFL-CIO. On behalf of the more than 700,000 federal and District of Columbia employees our union represents, I appreciate this opportunity to testify before the Subcommittee today and continue to lay to rest some of the mistaken notions about federal retirement that have left this program vulnerable to being singled out for cuts yet again.

I am particularly pleased to come before your panel to discuss federal retirement, Mr. Chairman, because no Member of Congress comes close to matching your expertise over this important matter. While policy-making is a collective endeavor, I think it would be accurate to say, nonetheless, that you are the author of the Federal Employees Retirement System (FERS).

Before beginning my own remarks, Mr. Chairman, I must tell you that federal employees and retirees appreciate the calm and reasoned way in which you are examining federal retirement. For example, at the previous hearing held by your subcommittee on this subject, you urged that federal retirement be recognized as part of the overall compensation package to retain skilled and dedicated employees in the federal workforce.<sup>1</sup> As you must know, that enlightened, far-sighted approach is not one taken by some of your colleagues.

It was also at last month's hearing that representatives of the Congressional Research Service (CRS) and the General Accounting Office (GAO) appeared before your panel to discuss federal retirement in detail and painstakingly explain to all who would listen four very important facts:

1. federal retirement is a fiscally responsible program;
2. federal retirement is a financially secure program;
3. federal retirement provides benefits comparable to private sector pensions; and
4. federal retirement already requires federal employees to pay more towards retirement than almost every single one of their counterparts in the private sector.

If even the most fanatical federal employee bashers and slashers put politics aside and accept, however grudgingly, those four facts to be true, there is simply no way they can justify hacking and whacking at federal retirement yet again.

While I knew that CRS and GAO would be difficult acts to follow, I eagerly accepted your gracious invitation to discuss federal retirement in this important forum because I know how very interested you are in hearing the cares and concerns of AFGE's members, and I greatly appreciate the opportunity you have given our union today.

**FEDERAL RETIREMENT IS AN EARNED BENEFIT, NOT CHARITY**

Recent discussions about imposing further reductions in federal retirement have greatly unnerved AFGE's members. Federal retirement is an earned benefit, not charity. Retirement annuities are part of federal employees' overall compensation packages<sup>2</sup> and make up in small part for salaries that have been proven to be significantly lower than those for comparable jobs in the private sector.<sup>3</sup> Further, federal retirement represents a sacred contract between federal workers and their employer. In exchange for devoting many of their working years to public service and making significant contributions towards their retirement, federal employees earn modest annuities to support themselves during the twilight of their lives. Therefore, it is understandable that proposals to break this sacred contract have aroused both fear and anger among AFGE's members, who have based most of their lives' most important decisions in reliance upon their employer's keeping its word on retirement.<sup>4</sup>

**FEDERAL RETIREMENT IS ANALOGOUS TO PRIVATE SECTOR PENSIONS**

We must distinguish federal retirement from social welfare or income transfer programs. Federal retirement annuities are tied directly to years of service to a single employer. They are not part of the social "safety net" available to all citizens who meet certain age, income, or health requirements. Federal retirement annuities are part of the compensation package available only to those who work for the federal government.

The correct analogue for federal retirement is not Social Security, Medicare, or Medicaid. Rather, it is private sector pensions. Federal employees are entitled to annuities from the federal retirement system in exactly the same sense that their private sector counterparts are entitled to pension payments from their employers' retirement plans. After satisfying an explicit set of requirements regarding length of service and age, federal retirees become eligible for and entitled to annuities. Like all pension plans, the income to be received by federal retirees is a form of deferred compensation earned over their working lives. In fact, the federal retirement system was dramatically restructured in 1986 with the creation of FERS, which was designed by its Republican and Democratic creators to be even more comparable to private sector pension plans than its predecessor, the Civil Service Retirement System (CSRS).

We hear much talk these days from a small but very vocal segment of pundits and politicians about the American taxpayers having to pay a significant share of the bill for federal retirement--as if they were victims of some nefarious conspiracy. Here are some points these pundits and politicians would do well to keep in mind:

- "Like all other employer-provided defined benefit plans, the federal civil service plans are financed mostly by the employer. (And) (t)he employer of federal government workers is the American taxpayer."<sup>5</sup>

- "As the employer, the government is responsible for funding all costs not covered

by employee contributions. If there were no cost to the government, employees, in effect, would not be receiving any retirement benefits from their federal employment... (T)his reality should be kept in mind when one hears concerns about the taxpayers being required to 'subsidize' the systems. The cost of the retirement system is part of the overall costs taxpayers pay for the government services they receive.<sup>6</sup>

-Finally, and perhaps most importantly, federal employees are required to make significantly greater contributions towards their retirement than their counterparts in the private sector. The Bureau of Labor Statistics reports that in the private sector 97 percent of employees in medium and large firms are in pension plans fully financed by contributions from the employer. In stark contrast, CSRS employees, for example, are required to contribute 7.0 percent of their salaries towards their retirement.

### ***THE FEDERAL RETIREMENT PROGRAM IS FISCALLY RESPONSIBLE***

Unlike Medicare or Medicaid, federal retirement is a stable program and one that is not contributing to increases in the federal deficit.

-During the last ten years, the earned annuities paid to federal retirees have held steady at slightly over 2% of total federal outlays.<sup>7</sup>

-As for the future, the Congressional Budget Office recently revealed that federal retirement will not grow as a percentage of the Gross Domestic Product for the full duration of its ten-year forecast.<sup>8</sup>

-Even the Bipartisan Commission on Entitlement and Tax Reform, a panel no Member of this Subcommittee would consider to be a mouthpiece for federal employees, grudgingly admitted that federal retirement spending is indeed under control.<sup>9</sup>

-In fact, federal retirement costs will actually decline in the next century. \*As CSRS phases out and FERS is the system under which most workers retire, the government's costs for pension benefits under that program will be less than they are under the CSRS defined benefit plan because the FERS benefit formula is lower.<sup>10</sup>

### ***THE FEDERAL RETIREMENT PROGRAM IS FINANCIALLY SECURE***

There has been a lot of misinformation spread about federal retirement's unfunded liability. Some proponents of cutting federal retirement in the House fail to understand the funding mechanisms for federal retirement. Consequently, they have misinformed federal employees, telling them that their benefits had to be cut and their taxes hiked because the federal retirement trust fund was teetering precariously on the brink of bankruptcy.

As CRS reports, Mr. Chairman, and as you know better than anyone, "Congress designed the FERS defined benefit pension as a fully funded system. Thus, from the start, securities have been deposited in the trust fund equal to the full cost of the program...Consequently, there is no controversial issue regarding the funding status of FERS."<sup>11</sup>

Of course, those Members of Congress who tried to justify decreasing federal retirement benefits while increasing federal retirement taxes did not distinguish between the two systems. FERS contributions would be hiked just as surely as CSRS contributions and FERS benefits would be cut just as surely as CSRS benefits—all under the pretense of saving the trust fund from insolvency. That there is absolutely no question about the funding status of FERS calls into question the expertise of those who propose to savage FERS in order to "save" the program.

As for CSRS, concerns about that program's funding status are without foundation. "Total liability," reports CRS is the "estimated amount the government would have to pay all at one time if everyone who is or who ever has been a vested CSRS participant could demand a check for the present value of all the benefits to which they would be entitled from that time throughout their retirement until their death (or their survivor's death), taking into account estimated future pay raises they might receive (which affect the annuity at retirement) and retiree COLAs after retirement.

***This event cannot happen in the federal system.*** (Emphasis original) Federal pension obligations cannot come due all at one time, unlike the situation that arises in the private sector when an employer goes out of business and must pay all promised pension obligations at once...Thus, unlike private employers, the government need not fully prefund the retirement system in order to insure against having to pay off all benefits earned simultaneously."<sup>12</sup>

Federal retirement is a pay-as-you-go system and has been since its creation in 1920. Therefore, the real question is whether the trust fund is able to make payments on an on-going basis. And the answer to that question is a definite "Yes!" "(T)here is no shortage of securities in the retirement trust fund to authorize benefit payments on an ongoing basis. For example, benefit payments totaled \$36 billion in FY1994 when the trust fund balance was \$317 billion...and OPM (Office of Personnel Management) projections show trust fund balances continuing to grow."<sup>13</sup>

Some of the federal retirement-cutters in Congress' other chamber have also attempted a variation on the "unfunded liability" doomsday scenario. They claim that CSRS is going broke. In other words, only half the sky is falling. To advance such a notion is to ignore the foresight and care that went into devising FERS.

According to OPM, it is true that CSRS benefit payments will begin to exceed the amount of assets credited annually to the trust fund for CSRS in about 2008, and the

assets attributable to CSRS will be depleted by about 2025. But <sup>(w)hen</sup> Members of Congress wrote the new FERS law in 1986, they understood that there would have to be a financial transition from CSRS to FERS in the next century, and they wrote the law to provide for that transition.

-First, the law provides for one trust fund in which CSRS and FERS assets are combined. **Therefore, there is no separate CSRS trust fund that will be depleted.** (Emphasis original)

-Second, Congress established a system whereby benefit payments under CSRS will be authorized by FERS trust fund securities as needed until there are no more CSRS benefits to be paid. Thus, the securities that are building up for FERS, and that are in excess of the amount needed to authorize FERS payments for some time, will be reduced each year by the amount by which CSRS benefits exceed CSRS assets. This will cause an increase in the FERS liability, but that liability will be "paid off" through a series of 30-year amortization payments."<sup>14</sup>

In conclusion, it cannot be emphasized strongly enough that <sup>(t)he</sup> unfunded liability has no effect on the cost of the program, on the budget, on the deficit, or on taxpayers, either now or in the future."<sup>15</sup>

#### **FEDERAL RETIREMENT ANNUITIES ARE MODEST<sup>6</sup>**

The average monthly annuity earned by a federal retiree in CSRS is only \$1,537.<sup>17</sup> For a FERS retiree, the average monthly annuity is \$662, in addition to benefits from Social Security and the Thrift Savings Plan. After taxes and the out of pocket costs of health care and life insurance premiums, the average yearly income for a federal retiree likely drops to below \$15,000.

According to a GAO analysis, private sector retirees could expect that significantly more of their income would be replaced than CSRS retirees. In only one of the six categories studied—workers retiring at age 55 after completing 30 years of service—did CSRS retirees come out ahead. Please note that the average retirement age for CSRS employees is 61.5. In the other five categories, private sector retirees had considerably more of their income replaced, sometimes by as much as 20%.<sup>18</sup> I understand that GAO is preparing a similar comparison of FERS and nonfederal plans, and I look forward to learning the results.

Late last year, the Congressional Research Service, using data supplied by investment banker Pete Peterson (a Member of the former Bipartisan Commission on Entitlement and Tax Reform who happens to be a fierce and notoriously inaccurate critic of the federal retirement system), made a comparison of "private sector retirees and survivors receiving a pension plus Social Security with federal retirement and survivor

benefits (which) shows that average private and federal benefits in 1986 were virtually the same (\$1,045 per month for private sector annuitants versus \$1,029 for federal civil service retirees).<sup>19</sup>

Needless to say, the nation's taxpayers should not lie awake at night, angrily gnashing their teeth, at the thought of federal retirees living carefree, idyllic existences at their expense. And if they do, it's only because they've been misinformed. Many scurrilous claims notwithstanding, the benefits provided by the federal retirement system are comparable to those provided by the pension plans of large private sector firms that also have highly-skilled, often college-educated employees.

### ***PROPOSALS UNDER CONSIDERATION FOR CUTTING FEDERAL RETIREMENT***

Mr. Chairman, I will now discuss the two retirement cuts that are being actively debated in the halls of Congress.

**SLASH #1:** Mandate significantly greater contributions by federal employees. Under this proposal FERS employees would be required to increase their contributions from 0.8% to 3.3% of salary, in addition to the 6.2% of salary they are already required to contribute to Social Security. CSRS employees, who receive no Social Security benefits, would be required to increase their contributions from 7.0% to 9.5% of salary.

Mr. Chairman, this is a significant tax increase on working and middle class Americans merely because they happen to be federal employees.<sup>20</sup> For the average federal employee, who makes little more than \$30,000 annually, this would result in a tax increase of \$750 per year, the equivalent of a mortgage payment.

Worse, unlike federal retirement, "(v)ery few private pension plans generally require employee contributions toward plan costs."<sup>21</sup> In fact, according to the Bureau of Labor Statistics, "in the private sector 97 percent of employees in medium and large firms are in pension plans fully financed by contributions from the employer." But under CSRS, for example, employees are required to contribute 7 percent of their salaries towards retirement. And should this cut become law, that required contribution would grow even larger.<sup>22</sup>

**SLASH #2:** Arbitrarily change the formula for calculating benefits by using the highest five years of salary, instead of the customary highest three.

While the ostensible rationale for this proposal is that it would make federal retirement more like nonfederal plans, a majority of state plans and a significant number of private sector plans (particularly those used by the larger corporations most comparable to the federal government as employers) also use a high-3 year average.<sup>23</sup> There have been various estimates about how much this would cost the typical federal

retiree. I'd prefer to plug some numbers into the retirement formula, do the math, and show the impact this benefit cut would have on four typical federal retirees.

Over 15 years,

-A GS-6, Step 4, Word Processing Clerk, whose high-five salary is \$21,582, would lose \$6,640 (or 3.5%) of his retirement income;

-A WG-10, Step 2, Electrician, whose high-five year salary is \$29,507, would lose \$12,411 (or 4.75%) of her retirement income;

-A GS-12, Step 4, FBI Special Agent, whose high-five salary is \$42,543, would lose \$10,000 (or 3.5%) of his retirement income; and

-A GS-15, Step 10, Scientist, whose high-five salary is \$83,107, would lose \$17,055 (or 3.5%) of her retirement income.

(Please see Appendix 2 for the calculations used in compiling this information.)

For my members, Mr. Chairman, changing the retirement formula is not a harmless "green eyeshade" issue, as some Members of Congress have suggested. Instead, it's the potential loss of a significant chunk of the retirement income they are relying upon to support themselves when their working years are over. Also, this benefit cut must be put in context with all of the other anti-federal employee initiatives slithering through the Congressional underbrush. When combined with the provision requiring increased contributions, federal employees would be paying more and more for smaller and smaller earned annuities. At the same time, powerful forces in Congress are trying to perpetuate the pay gap and make health care benefits even more inferior to those available in the private sector. And all of these pay and benefit-cutting initiatives are being offered despite the fact that federal employees and retirees have already contributed billions and billions of dollars to deficit reduction over the last fifteen years.

#### ***Additional Proposals for Cutting the Earned Annuities of Federal Retirees***

I won't discuss in detail the many other cuts that are being considered for federal retirement by some Members of Congress, like means-testing earned annuities,<sup>24</sup> reducing federal retiree COLAs,<sup>25</sup> raising the federal retirement age,<sup>26</sup> and reducing the federal government's contribution to the Thrift Savings Plan.<sup>27</sup>

However, I must note that these cuts are likely to be cloaked in the language of "restructuring" or the rationale of making federal retirement even more like private sector pensions. But the record is clear and the facts are unmistakable. Federal retirement is already comparable to the pensions of large employers in the private sector with highly-

skilled, well-educated workforces, and the annuities earned by federal retirees are both modest and comparable to the pension benefits of their non-federal counterparts. That such cuts will be proposed nonetheless reflects not upon the merits of the federal retirement system, but rather upon the political vulnerability of federal employees and retirees.

## CONCLUSION

The last fifteen years have been perilous indeed for federal employees and retirees. In that time, we have lost over \$174 billion in the form of pay and benefit cuts.<sup>28</sup> By themselves, the 2.2 million federal retirees and their dependents have lost \$40 billion, mostly through delayed and diminished COLAs. In fact, the Omnibus Budget Reconciliation Act of 1993, over the next five years, will cost federal retirees \$12 billion in the form of delayed COLAs, elimination of lump-sum payments for new retirees, and modification of health insurance premiums.<sup>29</sup> Few groups, Mr. Chairman, have made greater contributions to reducing the deficit than federal employees and retirees.

What's particularly ironic about the determined "reform" effort we are seeing at the beginning of the 104th Congress is that federal retirement was completely overhauled just a few short years ago with your creation of FERS, in 1986, which, as I mentioned earlier, was designed to make federal retirement even more comparable to private sector pension plans.<sup>30</sup> And there have been no changes in nonfederal plans that somehow render FERS no longer comparable to the pensions provided by businesses and state governments.<sup>31</sup>

Federal employees accepted the FERS reform, inspired by the belief that the political and perceptual problems that had left federal retirement so vulnerable had been corrected, and that they would be left alone to plan for their futures with confidence. But, as former President Reagan might say, here we go again. Some of the Members of Congress who will decide the fate of federal retirement are different. Some of the journalists covering this hearing are different. And some of the union presidents testifying today are different. But the problem remains the same: a retirement system that is as politically vulnerable as it is fiscally responsible and financially secure. In other words, it's *deja vu* all over again.

Some Members of Congress who are determined to cut earned federal retirement annuities are likely to pursue a divide-and-conquer strategy. "These cuts," they are likely to say soothingly, "will only apply to future federal employees, so current federal employees and retirees have nothing to fear." I am confident that AFGE members will ignore such blandishments. The annuities provided under CSRS and FERS, as we have seen, are already quite modest. Establishing a third class of retirees, who would receive even smaller annuities, is unfair to the men and women who yearn to serve in the federal government of tomorrow and will make it more difficult for agencies to recruit and retain



**the most talented employees, the ones that our nation needs if government is to continue being reinvented.**

**Again, Mr. Chairman, AFGE members greatly appreciate this opportunity to make their views heard at this hearing. This concludes my testimony. I would be happy to respond to any questions.**

1. "While important to employees, retirement programs are tools that can help an organization keep its workforce vibrant and productive. They can be key employee recruitment and retention tools for employees and managers alike. It seems reasonable to assume that quality employees will be much more likely to want to work for and stay with an organization that has a good retirement program." (General Accounting Office, Overview of Federal Retirement Programs (May 22, 1995), p. 1.)

2. "(R)etirement benefits are income that employees earn while performing service for their country during their working years but receive when their working years are over." (*Ibid.*)

3. The President's Pay Agent, Report on Locality-Based Comparability Payments for the General Schedule (1994), p. 19. Federal employees' salaries, depending on the location, are anywhere from 13% to 43% lower than those paid private sector and state and local government employees who perform comparable work. The profound pay gap between the federal government and private sector workforces has been documented in numerous studies by the Bureau of Labor Statistics. In 1990, responding to fears that the government would be unable to recruit and retain qualified employees due to the inferiority of federal pay, Congress and President Bush agreed to close the gap over nine years through the mechanisms included in the Federal Employees Comparability Act (FEPCA). At that time, the gap was likely a whopping 30%. Because FEPCA has been unable to remove politics from the process by which federal employees are to be paid more equitably, the pay gap appears to have been reduced by only 3%, perhaps as much as one-half less than intended by President Bush and the Congressional Republicans and Democrats who supported the legislation.

4. "As with private sector, state, and local government employees, federal employees should be able to expect that the benefits they earn while they are working will, in fact, be paid to them." (General Accounting Office, Overview of Federal Retirement Programs (May 22, 1995), p. 1.)

5. Congressional Research Service, Testimony (May 22, 1995), p. 2.

6. General Accounting Office, Overview of Federal Retirement Programs (May 22, 1995), p. 17.

7. Congressional Research Service, Financing the Federal Civil Service Retirement Programs (1993), p. 4.

8. Statement of Robert D. Reischauer, hearing of the Bipartisan Commission on Entitlement and Tax Reform (July 1994), p. 18.

9. The Bipartisan Commission on Entitlement and Tax Reform, Interim Report to the President, p. 20. The Commission produced an interactive computer program, entitled "Budget Shadows," that "allows the user to create an individualized approach to entitlement reform." At the program's unveiling, Senator Robert Kerrey (D-NE), the Commission's chairperson, declared that a winning score was achieved if the

contestant chose a series of options that prevents entitlement spending from growing as a percentage of the nation's Gross Domestic Product through 2030. By "Budget Shadows" own definition then, federal retirement is a winner. Nevertheless, many Members of the Commission treated federal retirement like a loser, singling it out for harsh cuts. It just goes to show that the facts don't always matter when federal retirement is concerned.

10. Congressional Research Service, Testimony (May 22, 1995), p. 16.

11. *Ibid.*, p. 11.

12. *Ibid.*, p. 12.

13. *Ibid.*

14. *Ibid.*, p. 13.

15. *Ibid.*

16. I must distinguish the earned annuities of rank-and-file federal retirees from the retirement benefits given to Members of Congress. Some incoming Members of Congress, and perhaps even some of their veteran colleagues, may be surprised to learn that Congressional retirement annuities are calculated differently from those of rank-and-file federal employees.

I do not bring this point to your attention because I begrudge the special level of retirement compensation Members of Congress receive. On the contrary, during my six years as AFGE's National President, I have had the pleasure and privilege of working with many Members of Congress, both Republicans and Democrats, and I know how difficult their jobs are and how hard they work to represent their states and districts, whether or not they vote to protect the interests of federal employees and their families. Considering the long hours, the relentless scrutiny of the media, the important service being provided to the American people, and the lack of job security, the special retirement compensation provided to Members of Congress is not at all out of line. However, the comparisons I am about to discuss should discourage Members of Congress from mistakenly extrapolating from their own experiences and assuming that the retirement system for rank-and-file federal employees is more generous than it actually is.

Because of a more generous accrual rate, on the one hand, and a more lenient length of service requirement, on the other hand, Members of Congress enjoy significantly greater retirement benefits than federal employees.

Take, for example, a Member of Congress, a Level II Executive Branch employee, and a typical rank-and-file executive branch employee who are all 62 years of age and have compiled 15 years of service to their country. The Member of Congress and the Level II Executive Branch employee earn high-3 salaries of \$133,600, while the rank-and-file Executive Branch employee (GS-8, step 10) earns a high-3 salary of

\$32,710. Under CSRS, the annual retirement income for the Member of Congress would be \$50,100. The same figure for the Level II Executive Branch employee would be \$35,070. The rank-and-file Executive Branch employee would receive \$8,586. Under FERS, the defined benefit for the Member of Congress would be \$34,068. The same figure for the Level II Executive Branch employee would be \$22,044. The rank-and-file Executive Branch employee would receive only \$5,397. (Additional information on these calculations would gladly be provided upon request.)

17. General Accounting Office, Overview of Federal Retirement Programs (May 22, 1995), p. 2.

18. *Ibid.*, p. 15.

19. (Congressional Research Service, Federal Employee Pensions and Private Employee Pensions (October 1994), p. 6.

20. The Congressional Budget Office has determined that this provision does indeed constitute a tax increase. (Congressional Budget Office, Cost Estimate for the Congressional and Federal Employee Retirement Equalization Act (March 27, 1995), p. 1)

21. General Accounting Office, Overview of Federal Retirement Programs (May 22, 1995), p. 13.

22. Some federal retirement-cutters in the House, understandably troubled at the prospect of voting to single out working and middle class Americans for tax increases merely because they happen to be federal employees, have insisted that the increased contributions would be directed to shoring up the trust fund. As discussed earlier, the trust fund needs no shoring up. Besides, that's not how the trust fund works. "Although cash from employee payroll withholding...is earmarked for federal retirement, the trust fund has no way to receive or hold cash. All cash paid into the government is deposited in the general receipt accounts of the U.S. Treasury and can be used for any purpose for which the government spends money, including paying current retiree annuities. It can also be used to reduce the deficit or government borrowing, or to offset revenue losses that might be caused by a tax cut." (Congressional Research Service, Testimony (May 22, 1995), p. 6.)

23. General Accounting Office, Overview of Federal Retirement Programs (May 22, 1995), p. 13.

#### 24. *Means-testing earned annuities*

To the extent that they exceed the contributions employees make during their working years, earned annuities are fully taxable, obviating the need to impose a means-test.

Further, in order for means-testing to show significant savings, the threshold for either a reduction in earned annuities or even an outright elimination of eligibility for retirement benefits would have to be set very low. As was discussed earlier, earned

annuities are actually quite modest and, as we know, will decrease over time as more federal retirees are covered by the markedly less generous FERS. The average CSRS retiree received an annuity of only \$18,444 per year, before taxes and out-of-pocket costs for health care and life insurance premiums. For FERS retirees, the defined benefit before taxes and out-of-pocket costs for health care and life insurance premiums was \$7,944.

Almost 80% of all federal retirees received little more than \$20,000 per year, according to OPM. Surely, any fair cut-off point for eligibility based on income would have to exclude the vast majority of federal retirees. I think the Members of this Subcommittee have been around Washington, DC, too long not to know what will inevitably happen: In order to increase the revenue generated by such a mechanism, the threshold for the means-test will be lowered and lowered until it reaches moderate-income federal retirees.

### **25. Reducing federal retiree COLAs**

Contrary to popular opinion, COLAs do not increase annuities for retirees in terms of buying power. Rather, such periodic adjustments, tied to documented increases in the Consumer Price Index (CPI), prevent inflation from reducing retirement annuities. "Without inflation protection, the value of an annuity after several years of retirement could be far less than its value at the time of retirement." (General Accounting Office, Overview of Federal Retirement Programs (May 22, 1995), p. 16.) This income security is an effective protection against poverty among our nation's elderly. Both as a humane gesture, and because poverty entails other social costs, protecting the real value of earned annuities is sound economic policy.

It is often said that private sector retirees don't receive 'automatic' COLAs, so why should federal retirees? However, private sector retirees do in fact receive COLAs through the Social Security part of their retirement plan. There is, however, one crucial difference between the COLAs for federal retirees and the COLAs for private sector retirees: private sector retirees receive their Social Security COLAs on time. In 1995, for example, the COLA for federal retirees won't take effect until April; but the Social Security COLA for private sector employees kicked in promptly at the beginning of the year. The only thing 'automatic' about COLAs for federal retirees is that they are regularly cut, cancelled, and delayed. It has been reported that the many "delays and reductions imposed during the 10-year period from 1985 through 1994 caused the COLAs to be equal to about 80 percent of the CPI increase during that period." (General Accounting Office, Overview of Federal Retirement Programs (May 22, 1995), p. 7.) Singling out federal retirees for sacrifice by requiring them to give up the annuity protection provided by their COLAs yet again is manifestly inequitable.

Federal retirement COLA-cutters should take some satisfaction from the knowledge that, to a significant extent, their work has already been done for them. "The FERS pension plan also provides substantially reduced retiree COLAs as compared to the full COLAs provided by the CSRS statute." (General Accounting Office, Overview of Federal Retirement Programs (May 22, 1995), p. 7.)

There has been considerable talk about correcting an alleged overstatement in the CPI's cost of living calculation ever since Federal Reserve Chairman Alan Greenspan claimed that the resulting change could "painlessly" cut programs like federal retirement by \$150 billion over five years. Often ignored by those who urge that the CPI's calculation be changed is that Chairman Greenspan also admitted that the alleged overstatement is considerably smaller for older Americans due to their greater need for health care. Still, unlike many of the cuts that have been suggested, changing the CPI is one that would appear to require programs besides federal retirement to make sacrifices in order to reduce the deficit.

Members of Congress who are determined to make drastic COLA cuts have threatened to zero out the Bureau of Labor Statistics, the agency which is responsible for preparing the CPI, if it does not immediately invent a calculation that is more to their liking. Such a tactic is clearly irresponsible. If the CPI does not accurately measure the cost of living, then it needs to be changed. But that determination should be driven by study rather than brinkmanship, reason rather than bluster, and economics rather than politics.

Finally, it must be noted that COLAs are not unique to Social Security and federal retirement. "Many plans give post-retirement increases that are not COLAs, per se, but increase benefits from time to time in a variety of different ways." (Congressional Research Service, Federal Employee Pensions and Private Employee Pensions (October 24, 1995), p. 7.)

#### **26. Raising the federal retirement age**

Proposals to raise the retirement age are made without regard to several important facts. It is often noted that CSRS employees can retire at age 55 with unreduced benefits if they have compiled 30 years of service to their country, while many nonfederal plans require employees to work until age 62 to retire with unreduced benefits.

-However, "(s)ome private sector plans allowed long-service employees to retire with unreduced benefits at ages younger than 62, and very few private sector plans that used age 62 required employees to have 30 years of service before benefits would be paid." (General Accounting Office, Overview of Federal Retirement Programs (May 22, 1995), p. 9.)

-Also, "(t)he practice of allowing employees to retire on unreduced annuities at ages younger than 62 is quite prevalent in retirement plans for state and local government employees." (*Ibid.*)

-In any event, most federal employees do not qualify for optional retirement at age 55 because of the 30-year service requirement.

-Many of those who do qualify do not retire immediately upon reaching retirement eligibility. "In fact, on average, the 38,550 employees retiring under CSRS'

optional retirement provisions in fiscal year 1994 were age 61.5..." (ibid., p. 10)

-Under FERS, this situation is explicitly addressed. The minimum retirement age gradually increases, from age 55 to age 57, the earliest age at which general employees under FERS are eligible for optional retirement with unreduced benefits-- provided he or she has completed 30 years of service. Largely as a result, those employees who retired optionally in fiscal year 1994 averaged age 63.5, 2 years older than CSRS retirees in that year. (ibid.)

-At the same time, it must be noted that the average age of retirement in the private sector is 62. (U.S. Department of Labor, Pension and Welfare Benefits Administration, Trends in Private Pension Plans (1992), p. 266.)

Much ill-informed commentary to the contrary, federal employees and private sector employees retire at almost exactly the same times in their lives.

### **27. Reducing the federal government's matching contributions to the Thrift Savings Plan**

The major differences between CSRS and FERS are that those who receive retirement income from FERS draw from three sources: Social Security; the retirement system trust fund; and the Thrift Savings Plan (TSP), to the extent they are able to participate. TSP maintains accounts for individuals which include a minimum agency contribution (1%), personal savings matched by agency contributions (up to 4%), and returns provided by investments in the approved funds. In contrast, CSRS benefits are paid exclusively from the Trust Fund. The two systems do not offer equivalent levels of benefits unless FERS employees contribute substantially out of pocket to TSP.

Reducing the government's contribution to TSP would leave FERS employees worse off in comparison to their CSRS counterparts. According to data collected by the Federal Retirement Thrift Investment Board, slashing the government's contribution to TSP would have the greatest negative impact on lower income employees. Five out of every six federal employees who contribute to TSP just up to the 3% level have annual salaries of less than \$35,000. (Federal Retirement Thrift Investment Board, "Impact of Kasich/Penny Proposal to Reduce TSP Matching Contributions," (1993), p. 4.) In addition, any reduction in matching contributions to TSP puts the government in the perverse position of actually discouraging individuals of modest means from saving for their own retirement needs. Considering the importance placed on increasing private investment, I know that lowering the government's contribution to TSP may greatly concern many Members of the Subcommittee.

28. Federal Government Service Task Force, "Changes Affecting The Pay And Benefits of Federal Employees" (1993). At the time of the chart's publication, the Task Force was a bipartisan legislative service organization. The \$174 billion figure used in my testimony includes cuts in pay and benefits through 1994.

29. Congressional Research Service, Entitlement Spending and OBRA 1993 (93-830) (September 1993), p. 2.

30. "(A)bout ten years ago, the retirement program for most federal civilian employees was completely reformed. The resulting Federal Employees Retirement System (FERS) bears little resemblance to CSRS." (General Accounting Office, Overview of Federal Retirement Programs (May 22, 1995), p. 1.)

31. "When FERS was being developed" GAO was asked "to assist by identifying the features and benefit levels typically found in nonfederal retirement programs." And GAO subsequently issued two reports. Since that time, GAO reports that there has been "nothing to indicate that significant changes have occurred in the design of nonfederal retirement programs or the level of benefits they provide." (General Accounting Office, Federal Retirement Issues (March 10, 1995), pps. 6-7.)



APPENDIX 1: CHANGES AFFECTING THE PAY AND BENEFITS OF FEDERAL EMPLOYEES (in millions of dollars)  
TOTAL - \$183 billion

YEAR	1981	1982	1983	1984	1986	1986	1987	1988	1989	1990	1991	1992	TOTAL
Reductions in Scheduled Pay Increases	1325	3236	4998	6809	5681	8084	8801	10427	11008	13215	14820	16228	104833
Delays in Scheduled Pay Increase				375	329		317	239	510	475	573	638	3456
Revisions to Federal Employee Health Benefits	380		380	705	980	980	980	980	980	980	980	980	9005
Medicare Taxes			900	900	900	1000	1000	1000	1000	1000	1000	1000	9000
Elimination of Field Maintenance Allowance From Lump-Sum	22	22	22	25	26	26	26	26	26	26	26	26	299
Revised Computation of GS pay 2000 to 2007 hours				130	131	85	85	131	131	131	131	131	1046
Retiree COLA Elimination of 1 % add-on	540	550	550	550	550	550	550	550	550	550	550	550	6590
Revision of Minimum Benefit for Disability Retirement	49	49	49	49	49	49	49	49	49	49	49	49	588
Repeal of Look Back Annuity Guarantee Provision	270	270	270	270	270	270	270	270	270	270	270	270	3240
Semi-Annual to Annual COLA Adjustments		430	430	430	430	430	430	430	430	430	430	430	4730
Limit COLA to one-half CR for retirees under 62			180	203	203	203	203	203	203	203	203	203	2007
Delay in COLA from June to December				362	1116	1525	1525	1525	1525	1525	1525	1525	12153
Revision of Eligibility Requirements Disability Retirement	140	140	140	140	140	140	140	140	140	140	140	140	1680
Repeal of COLA Required by Deficit Reduction Act					534	534	534	534	534	534	534	534	3741
TOTAL	2346	5137	7820	10845	11005	13887	14881	16505	17385	19529	21031	22702	160908

SOURCE: FEDERAL GOVERNMENT SERVICE TASK FORCE

**APPENDIX 2: THE CONSEQUENCES OF HIGH-5 ON FOUR FEDERAL EMPLOYEES**

**6 Step 4 Word Processing Clerk**  
 earns \$22,937  
 \$22,486  
 \$21,684  
 \$20,812  
 \$19,992

high 5 = \$21,582

high 3 = \$22,369

**current:**

high 3 salary	X	yrs. of service	X	accrual rate	=	annual pension
\$22,369	X	5	X	1.50%	=	\$1,677.68
\$22,369	X	5	X	1.75%	=	\$1,957.29
\$22,369	X	20	X	2.00%	=	\$8,947.60
						<u>\$12,582.57</u>

**proposed:**

high 5 salary	X	yrs. of service	X	accrual rate	=	annual pension
\$21,582	X	5	X	1.50%	=	\$1,618.65
\$21,582	X	5	X	1.75%	=	\$1,888.43
\$21,582	X	20	X	2.00%	=	\$8,632.80
						<u>\$12,139.88</u>

\$12,582.57

~~-12,139.88~~

\$ 442.69

annual loss

3.5 % reduction or \$6,640.35 over 15 years

**WG-10 Step 2 Electrician**

earns	\$32,219
	\$31,262
	\$29,452
	\$28,413
	\$26,187

high 5 = \$29,507

high 3 = \$30,978

**current:**

high 3 salary	X	yrs. of service	X	accrual rate	=	annual pension
\$30,978	X	5	X	1.50%	=	\$2,323.35
\$30,978	X	5	X	1.75%	=	\$2,710.57
\$30,978	X	20	X	2.00%	=	\$12,391.20
						<u>\$17,425.12</u>

**proposed:**

high 5 salary	X	yrs. of service	X	accrual rate	=	annual pension
\$29,507	X	5	X	1.50%	=	\$2,213.03
\$29,507	X	5	X	1.75%	=	\$2,581.86
\$29,507	X	20	X	2.00%	=	\$11,802.80
						<u>\$16,597.69</u>

\$17,425.12

-16,597.69

\$ 827.43

annual loss

4.75 % reduction or \$12,411.45 over 15 years

*FBI Special Agent GS-12 Step 4*

20 years of service

earns	\$45,214
	\$44,327
	\$42,746
	\$41,023
	\$39,407

high 5 = \$42,543

high 3 = \$44,096

**current:** Law enforcement retirement calculation is different from others.

high 3 salary	X	yrs. of service	X	accrual rate	=	annual pension
\$44,096	X	20	X	2.50%	=	\$22,048.00

**proposed:**

high 5 salary	X	yrs. of service	X	accrual rate	=	annual pension
\$42,096	X	20	X	2.50%	=	\$21,048.00

\$22,048.00	
<del>-21,048.00</del>	annual loss
\$ 1,000.00	3.5 % reduction or \$10,000.00 over 10 years

**Scientist GS-15, Step 10**

earnings	\$88,326
	\$86,589
	\$83,502
	\$80,138
	\$76,982

high 5 = \$83,107

high 3 = \$86,139

**current:**

high 3 salary	X	hrs. of service	X	accrual rate	=	annual pension
\$86,139	X	5	X	1.50%	=	\$6,460.43
\$86,139	X	5	X	1.75%	=	\$7,537.16
\$86,139	X	20	X	2.00%	=	\$34,455.60
						<u>\$48,453.19</u>

**proposed:**

high 5 salary	X	hrs. of service	X	accrual rate	=	annual pension
\$83,107	X	5	X	1.50%	=	\$6,233.03
\$83,107	X	5	X	1.75%	=	\$7,271.86
\$83,107	X	20	X	2.00%	=	\$33,242.80
						<u>\$46,747.69</u>

\$48,453.19

-46,747.69

\$ 1,705.50

annual loss

3.5 % reduction or \$17,055.00 over 10 years

## PREPARED STATEMENT OF ROBERT M. TOBIAS

Chairman Stevens, Members of the Subcommittee: Thank you very much for the invitation to appear before your Subcommittee today and share NTEU's views on proposals to alter the Federal retirement programs.

NTEU has long counted you, Senator Stevens, as a friend of Federal workers. You have shown great leadership over the years in helping to fairly set Federal employee compensation and, in particular, in the development and implementation of the Federal Employees Retirement System (FERS).

Federal workers are our neighbors and our friends, our relatives and our colleagues and they deserve our respect and our support. While the number of Americans served by the Federal Government has grown tremendously in the last two decades, the number of Federal employees has steadily declined. Federal employment has continued to drop since 1991 with the last Congress having written into law a further reduction of 272,000 Federal jobs. This reduction will result in the lowest level of Federal employment since John F. Kennedy was President. At the same time that Federal workers are being asked to do more with less, the Fiscal Year 1996 Budget Resolutions currently under consideration suggest deep cuts in Federal compensation.

Contrary to popular misinformation, the average Federal worker in the Civil Service Retirement System (CSRS) can look forward to an annual pension of \$12,779 after 20 years of service. After 30 years, this same retiree's pension rises to only \$17,616. Is there anyone who thinks this is a princely sum after a 30-year white-collar career with the Federal Government?

Those who state that every constituency must do their part to bring the Federal budget into balance often ignore the magnitude of the savings that have been extracted from Federal employee pay and benefits in the name of deficit reduction already. In just the time period spanning 1981 until 1992, Federal employee and retiree pay and benefit accounts were slashed by \$162 billion dollars in the name of deficit reduction. Billions of dollars in additional pay, benefit and COLA savings have been made between 1992 and the present. If other constituencies had been called on to make similar sacrifices, we would not have the deficit we do today.

You have asked me here today to share NTEU's views on proposals to modify the Federal retirement systems. On behalf of the more than 150,000 Federal workers and retirees represented by this Union, I must agree with the views expressed by the General Accounting Office when its representatives appeared before you several weeks ago. The GAO stated, "As with private sector, State and local Government employees, Federal employees should be able to expect that the benefits they earn while they are working will, in fact, be paid to them when they retire." As you know, the budget proposals presently under consideration do not honor this view.

In particular, a recommendation has been made to alter Federal workers' annuities so that they would no longer be computed using their highest 3 years of salary, but rather on the basis of their highest 5 years. The present high-three annuity calculation formula has been in effect since 1969. For a quarter of a century—25 years of many current Federal employees' careers—Federal workers have operated under the assumption that when they retire, their annuities will be calculated on the basis of their highest 3 years of salary. To alter that assumption now, without so much as a phase-in period or an effort to grandfather employees who are ready to retire, is a breach of faith with these public servants.

This proposal represents a loss of pension benefits of between 2 and 4 percent for the average Federal worker and translates into a loss of thousands of dollars over the average worker's lifetime. For employees nearing retirement who have mapped out their retirement and planned on a set annuity benefit, this means a change of plans that will no doubt result in that employee delaying his or her retirement to make up the amount of money that will be lost.

It is noteworthy that in 1969, the Federal Government switched from a high-5 annuity calculation to the current high-3 after finding that the high-5 tended to keep employees on the payroll beyond the time they normally would have retired. Switching back to a high-5 calculation now would appear to again encourage a trend toward delayed retirements. This recommendation would also appear to be inconsistent with another of this Congress' stated goals—downsizing the Federal workforce. I encourage this Committee to carefully review this recommendation to move to a high-5 annuity calculation—while it may provide a quick budget fix, its resulting impact on the Federal workforce cannot be ignored. Its impact on individual Federal workers who have planned for their retirement based on the rules under which they were hired cannot be ignored either.

Furthermore, proposals have been advanced to require Federal employee contributions toward their retirement to be increased by 2½ percent. Federal workers under

the Civil Service Retirement System (CSRS) already pay 7 percent of their salaries into the retirement fund and this proposal represents a whopping 36 percent increase in that contribution rate. Coupled with the proposal to lower future pension benefits by changing the annuity computation formula, it is difficult to look at this as anything other than a plan that asks Federal workers to pay more and get less in return.

This proposal first appeared in the House-passed tax cut legislation as an offset to pay for tax cuts for some of this Nation's wealthiest citizens. That tax cut legislation has now been folded into the House version of the Budget Resolution. This and ½ percent payroll tax increase would be levied on Federal workers simply by virtue of their having chosen careers as public servants. No other group of Americans has been asked to pay a tax increase. For an average Federal worker earning \$30,000 annually, this represents a tax hike of \$750—the equivalent of a mortgage payment for these middle income earners.

Not only are these additional employee contributions unnecessary to the Federal trust fund that pays Federal retirement benefits, this proposal ignores the fact that according to the Bureau of Labor Statistics, 97 percent of private sector workers make no contributions toward their future retirement benefit—their pensions are financed fully by contributions from their employers. The hypocrisy of this proposal has been further exposed by the recommendation that FERS employees also be forced to contribute an additional 2½ percent of salary toward their future retirement benefit. Under this proposal, because the FERS system *is* fully funded, the Federal Government, as the employer, would have their share of retirement contributions decreased by the same 2½ percent. In addition to a payroll tax increase for these FERS employees, this proposal represents a shifting of responsibility for pension funding from the employer to the employee.

Some Members of Congress have claimed that the Federal retirement system has an unfunded liability that must be addressed to insure the solvency of the retirement system. In previous hearings before this Committee, witnesses have testified to the long term health of the Federal retirement trust fund. In addition, two questions were recently posed to the Congressional Research Service (CRS) concerning the long-term health of the trust fund. First, "is the unfunded liability of the Civil Service Retirement System a problem that needs to be fixed to avoid steep increases in outlays from the Treasury or increases in the deficit?" and second, "is the system now insolvent, or will it become insolvent in the future?" According to CRS, "the answer to both questions is no."

The so-called unfunded liability in the Federal retirement trust fund does not carry the same meaning it might carry for a private employer. This liability represents the amount of money the Federal Government would have to pay all at once if everyone who ever will be vested in the Federal retirement system could demand a check for the present value of all benefits to which they would be entitled from the current time until their death, including the value of future pay raises and future COLA's after retirement. This event cannot happen in the Federal retirement system. The Federal Government's liability represents not only payments to current retirees 1 month at a time, but also payments to future retirees that will not begin for years to come. By the time these future retirees begin to collect their retirement benefits, current retirees will have passed on. To further quote CRS, "the unfunded liability has no effect on the cost of the program, on the budget, the deficit, or on taxpayers, either now or in the future."

The proposal to increase employee contributions toward their retirement, therefore, seems to be little more than a punitive attack on Federal workers. It is little more than a tax increase. The Federal retirement trust fund has no way to receive or hold the cash it would supposedly be receiving under this plan. Rather, the funds generated, like all funds coming into the Federal Government, would be deposited in the Treasury and can be used for any purpose, including offsetting the costs of providing tax cuts to some Americans as has been proposed under the House budget plan.

It is ironic that so much discussion has focused on the so-called "unfunded liability" of the Federal retirement trust fund and the need to increase Federal employee retirement contributions to insure the fund's solvency. This trust fund's "unfunded liability" currently stands at approximately \$538 billion dollars. The "unfunded liability" of the Social Security Trust Fund, by comparison, is currently in the neighborhood of \$7.6 trillion dollars. I have yet to hear anyone clamoring for an increase in the Social Security payroll tax to offset this "unfunded liability."

I want to also address comparisons of the Federal retirement programs with those offered by large private sector employers. While the Federal Government and private employers tend to offer vastly different pay and benefit plans, a recent study by the Congressional Research Service with assistance from the benefits consulting

firm of Hay/Huggins attempts to draw comparisons between Federal and private benefit plans.

This latest study concludes that because Federal workers in the CSRS program are required to make contributions that the majority of their private sector counterparts are not, CSRS is *less* generous for the typical Federal employee, following a typical career path, than retirement plans provided in the private sector. This bears repeating. At a time when some in Congress support raising Federal employee contributions toward their retirement benefits, this latest finding points out that Federal workers are already being asked to pay too much for their retirement benefits in relation to private sector workers.

Although the study goes on to say that FERS can be considered to provide more generous retirement benefits than the private sector plans to which it was compared, when total compensation packages are compared, Federal workers are once again compensated less for their work than similar private sector workers. As the CRS report so aptly states, comparing only pension benefits provides a less than adequate review of public vs. private compensation patterns. While pensions are an important component, I would suggest that Federal employees generally believe that pay is by far the most important component. Leave pay out of the equation and you provide only a fraction of the whole picture.

More importantly, once the lower levels of Federal pay are factored into the equation, the pay disparity more than offsets the relative generosity of the FERS retirement system. You cannot evaluate Federal pensions while excluding Federal pay—after all Federal retirement benefits are nothing more than deferred pay in the form of annuity benefits.

While some have argued that Congress passed the Federal Employees Pay Comparability Act in 1990 to close what Congressionally-mandated studies found to be an approximately 27.5 percent pay disparity between similar Federal and private sector positions, this pay law has been largely ignored. On top of the assaults on Federal retirement and health benefits contained in the budget resolutions, the House resolution provides no funding for Federal pay raises for the next 7 years. The Senate resolution provides only a fraction of the funding deemed necessary for Federal pay raises under the law. The assumptions made about FERS in this report are based on the theory that the typical future FERS retiree will see salary increases at the same rate as average wage growth in the economy. This assumption ignores the reality that is staring all of us in the face. Federal pay has lagged behind private sector pay in the past, lags behind now and the budgets this Congress is currently considering make no provision to fund Federal pay on any level even close to anticipated wage growth in the economy in the future.

For Congress to consider changes in the Federal retirement system on the basis of parity with private sector retirement plans while simultaneously ignoring the established pay gap and the need for parity on the pay front, is hypocritical at best. Only when Federal employees are compensated for their work on a par with the private sector, will it be appropriate to review the Federal retirement system's parity with retirement programs offered by private sector employers.

The study also ignores several other critical penalties imposed on Federal workers as a result of their having chosen careers as public servants. For example, the Government Pension Offset reduces or even eliminates spousal Social Security benefits to which a Federal retiree might be entitled. Under this offset, two-thirds of the amount of a Federal retirement annuity is used to offset any Social Security spousal benefit that the Federal retiree might be expecting. Federal retirees subject to this offset are denied benefits private sector retirees are entitled to on their spouse's Social Security work record simply because they are Federal retirees.

Yet another offset, the Windfall Reduction Formula, reduces a Federal retiree's own Social Security entitlement if that retiree is entitled to a Federal pension not based on Social Security. Federal retirees with less than an additional 30 years of Social Security-covered employment often see their Social Security benefit reduced by as much as 50 percent.

People also often forget that unlike Social Security benefits that are only partially subject to Federal taxation above certain income levels, Federal annuities are fully taxable.

Federal employment is not a glamorous job, nor one where an individual can expect to get rich. Following 30 years of dedicated service to our country, the average Federal CSRS retiree will retire with an annual pension of \$17,616. Many of the Federal workers represented by this Union will retire with far less. And, these pensions are in lieu of, not in addition to Social Security. Nearly 40 percent of civilian Federal workers have at least a bachelor's degree, compared to an estimated 20 percent of the population at large. I would respectfully ask the Members of this Com-



mittee, does \$17,616 a year after 30 years of loyal public service by a highly educated workforce seem overly generous?

Chairman Stevens, the employees represented by NTEU are public servants who take great pride in providing service to their community and to their country. They deserve to be treated with respect and to be compensated fairly. Instead, they are consistently asked to give more in the name of deficit reduction than most other constituencies. It is in every Federal worker's best interest to work for a Federal Government that works better and costs less. We have been, and will continue to participate in efforts to make that goal a reality. However, proposals under consideration by this Congress that ask Federal workers to pay more, work longer and receive less in return will not be accomplished with the support of this Union. Thank you again for this opportunity. I would be happy to respond to any questions.

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#### PREPARED STATEMENT OF SONYA CONSTANTINE

Good afternoon, Mr. Chairman and Members of the Subcommittee: My name is Sonya Constantine and I am Acting National President of the National Federation of Federal Employees. On behalf of the more than 150,000 Federal employees represented by our union, I am pleased to be here today to offer our views on the efforts to reform the Federal Retirement System. Before I begin I would like to thank you Mr. Chairman for your support of Federal employees over the years and for your willingness to listen to the views, and to work with, the representatives of the employees who are directly affected by your decisions and actions.

At the outset, I must state that NFFE is wholeheartedly opposed to any change in the Federal retirement system that will reduce the level of benefits received by current Federal retirees or that are expected to be received by current employees. NFFE is opposed not just because it is unfair to change the terms of the employment contract that Federal employees accepted when they joined the civil service, but also because Federal employees and retirees have already contributed more than their fair share to deficit reduction.

In fact, Federal retirees alone have contributed some \$40 billion towards deficit reduction over the last 12 years. For example, the Omnibus Budget Reconciliation Act of 1993—which alone cost Federal retirees \$12 billion through delayed COLA's, elimination of lump sum payments for new retirees, and modification of health insurance premiums—singled out Federal retirement for the second largest cut of any entitlement program. Altogether Federal employees and retirees have contributed more than \$174 billion through cuts in their pay and retirement programs.

#### *The Federal Retirement System*

The purpose of the Federal retirement system, like its private sector counterparts, is to provide for reasonable income security in retirement. Based on employee contributions and years of service, the Civil Service Retirement and Disability Fund (CSRDF) provides qualified retirees with a monthly annuity.

Currently, all Federal employees and retirees are covered under the provisions of either the Civil Service Retirement System (CSRS) or the Federal Employee Retirement System (FERS). The CSRS was established in 1920 and covers most Federal employees hired prior to 1984. CSRS is a defined benefit plan consisting of an earned annuity that is based upon the salary received by an employee during the final 3 years of their Federal employment. FERS was established in 1986 and is a defined benefit/contribution plan, consisting of Social Security, a small annuity and a Thrift Savings Plan.

Many of those who advocate cuts in Federal retirement are quick to point out that Federal retirement is the nation's fourth largest entitlement program. However, it is a distant fourth. The three largest programs—Social Security, Medicare, and Medicaid—make up over 70 percent percent of entitlement spending. Federal retirement, by contrast, constitutes less than 5 percent of Federal entitlement spending.

Contrary to the image propagated by advocates of slashing Federal retirement programs, Federal retirees are not living the high life on the backs of American taxpayers. In fact, the average yearly income for a Federal retiree—after taxes and out-of-pocket costs for health care and life insurance premiums—is approximately \$13,000. According to the Bureau of Labor Statistics the average before-tax income of all U.S. retirees is \$1,800 more than that of Federal retirees. In addition, Federal workers must contribute at least 7 percent of their salaries to the retirement. By contrast, the Bureau of Labor Statistics has reported that 95 percent of the pension programs included in its broad survey of medium and large private companies do not require any employee contributions.

However, even though the Federal Retirement System is clearly not one of the Nation's most generous retirement programs, it has been constantly the target of attacks. As you know, both the House and the Senate have passed budget resolutions that would significantly reduce the value of Federal retirement benefits. The House would increase employee contributions to the Civil Service Retirement System from 7 to 9.5 percent of salary. While contributions to the Federal Employees Retirement System would increase from 0.08 percent to 3.3 percent of salary. Such an increase would have a dramatic impact upon an employee's take home pay. For example, under the increased contribution provisions an employee earning \$38,000 a year would lose more than \$4,000 over 5 years. In addition, the House would reduce future pension benefits by basing them on employees' highest 5-year salary average, rather than on the current highest 3-year average. Initial calculations show that the switch to a "high-5" formula would cost Federal employees over \$700 million.

Thankfully, the Senate has dropped the 2.5 percent tax increase on Federal employees from its resolution. Unfortunately, it retained the switch from a high-three to a high-five formula. NFFE maintains that Federal retirement benefits should be left alone and that any attempt to reduce these benefits should be dropped. Federal retirement benefits are a form of non-wage compensation that make up part of employees' total compensation package and makes up in part for salaries that are significantly lower than those received by workers who have similar jobs in the private sector. In addition, NFFE asserts that the retirement benefits of current Federal employees have already been significantly reduced. Since Federal retirement benefits are based upon an employee's salary at time of his or her retirement, each delay, reduction or freeze in Federal employee pay raises also has the effect of reducing an employee's retirement annuity.

In a prior hearing, Mr. Chairman, you discussed the option of creating a new retirement system which would operate alongside CSRS and FERS. NFFE would recommend against adopting this option. NFFE agrees with the testimony of the General Accounting Office (GAO) which found that the FERS system is a well designed plan which meets the needs of both the Government and its employees. As the father of FERS, Mr. Chairman, I am pleased to tell you that NFFE thinks "you got it right the first time." FERS provides Federal employees with a retirement program designed like many private sector plans. As the GAO noted FERS is a much more portable system than CSRS because it includes Social Security coverage and the Thrift Savings Plan which an employee leaving the Government can convert to another plan outside the Government. FERS provides incentives that encourage employees to make the Federal Government their career and to continue those careers beyond their minimum retirement age. In short, FERS is a very well balanced system that achieves its objectives of providing reasonable retirement benefits to dedicated Federal employees. Let's not mess with success.

Another option discussed was holding a new open season for CSRS employees to switch to FERS. NFFE maintains that such a move would have little to no impact. Those employees in CSRS were already provided with opportunity to switch to FERS in 1986 and chose not to do so. An informal poll of NFFE members who are in CSRS indicates that the vast majority of them would elect to remain in CSRS. Additionally, GAO found that allowing Federal employees to switch from CSRS would result in no savings to the Federal Government.

If the Committee is truly interested in reducing spending, I would suggest that it turn its attention away from reducing the retirement benefits of dedicated Federal workers and focus instead on the massive costs of Federal service contracting. Currently, the Federal Government spends \$105 billion each year on contracting-out, which has become the fastest-growing area of Federal procurement. In the past, these contractors have been characterized as having become formed a shadow government. Unfortunately, many of this shadow government's members are not performing effectively. A recent Office of Management and Budget study of Federal contracting-out found instances of poor performance; contractors performing governmental work such as program management; incomplete cost and price analyses and statements of the work to be done; and weak oversight of contractor performance. Mr. Chairman, the \$105 billion "shadow government" is what should be targeted by those individuals interested in reducing Federal expenditures, not the approximately \$12,500 annuity received by the average Federal retiree.

In conclusion, Mr. Chairman, I must once again state that NFFE is opposed to any further cut in Federal employee retirement benefits. NFFE believes that Federal employees have already contributed more than their fair share to deficit reductions. While, obviously, all Americans should contribute their "fair share" to deficit reduction; NFFE asserts that Federal employees have already done more than their "fair share" and so are indeed due a reprieve if not a rebate.

## PREPARED STATEMENT OF MOE BILLER

Mr. Chairman and Members of the Subcommittee, I am Moe Biller, President of the American Postal Workers Union, AFL-CIO. The APWU represents 360,000 members and retirees, and is the largest free and democratic postal union in the world. I am proud to represent the men and women who move more than 177 billion pieces of mail per year.

In your letter of invitation, you asked me to comment on proposals to modify the Federal retirement system. The short, simple answer, Mr. Chairman, is that Federal retirement programs do not need to be modified or reformed in any significant way. Despite an onslaught of propaganda to the contrary, the important facts are:

- There is no crisis in Federal retirement.
- There is no unfunded liability problem.
- There is no solvency problem in the Civil Service and Federal Employees Retirement programs (CSRS and FERS).

You heard excellent testimony at your last hearing on these issues from experts at the General Accounting Office (GAO) and the Congressional Research Service (CRS). The clear conclusion that can be drawn from their testimony is that CSRS and FERS are sound, responsible programs.

Unfortunately, nearly every so-called "reform" proposal offered in Congress this year and in recent years is nothing more than an excuse to take funds out of the pockets of Postal and Federal workers, and retirees. Deficit reduction is the excuse. These cuts undermine and demean the value of public service.

## A DECADE OF RETIREMENT CUTS

Postal and Federal workers have been forced to hand over considerable amounts through budget-driven cuts in retirement and health benefits and increases in payroll taxes. According to the bipartisan Federal Government Service Task Force, between fiscal years 1981 and 1992, benefit changes for Postal and Federal health, retirement and disability programs totaled nearly \$54 billion. Chopping back on Cost of Living Allowances (COLA's), which undermines the inflation protection for our retirees, was the major form of benefit cutbacks. An excerpt from the task force list of cuts is attached to this testimony.

Once again, the House and Senate versions of the Congressional Budget Resolutions this year cut retirement or health benefits. You and your Subcommittee are well aware of these proposals because you will probably meet to decide how to fashion legislation to conform to the Budget Reconciliation requirements. I urge you to stop these unfair, unjust, budget-driven proposals.

## SENSE OF CONGRESS RESOLUTION

The House Budget Resolution also contains "Sense of the Congress" language regarding Federal retirement. The language in Sec. 13 is an example of the "unwarranted attacks" on Federal retirement you mentioned at your last hearing. The language calls for the convening of a "high-level commission," refers to "problems associated with the Federal retirement system" and asserts that there is a "long-term solvency" problem. Mr. Chairman, this language flies in the face of the facts presented at your earlier hearing and ignores the hard work done 10 years ago by the Commission on Social Security Reform and the Federal retirement task force that worked with this committee. One way to oppose unwarranted attacks on Federal retirement is to insist that this language be dropped from the Budget Resolution.

## CONGRESSIONAL RETIREMENT BENEFITS

Mr. Chairman, you also correctly noted at the last hearing that the justification used by Federal retirement critics for many of the unwarranted attacks are the retirement benefits received by some long-career Members of Congress and Senators. Much of the continuing bad publicity about Federal retirement comes in the form of anecdotal reports on generous pensions received by former legislators. If you are looking for places to cut back on the unwarranted attacks, cut back on the bad publicity by equalizing Congressional with other Federal retirement programs. Otherwise, urge your colleagues to keep their hands off of Postal and Federal retirement.

## A BALANCED SYSTEM

If any major reform is needed, it is reform to ensure that the balanced system that the Congress enacted more than a decade ago is not made a hostage to budgetary politics. Mr. Chairman, you played a key role in those reforms. APWU mem-

bers do not want to see undone the excellent work you did back then, and on which we all worked and participated.

By a balanced system, we mean one that weighs the Federal Government's responsibility as the largest employer in the United States to treat its employees fairly, and its responsibility to all taxpayers who finance the pay and benefits of Federal employees. Creation of the Federal Employee Retirement System (FERS) a decade ago achieved this balance. This system is equitable to the taxpayer and to Federal workers, including Postal workers. It encourages employees to save toward their retirement by adding a thrift plan component, includes a small defined benefit component that is funded like private sector plans, and is coordinated with Social Security. It also generally protected the integrity of Federal Government promises to CSRS enrollees by retaining the program and allowing enrollees a choice between CSRS and FERS, and by setting up a solid, sound and solvent system for financing both programs.

When the APWU and other Postal unions negotiate with the Postal Service about pay and benefits, Postal management looks at the cost of the total compensation package, including pay and fringe benefits, which we negotiate, and retirement benefits which are determined by the Congress. In other words, retirement benefits are not a largesse bestowed on our members. They are part of the total compensation costs that we have negotiated with the Postal Service. The Postal Service pays, from its revenue from stamps and fees, all of the retirement costs of its current and former employees that are not covered by employee contributions.

The retirement benefit package is not out of line with private sector practices. We are pleased that you have asked the General Accounting Office to update their comparative analyses of private sector retirement plans and Federal retirement benefits.

What needs reform, however, is how we can give some stability to Federal retirement programs and prevent demagogues from alarming Federal and Postal workers by manufacturing false, budget-driven crises. These alarmist crises make it difficult for workers to plan their careers and their retirement.

#### CSRS AND FERS: TRANSITION TO THE 21ST CENTURY

When the Federal Employee Retirement System was created, employees were given the opportunity to stay with the Civil Service Retirement System or make the transition to the new system. For those who elected to stay with the current system, the Federal Government assumed a moral responsibility to keep the basic structure of the program intact; otherwise, the Federal Government would essentially have engaged in bait and switch tactics with its own employees.

In addition to the moral responsibility, there is a pragmatic reason to leave the current Civil Service Retirement system alone. In terms of the long-run perspective that must be used in analyzing retirement systems, it is being phased out. Although currently most retirees are covered under the CSRS system, over time the FERS system will become the dominant retirement program for Federal retirees. Every Federal worker covered under CSRS has more than 10 years of Federal service. The average CSRS employee is 48 years old and has 21 years of Federal service. In a little more than a decade, virtually all Federal civilians entering retirement will be covered under FERS.

Thus, the issue becomes whether the Congress should reexamine the Federal Employee Retirement System (FERS) that was created a decade ago. As you know, there are three components to FERS. Unlike the Civil Service Retirement System (CSRS), in which one pension was designed to provide all retirement income, FERS recipients receive Social Security plus two components that supplement Social Security benefits.

Thus, the first foundation of FERS, like the foundation of private sector retirement income, is Social Security. Both the President and the Congressional leadership have taken this program off the table this year.

The second component is the Thrift Savings Plan (TSP), which is similar to a 401(k) tax-deferred private sector pension plan. The employee can contribute up to 10 percent of his or her pay into the plan. The Government matches the employees' contributions. The only potential for budget savings in the Thrift Savings Plan would be to reduce the Federal match. That would not only distort the basic structure of FERS, but it would also send a signal that the Congress does not want to encourage Federal employees to save. Since the major impetus for the current efforts to balance the Federal budget is to reduce the amount of private saving that is devoted to financing the public debt, it does not make sense to create incentives for Federal employees to save less for their retirement.

The third component is a pension plan with benefits tied to length of service and, like CSRS, the average salary for the highest consecutive 3-years of pay. This defined benefit component is relatively low. It is important to our members, however, because it provides a floor of benefits that will be particularly important for workers whose incomes were not high enough to allow them to make the maximum contribution to the Thrift Savings Plan throughout their careers. The benefit is actuarially sound. Proposals to lengthen the averaging period for initial benefits (the high-3) and to increase the employees' contribution, are simply ways to reduce Federal spending. Both of these options are regressive in that they will impact most heavily on lower-wage Federal employees. Furthermore, the increased payroll tax on Federal employees is nothing more than a tax on one group to pay for the House-passed tax cuts for the wealthy.

The Federal work force has already contributed to reducing the Federal deficit through major reductions in retirement benefits over the past two decades. To go back to this same group, again and again, is unfair, and makes loyal and dedicated employees the scapegoats for the Federal Government's budget problems. Don't undermine or destroy the balanced retirement transition already set in motion. The current CSRS/FERS plan is a good, solid plan for Federal retirement into the 21st century.

### CONCLUSION

I would like to leave the Subcommittee with four conclusions.

First, you reformed Federal employee retirement programs a decade ago. Revisiting the issue now is simply a way to reduce the budget deficit which is in no way caused by the Civil Service Retirement and Disability Trust Fund.

Second, some of the benefit changes that are being considered—lengthening the averaging period for initial benefits and increasing employee contributions—would be regressive. In addition, an increase in the contribution rate would single out Federal employees for a tax increase—at a time when both the Congress and the President are seeking ways to provide tax relief for Americans.

Third, responsible Members of the Senate and the House need to oppose and actively counter the irresponsible attacks by demagogues who are trying to discredit public service and the dedicated, hardworking employees who hold together the fabric of our nation.

Finally, the Congress has to understand that enough is enough. Our members work an entire career with a level of expectation for retirement and health benefits. These benefits are constantly being jeopardized by Members of Congress who apparently feel no moral bond, as the employer, with the people who work for the Federal Government, but they Postal or Federal workers. APWU says these attacks must end.

CHANGES AFFECTING THE BENEFITS OF POSTAL AND FEDERAL WORKERS AND RETIREES (in millions of dollars)  
TOTAL - \$54 billion

YEAR	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	TOTAL
Revisions in Federal Employees Health Benefits		380	380	705	980	980	980	980	980	980	980	980	9305
Medicare Taxes			600	800	900	1000	1000	1000	1000	1000	1000	1000	9300
Elimination of Paid Holidays From Lump-Sum	22	22	22	25	26	26	26	26	26	26	26	26	299
Retiree COLA Elimination of 1% add-on	540	550	550	550	550	550	550	550	550	550	550	550	6590
Revision of Minimum Benefit for Disability Retirement	49	49	49	49	49	49	49	49	49	49	49	49	588
Repeal of Look-Back Annuity Guarantee Provision	270	270	270	270	270	270	270	270	270	270	270	270	3240
Semi-Annual to Annual COLA Adjustments		430	430	430	430	430	430	430	430	430	430	430	4730
Limit COLA to one-half CPI for retirees under 62			180	201	201	201	201	201	201	201	201	201	2007
Delay in COLA from June to December				362	1116	1525	1525	1525	1525	1525	1525	1525	12153
Revision of Eligibility Requirements Disability Retirement	140	140	140	140	140	140	140	140	140	140	140	140	1680
Sequestration of COLA Required by Deficit Reduction Act						534	534	534	534	534	534	534	3741
<b>TOTAL</b>	<b>1021</b>	<b>1841</b>	<b>2621</b>	<b>3534</b>	<b>4664</b>	<b>5707</b>	<b>5707</b>	<b>5707</b>	<b>5707</b>	<b>5707</b>	<b>5707</b>	<b>5707</b>	<b>53633</b>

SOURCE: FEDERAL GOVERNMENT SERVICE TASK FORCE

## PREPARED STATEMENT OF VINCE PALLADINO

Mr. Chairman, my name is Vince Palladino, and I am president of the National Association of Postal Supervisors, or NAPS. We represent over 35,000 active and 2,000 retired Postal supervisors and managers, most working in frontline management positions. We appreciate this opportunity to testify on proposals to change our retirement benefits, and on whether or not we need to create an entirely new retirement system.

I appear before this Subcommittee at a historical period of American history. New fiscal realities and changing social priorities have spawned a tremendous debate over many public policies and institutions, among them the United States Postal Service and its over 700,000 employees. The Postal Service today faces many challenges to its continued existence; some are of our own making, others are imposed from outside the institution.

Our greatest fear, Mr. Chairman, is that the future of the Postal Service, and the pay and benefits its employees and retirees earn, may become swept up in the political revolution we are experiencing. Amid calls for slashing the size of Government at the Federal level, and transferring much of what the Federal Government does to the State or local level, or to the private sector, Congress inevitably will ask whether this country still needs the United States Postal Service.

We strongly believe the Nation needs a Federal/Postal system, and that Postal employees should remain as part of the overall Federal work force, even though the Postal Service is somewhat unique among Federal agencies. But to manage the Nation's premier communications network, we need a clear mandate from you and others in Congress; we need assurances that we will not be continuously used as an easy source of several billion dollars to help reduce the deficit; and we need to know that Congress will live by the terms of our contract with America, and provide the benefits promised to us when we were hired.

That, Mr. Chairman, is the message my members have repeatedly asked that I carry to you and others in a leadership position in Congress. Just as the Postal Service needs to know what its financial obligations are so it can plan its budgets accordingly, retired Postal and Federal employees need to know what they can count on for an annuity during their retirement years so they can plan their own budgets.

The Postal Service has found budgeting extremely difficult since the mid-1980's, because by 1998 the Postal Service will have paid at least \$14.5 billion in unanticipated expenses. That does not include any measure that may be in the fiscal 1996 budget resolution currently being debated.

Today Postal and Federal retirees, and those within a few years of retirement, face similar financial uncertainty because of calls for scaling back their retirement benefits. The demeaning criticism of Federal and Postal employees by Members of Congress has abated somewhat since the tragic bombing of the Federal building in Oklahoma City. But before that event, and probably not too far in the future, someone on Capitol Hill will characterize Federal employees as overpaid, lazy bureaucrats who could not compete in the "real world."

Spend a night sorting mail in a processing facility on Tour I, or a day delivering mail—even when the temperature outside is at a comfortable level—and what you'll discover is that most private sector employees wouldn't last a month in a Postal position, no matter what they were paid.

But still our uninformed critics continually devalue Federal and Postal employees' work, suggesting that it could be done better, cheaper and faster by employees in the private sector. It will always be possible to find someone in the private sector to do any job for less money and fewer benefits. Several studies conducted over the last 20 years have shown that our benefits are better than the private sector in some areas, less generous in others. But I refuse to apologize for the gains in employee rights and benefits that often were earned first through the efforts of Postal and Federal unions and management associations.

The Federal Government should always be the model for others to follow in terms of providing fair wages and safe working conditions. We have led the way in making the workplace better and safer, and I see no reason for giving up that leadership position. We should not feel obligated to apologize for what Postal and Federal employees receive as compensation, when the problem may be what private sector employees are denied. Not everyone should be forced to take a \$6 an hour job without health insurance and retirement benefits, as is often the case with private sector alternate delivery firms.

We understand, however, that Congress must design, implement and oversee a retirement program that is both fiscally responsible to the Nation and equitable to employees. That's why in the mid-1980's you and others in Congress, with the advice of benefit experts and employee organization representatives, took 2 years to

develop a new retirement program. When the new Federal Employees Retirement System (FERS) began operating, you provided all Postal and Federal employees the opportunity of switching to the new program or staying with the Civil Service Retirement System (CSRS). Congress said the offer was as a onetime, irreconcilable opportunity, and gave us assurances that the two programs would continue without significant change. The certainty of retiree Cost of Living Allowances (COLA's) has always been in question, but the basic structure, we were told, would remain intact.

Today, unfortunately, FERS is under attack, with allegations that Congress did not adequately address the fiduciary problems with CSRS. The result, alleged by your counterparts in the House of Representatives, is that a catastrophic unfunded liability threatens to bankrupt the retirement program early in the next decade. Despite testimony to the contrary delivered at your last hearing on retirement issues, some Members of Congress use this alleged unfunded liability crisis to justify a major overhaul of both CSRS and FERS, and the creation of third retirement system that would be created explicitly to save the Government money.

This organization is open to discussing any new retirement program that would offer a different benefit formula to newly hired Postal Service employees. We would not endorse separating the Postal Service from whatever new retirement plan Congress may design. We cannot, however, support any drastic changes in the current pension programs, 10 years after employees made an irrevocable decision to join FERS or stay with CSRS.

We also see no benefit to the expense of holding another open season for employees to switch from CSRS to FERS. As previous witnesses before this Subcommittee have testified, there is little financial incentive for employees to make such a change. During Stateand national conventions since FERS began, there has been no groundswell within my own organization for a FERS open season. The only retirement change our members have consistently voted to endorse is raising the maximum percentage of salary both CSRS and FERS employees may contribute to the Thrift Savings Plan (with or without matching funds).

The Congressional Research Service's testimony, delivered on May 22 to this Subcommittee, suggests that the retirement plan for Postal and Federal employees and retirees is an entitlement and there is no legal contractual arrangement. We suspect someone eventually will contest that opinion in court; however, we hope Members of Congress would concur that Postal and Federal employees have a good faith agreement with Congress to continue the current retirement programs without significant change.

In closing, let me stress that if there is a significant financial problem with either CSRS or FERS, we want to know about it and would cooperate in any effort to resolve such a crisis. We have yet to see, however, evidence that such crisis exists. Similarly, if Congress believes that FERS as initially created needs to be refined, we would welcome the opportunity to discuss what changes might be made, or what new system might need to be created. But we hope that such extremely important questions would be considered in the same deliberative fashion as they were in the 1980's when FERS was created.

Mr. Chairman, I would gladly answer any questions you may have at this time.

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#### PREPARED STATEMENT OF TED CARRICO

Mr. Chairman, and Members of the Subcommittee, I am Ted Carrico, Secretary-Treasurer for the National Association of Postmasters of the United States (NAPUS). NAPUS represents more than 42,000 active and retired postmasters throughout the country. Thank you for giving us the opportunity to appear before you today.

While NAPUS realizes the importance of deficit reduction, we oppose attempts to balance the budget by reducing the employment benefits of Postal and Federal retirees. Although the Congressional Research Service (CRS), in its testimony before you on May 22, discounted the idea that retirement benefits are owed to the retiring employee as an implied part of his or her employment contract, we still maintain that Federal and Postal retirees have a right to those benefits. The CRS argues that because retirement benefits "are determined by a formula, not an accumulating account balance" and "the amount of those payments is not a factor in the benefit formula and has no direct relationship to the amount of the pension" that means that "there is no legal contractual relationship" between the Federal Government and its employees. Yet when individuals accept a Government or Postal job, that decision is made with the understanding that certain retirement benefits will be paid to them at the end of their career.

Certainly, no Federal or Postal employee has a written contract he or she can bring to a court to force the Government to comply with its promise of a specific package of retirement benefits. There is simply a bond of trust between the Government and those who work for it. Those Federal and Postal employees believed that the benefits which persuaded them to take a job in public service would continue. That bond has been severely strained in previous years as benefits such as the lump sum and 3-year recovery have vanished. Retirement income for Federal and Postal employees has been reduced through legislation creating windfall and spousal offsets. COLA's have been eliminated, reduced or delayed for a total budget savings of more than \$40 billion since 1981. Federal and Postal employees have already accepted a fundamental change in the basic retirement system—FERS—in an effort to cooperate with Congress and to develop a self-sustaining program. Is it any wonder that now the employees are unwilling to accept even more changes to their retirement system?

As the Chairman is well aware, the Federal retirement program has already been "reformed". You and other Members of this Subcommittee created the Federal Employees' Retirement System (FERS) in 1986. As result, Federal retirement programs have grown less than the Gross Domestic Product (GDP) since the 1980's. FERS is a completely prefunded annuity program and is not expected to grow significantly relative to the size of the Federal workforce. Our members rightfully wonder: Why should Congress spend the time tinkering with a fundamentally sound retirement system which makes up such a small portion of the Federal budget when there is so much other deficit reduction work to do?

Changing the program now and making the changes apply to Postal and Federal employees who are approaching retirement places an unnecessary hardship on those people. As you know, most Americans put very little into private savings accounts. Instead, they rely on Social Security and/or their pension fund to provide them with income when they are no longer able to work. Federal/Postal employees who are now retiring are primarily those who were covered by the old Civil Service Retirement System (CSRS) and are generally not eligible for Social Security. They entered the workforce at a time when the economy was booming and accepted a salary which was less than they might have received from the private sector in return for job stability and good retirement benefits. The implied offers of good health and retirement benefits and of job stability strongly influenced their decision to enter public service. Most of these people have no backup plan for financing their retirement and jobs are simply not available to retirees in many areas, even when these people are in good health. As a group, Federal/Postal retirees are not wealthy. OPM reported an average yearly income for a Federal retiree in 1993 as \$13,785 after taxes and health insurance payments were deducted. And please note that, unlike social security, CSRS and FERS benefits are fully taxable.

A good retirement program provides benefits to the employer and to the public as well as to the retiree. We believe that it is important for the Postal Service to maintain a good level of work benefits so that the Postal Service is able to retain a stable, highly skilled workforce. Postal employees who have a working knowledge of the communities they serve are able to provide better service to the public. They know the routes and addresses. They have proven themselves trustworthy in the handling of financial correspondence such as Social Security checks. Certainly, there are also good reasons for attracting a high-quality, stable workforce to other Government positions.

It is equally important for Federal and Postal employees to be able to plan for their financial future and to know, with a high measure of certainty, what funds will be available to them upon retirement. Changing the rules, particularly for people who have spent many years in the current Federal/Postal system, is unfair. The specific Senate proposal to change the retirement formula from an average of the high-3 to an average of the high-5 years of salary would unfairly penalize employees who are promoted late in their careers. Because salary increases were higher in recent years than they are expected to be in the near future, employees who are now near retirement will also lose. And people who are within 5 years of retirement, for example, have few options for increasing the amount of money they are able to earn for retirement purposes.

Mr. Chairman, at the previous May 22 hearing on this issue, you asked a question about the effect of another open season for changes from CSRS to FERS. A number of employees who are entering the mid-point of their careers—those who have spent 10 to 15 years or so in the system—might be interested in having an opportunity to at least consider FERS again. I have been told by some of those people that they did not understand FERS when it was first presented and, particularly as the Thrift Savings Plan continues to show a good return on investments, they find it more attractive than they did initially.



We understand that one of our fellow Postal employee groups is advocating that, in return for no other changes, Postal employees, as well as Federal employees, pay an additional 2.5 percent into the pension fund. We do not support this proposal. The Postal Service already makes a payment to cover the full pension liability of Postal employees. To ask for yet another 2.5 percent from the Postal employees themselves would be forcing them to pay more than their fair share of costs.

In any case, the idea that Federal and Postal employees must pay into the Treasury enough money to cover the amount they will receive after they retire is contrary to the way other entitlements, such as Social Security, are handled. Under that argument, Social Security recipients also don't have a right to their checks since they are also taking out more money than they paid into the system while they were working. Yet Congress has affirmed that it does not intend to make changes to Social Security. And unlike the Social Security fund, the group of individuals eligible to receive Federal/Postal pensions will not increase significantly over the next few decades and will not add to the deficit. This is a very stable pension fund.

On the issue of COLA's, Federal and Postal retirees are currently being unfairly singled out for delays in COLA payments. Three-month delays in COLA payments are in effect for CSRS and FERS annuitants through 1996. No such delay affects the COLA's of Social Security recipients. Cost of Living Allowances are intended to help retirement income keep pace with inflation and inflation erodes the retirement income of both Federal and private sector retirees. NAPUS will continue to oppose discriminatory treatment and changes in our COLA's when there are no similar changes affecting other Americans. Federal/Postal retirees should not be penalized because they chose careers in public service rather than in the private sector.

In the end, it really comes down to an issue of fairness and equity. Federal and Postal employees are not unwilling to share the burden of deficit reduction but do not believe they should be singled out to accept burdens not imposed upon other Americans. In any case, the Federal retirement program is a small fish in the pond of Federal spending. NAPUS believes that the program has already been reformed and does not need additional fine-tuning. Congress should spend its valuable time on programs where reform would have a more significant effect on the Federal budget.

Mr. Chairman, NAPUS has members who still live in parts of the country where business agreements are done on the basis of a handshake and a word—a gentleman's agreement, as it were. We would like to believe that our Government would still honor such agreements with its employees. That concludes my statement. I am ready to answer any questions you may have.

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#### PREPARED STATEMENT OF ROGER W. MORELAND

Good afternoon Mr. Chairman and Members of the Committee, my name is Roger W. Moreland, and I am Vice President of the National Rural Letter Carriers' Association representing more than 88,000 members who travel on a daily basis over 2.7 million miles while delivering to more than 24 million customers. Rural carriers are known as a "Post Office on Wheels" because they provide a full range of services to our rural, urban and suburban customers. Next year, we will be celebrating our 100th Anniversary of Rural Free Delivery, providing "Service with a Smile" as a "Post Office on Wheels."

Mr. Chairman, it is very appropriate that you should be chairing these hearings on proposals to modify the Federal Retirement System. Everyone here is well aware, you are the father of the most comprehensive pension reform effort ever completed—the creation of the Federal Employee Retirement System and its highly successful Thrift Savings Program.

Your vision was exceptional when FERS was written, because Congress created the Thrift Savings Plan Advisory Board. Therefore, employee organizations and unions are included in the information flow concerning our members' pensions. Because of your foresight, it has been my pleasure to participate in meetings of the Thrift Savings Plan Advisory Board on behalf of rural letter carriers.

When Congress created the Federal Employee Retirement System under your guidance, education sessions were conducted for the better part of a year. These sessions were an effort to educate all of the participants concerning the various components that comprise a comprehensive retirement system for Postal and Federal workers. This was done quite successfully in 1983 and 1984.

The NRLCA would like to comment on the current proposals put forward by both the House Budget Committee and the Senate Budget Committee. Later this year, Mr. Chairman, your Committee and the House Committee will have to reconcile Budget Conference Results.

First of all, let me comment on the proposal to raise the computation from high-3 to high-5 years of service. The GAO recently presented testimony before this Subcommittee. They stated that the reason high-5 was changed to high-3 in 1969 was because high-5 encouraged many employees to work beyond the time they should have retired. Pay increases prompted them to postpone their retirement in order to improve their high-5 averages which could increase their pension appreciably with each additional year of service.

Second, many of our members within a few years of retirement have begun planning and making life changes based upon when they will be eligible to retire. These carriers have also calculated their retirement benefits. For Congress to change the law now, rather than futuristically, will drastically disrupt their life plans.

The Senate Budget Resolution proposes to change the Federal Employee Health Benefit Plan computation. Included in my testimony is a chart showing how harsh this proposal would be on rural carrier retirees. While this would be equally as difficult on active workers, it would place a special hardship on our retirees. Retirees have less flexibility. According to Senator Domenici's staff, the purpose of this proposal was to urge as many retirees as possible, with Federal health benefits, to opt into more cost effective forms of health insurance such as HMO's or PPO's.

This proposal bears a particular hardship on rural letter carrier retirees because of Rural America, where they reside. Rural retirees have limited opportunity to take advantage of alternative forms of health care plans. They are at present, largely limited to "fee for service" plans.

Therefore, given the alternative proposals, the rural letter carrier Statepresidents and many of our vice presidents attending our National Legislative Conference recommended unanimously, and our National Board concurred, that we recommend that Federal and Postal employees pay more to maintain the current retirement system and health benefits system—exactly the way it is currently. In return, we would be willing to make an additional contribution towards our retirement.

We believe that the Budget Conference will choose a dollar amount for pension cuts someplace between the \$14.5 billion in the House Resolution and the approximately \$5 billion in the Senate Resolution and that the number will probably be under \$10 billion.

If the Government Affairs Reconciliation dollar amount is under \$10 billion, we believe this Committee could change only the employee pension contribution, and that would raise the reconciliation amount. This could be done by a "Postal Pass-Through" so you would include Postal employees by passing their contribution through to the U.S. Treasury for deficit reduction. We estimate all Congress would need is a contribution increase in the neighborhood of 1.5 percent. We do not have access to the Congressional Budget Office, so what we did is strictly a "back of the envelope" calculation.

Possible future retirement changes are sure to explore many proposals. One such proposal may be for a new retirement system which separates Postal employees from all other Federal employees. NRLCA firmly believes this is an unsound idea. The USPS is a government regulated monopoly with an annual budget of approximately \$50 billion. Congress regularly performs oversight of this giant agency and occasionally imposes charges worth billions of dollars. These Congressionally imposed costs have put financial strain on USPS rates, finances and employee benefits. Shifting a pension system to the USPS would simply create an additional financial strain without any possible advantages.

Finally, if there are additional changes that you might consider proposing in the future to the Federal retirement systems, we believe that we all need to be brought up to speed at the beginning of the process. Perhaps you and Chairman John Mica of the House Civil Service Subcommittee, Chairman Roth and Chairman Clinger could again convene educational forums to bring everyone up to the same level of understanding.

In the 12 years since you first convened those forums, the leadership of Congress has changed; Representatives and Senators have changed; the presidents of unions and employee organizations have changed and many of the lobbying corp have changed. You, Mr. Chairman, are one of the few people who have retained the power, knowledge and influence to design a new system. We would urge you to bring all of us up to speed once again before you consider any changes to FERS or designing a new system.

As always, we look to you for leadership and a leading role in this effort, and we thank you for all you have done for rural letter carriers throughout this country.

The NRLCA offers the following chart to illustrate how much more retirees would have paid for their health insurance coverage under the Budget proposal. Although the illustration is for retirees, active employees would have similar financial losses.

**MONTHLY GOVERNMENT CONTRIBUTION  
BASED ON RETIRED CARRIER**

	SELF COVERAGE		FAMILY COVERAGE		
	CPI INDEX CHANGE	CPI BASED SHARE	ACTUAL GOV'T SHARE	CPI BASED SHARE	ACTUAL GOV'T. SHARE
1987			\$58.52		\$129.33
1988	+ 4.2%	\$60.98	vs. \$77.50	\$134.76	vs. \$167.88
1989	+ 4.0%	\$63.42	vs. \$98.46	\$140.15	vs. \$215.54
1990	+ 4.7%	\$66.40	vs. \$113.78	\$146.74	vs. \$230.51
1991	+ 5.4%	\$69.99	vs. \$120.33	\$154.66	vs. \$237.41
1992	+ 3.7%	\$72.58	vs. \$131.08	\$160.38	vs. \$265.30
1993	+ 3.0%	\$74.76	vs. \$139.60	\$165.19	vs. \$302.47
1994	+ 2.6%	\$76.70	vs. \$143.43	\$169.48	vs. \$306.41
1995	+ 2.8%	\$78.85	vs. \$132.99	\$174.23	vs. \$290.72

\* Total

\$4,721.88

\$9,247.80

\* Additional cost of health insurance paid by a retiree from his or her annuity had the Senate Budget Resolution been in effect since 1987.

PREPARED STATEMENT OF WILLIAM P. BRENNAN

Mr. Chairman, and Members of this distinguished Senate Post Office and Civil Service Subcommittee.

I am Bill Brennan, President of the National League of Postmasters and I am accompanied today by Penny Dimler, the League's Director of Government Relations.

The League is privileged to represent the Nation's Postmasters, along with retired Postmasters, Officers-In-Charge, other Postal Managers and Federal employees.

I am pleased to address this Committee today concerning proposed changes to the Federal Retirement Systems and thank you for the opportunity to participate in the current debate over Federal/Postal retirement benefits.

The League commends you for your long-standing commitment in developing the Federal Employees Retirement System (FERS) and for your continued support of Federal/Postal employee benefits.

Your voice has been loud and clear in stifling a decade or more of threats to alter retirement benefits. For that, Mr. Chairman, you have our eternal gratitude.

Once again, we find ourselves calling on you and your good office to assist us in an effort to stave off disaster in a seemingly ugly climate ahead.

I reject allegations that the Civil Service Retirement Fund (CSRF) is out of control. According to statements released by both the Congressional Budget Office (CBO) and the Office of Personnel Management (OPM) the CSRF is a fiscally sound and growing Trust Fund.

The Trust Fund balance at the end of fiscal year 1994 was \$339 billion and is expected to increase to \$366 billion by the end of fiscal year 1995. During fiscal year 1994, income to the Trust Fund totaled \$63.5 billion which is held in nonmarketable government securities. During that same period, payments to annuitants and survivors were \$36 billion. This presents a positive picture of the retirement balance sheet.

Concern over a supposed unfunded liability of CSRS pales when one considers whether the liability even matters. The reality is that a liability would occur only if every vested CSRS participant could withdraw the present value of the benefits which they would receive to the end of their lives all at the same time. It is incon-

ceivable that this could happen. Further, there is no liability as far as Postal retirees are concerned since the Postal Service has already paid the full cost of its employees' retirement. We do, however, recognize the legitimate concern of our non-Postal members about this issue.

*No more benefits reductions.*

The League is opposed to all of the proposed reductions in retirement benefits. Changes to our retirement system will do nothing to help alleviate the Federal deficit. They only serve as a breach of faith between the Federal Government and its employees.

Since 1983, Federal retirees have given over \$40 billion to the Federal Government through COLA delays and reductions in the name of Federal deficit reductions.

The 103rd Congress alone reduced Federal retirement benefits by \$9.6 billion over 5 years. The primary source of this cut is the delay of COLA's until April in 1994, 1995, and 1996.

Now the 104th Congress wants to raise the high-3 to a high-5, increase the Federal employee contribution, and change the method for computing inflation apparently without consideration for those individuals who presently have served 25, 30 or more years.

The Federal/Postal retiree has been solely singled out to make these sacrifices in the interest of our Nation's fiscal integrity while Social Security has been excluded from the Federal Budget since 1986.

Mr. Chairman, you are fully cognizant of the myths related to Federal retirement, however, we wish to include a few for the record.

In 1994, the average monthly benefit for CSRS retirees was \$1,537 and the FERS retirees, it was \$622. Also, the average retirement age of CSRS retirees is 61.5 years with 30.1 years of service and of FERS retirees the average age is 63.5. While the private sector is 62 years.

Federal workers who retire at age 55 with 30 years of service receive only 56¼ percent of their high-3 years earnings—no full benefits nor 80 percent of earnings.

To receive 80 percent an individual is required to work 41 years and 11 months.

In addition, Federal annuities are fully taxable.

The League welcomes your expertise in speaking out in the interest of the Federal/Postal community. We seek your support to restore the effective date of COLA's to January 1 in 1997.

*A Postal Service retirement system?*

It has been suggested that the Postal Service might establish its own retirement system. I am in no position to assess the capability of the Postal Service to meet such a challenge. However, I would have one major concern: No matter who is administering the retirement plans of Postmasters, we are not willing to make changes which would reduce our projected annuities! That point is not open for negotiation.

The League views retirement benefits as an implied part of our contract to work for the Federal Government.

In closing, words could never express our sincere and genuine appreciation for all you have done for Federal/Postal employees and retirees.

I pledge to you the League's full support in responding to our adversaries on this most critical issue confronting Federal/Postal employees and retirees.

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PREPARED STATEMENT OF BRUCE MOYER

Mr. Chairman and Members of the Subcommittee:

My name is Bruce Moyer and I am the Executive Director of the Federal Managers Association (FMA). On behalf of the 200,000 managers and supervisors in the Federal Government whose interests are represented by FMA, I would like to thank you for inviting us to comment on proposals to modify the Federal employee retirement system.

Before I proceed I would like to briefly highlight some facts about the Federal retirement system:

- While Federal retirement is the fourth largest entitlement program it is clearly a distant fourth. The three largest programs, Social Security, Medicare, and Medicaid, make up over 70 percent of entitlement spending. The Federal retirement program constitutes less than 5 percent.
- Federal retirement program spending is not contributing to increases in the Federal deficit. According to the Congressional Budget Office (CBO), Federal re-

irement spending is expected to hold steady at just over 2 percent of Federal outlays over the next 10 years.

- Federal employees and retirees have contributed more than \$200 billion over the last decade and a half toward deficit reduction through reductions in their pay and benefits. The 2.2 million Federal retirees and their dependents have contributed \$40 billion of this amount mainly through delays or elimination of Cost of Living Adjustments (COLA's).
- In the last Congress, Federal retirement benefits were singled out for the second largest cut of any entitlement program. The 1993 budget agreement (P.L. 103-66) reduced Federal retirement benefits by \$9.6 billion over a 5 year period by: delaying retiree Cost of Living Adjustments (COLA's) until April in 1994-1996 (\$788 million); eliminating the lump sum annuity option (\$8.7 billion); applying Medicare Part B limiting charges to retirees 65 or older that do not have Medicare Part B (\$77 million); and by changing the deposit requirement for retirees who elect the survivor benefit after retirement (\$7 million).
- After a long and thorough consideration, the Federal retirement system was dramatically overhauled in 1986 with the creation of the Federal Employees Retirement System (FERS) (P.L. 99-335). The FERS, which covers all employees hired after December 31, 1983, is modeled on retirement patterns in the private sector. The FERS is also carefully designed to: (1) approximate benefits available under the Civil Service Retirement System (CSRS); (2) encourage workers to save for their own retirement and; (3) save the Government money. Benefits for FERS retirees differ from those given to CSRS in a number of ways. FERS retirees: (1) do not receive Cost of Living Adjustments (COLA's) until they are 62; (2) depend on Social Security for inflation protection, and; (3) will have their minimum retirement age raised to 57 by the year 2026. At this time last year, 47 percent of employees were covered under the CSRS and 42 percent were covered under the FERS.
- According to the Bureau of Labor Statistics, Federal salaries, which determine Federal retirement benefits, are currently lagging behind private sector salaries by 27.5 percent. This lower pay produces retirement annuities that are also lower than private sector retirement benefits for those leaving service today.

#### SHOULD THE FEDERAL RETIREMENT SYSTEM BE REFORMED?

Both the Congressional Research Service and the General Accounting Office have stated that the current funding method for the Federal retirement system is adequate to cover the costs of all current and future Federal retirees. With this in mind, FMA does not support efforts to make current workers pay more for reduced retirement benefits. These efforts are not aimed at improving the health of the retirement system and are counter-productive toward recruiting and retaining the workforce necessary to successfully create a smaller, more cost-effective government. As the father of FERS, Mr. Chairman, you got it right the first time. Outside of minor adjustments the CSRS and FERS programs are not in need of major reform.

Just as the Administration put the cart before the horse in ordering workforce reductions before conducting a thorough review of what Government functions would no longer be performed, FMA is concerned that the Congress would head in a similar direction if it were to require substantial benefit reductions for current Federal employees. The Federal retirement system, like all employee retirement systems, is first and foremost a *workforce management tool*. It controls how long workers are retained and helps cycle employees through the workforce. FMA believes that decisions about the direction, size and responsibilities of the future Federal workforce should be more fully developed before any examination of the Federal retirement system is undertaken.

At a time of unprecedented uncertainty among Federal managers about their role in the future Federal workforce, FMA believes that now is precisely the wrong time to reduce Federal retirement benefits. The role of managers and supervisors will change dramatically over the next few years. The average ratio of managers and supervisors to employees is scheduled to double between now and 1999 from 1 to 7 to a ratio of 1 to 15. In addition, managers' and supervisors' spans of control will increase as they are required to take on more responsibilities with the elimination of personnel support positions and the devolution of management decision making to front-line supervisors. In order for Federal restructuring efforts to succeed, Federal employees must be regarded as assets in which their employer has invested, as opposed to costs which must be contained.

FMA continues to work with the Congress and the Administration to find ways to better manage Government employees and programs. As American citizens first

and civil servants second, FMA members want a Government that provides services in the most cost effective manner possible.

#### FERS OPEN SEASON

While we do not anticipate that many of our members would switch from CSRS to FERS, FMA would welcome another voluntary open season.

We are aware that a recent CRS comparison of CSRS and FERS with private sector retirement plans found CSRS benefits less generous than non-Federal retirement plans, while future FERS benefits were greater than those offered by private plans. At first glance this may give a perception that an open season would benefit Federal workers. However, FMA would like to point out that this report does not indicate that a FERS employee retiring today would receive larger benefits than their private sector counterpart. Additionally, FMA questions the assumption used in the report to estimate the retirement benefits of a FERS employee retiring in 2025. This analysis assumes that salary growth for a FERS employee entering service in 1995 will be equal to increases in private sector wage increases. The future of Federal pay raises is highly speculative, given budget constraints. As you know, the Senate budget for fiscal year 1996 provides only half the funding necessary to grant future pay adjustments based on increases in the Employment Cost Index, while the House budget provides no funding for future pay adjustments.

#### 40-YEAR AMORTIZATION OF CSRS UNFUNDED LIABILITY AND NORMAL-COSTING

Under current accounting procedures, agencies and employees each contribute 7 percent of employee pay to the CSRS Trust Fund. The Trust Fund currently has obligations totaling \$857.5 billion. Less than full funding of the Trust Fund during past years caused it to have a balance of \$317.4 billion at the end of fiscal year 1993.

FMA is concerned about this situation and supports legislation proposed in the Administration's 1996 budget to amortize the \$540 billion unfunded Trust Fund liability over a 40-year period. The budget amortizes the unfunded liability by increasing the existing payment from the general fund to the retirement fund each year, beginning in 1997. Since the payment would be an intra-governmental transfer it would not affect the deficit.

The Administration's budget also proposes to introduce normal-costing for CSRS contributions to the Trust Fund. (FERS contributions are already normal-costed.) This would be accomplished by increasing agency contributions to the Trust Fund by 11 percent. In combination with the employee contribution, which remains at 7 percent, the higher agency contribution would fully fund the cost of employee retirement benefits.

The change in the agency contribution rate would add \$4,200 for each CSRS employee with an average salary of \$38,000. To avoid putting pressure on agency salary and expense accounts, the Administration's proposal would adjust the discretionary spending cap to hold agencies harmless for the increased contribution rate. FMA would not support this approach, however, if agencies were required to fund the increased retirement fund contributions from within existing accounts. Such an unfunded mandate would force agencies to conduct a "silent RIF" i.e., agencies would be forced to lay-off workers to find funding in their salary and expense accounts to pay for the increased retirement fund contributions.

#### ALLOW CSRS WORKERS TO CONTRIBUTE ADDITIONAL 5 PERCENT OF PAY TO TSP

According to GAO's recent testimony before the Subcommittee, frequent reductions in employee COLA's over the last decade have reduced annuity inflation protection to only 80 percent of the increase in the Consumer Price Index (CPI) over this period. While FERS employees can look forward to relying on full Social Security COLA's, which have enjoyed fewer delays or reductions than Federal retirement COLA's, CSRS workers have a much less reliable guarantee that their benefits will not be eroded by inflation. If Congress continues this pattern of cutting Federal COLA's, FMA believes that it would be appropriate to allow CSRS workers to protect themselves against these potential losses by contributing an additional 5 percent of pay to their TSP accounts.

#### IMPACT OF PROPOSALS ON WORKFORCE SHOULD BE CAREFULLY CONSIDERED

Since the Federal retirement system's main purpose is to serve as a workforce management tool, proposals to change retirement benefits should be evaluated in terms of their effect on the ability of the Federal Government to effectively manage

its workforce. Important factors in evaluating an individual proposal's impact on the management effectiveness of the retirement system include the proposal's impact on workforce attrition and the proposal's impact on Federal employee morale and productivity.

#### *Raising Employee Contributions to the Retirement Fund*

FMA is very concerned about the proposal contained in the House-passed version of H. Con. Res. 67 to increase CSRS and FERS employee retirement contributions by 36 percent by changing the payroll deduction rate from 7 percent of pay to 9.5 percent of pay. If done immediately, such an increase would cost the average worker about \$4,500 over 5 years. A GS-9 step 1 employee would lose about \$3,500 over 5 years and a GS-15 step 10 employee would lose almost \$11,000 if this proposal were enacted. (Please see chart at end of statement.) Since employees would be paying more for the same benefit, this proposal would effectively serve as a negative incentive for workers to leave the Federal Government. FMA believes that this is not a responsible method for managing workforce attrition. Efforts to use an uncontrolled "stick" rather than a targeted "carrot" approach to increasing workforce attrition will only insure that the Federal Government will drive out the best and brightest, i.e., those who could most quickly and easily find alternative employment.

FMA is also concerned about how this proposal would effect employee morale. While the compensatory loss associated with this proposal would negatively impact employee morale, FMA's main concern is the potential of this proposal to send a negative message to the workforce that they are being singled out for a payroll tax increase that would not apply to anyone else.

In addition to the issue of equitable treatment of Federal and non-Federal workers, FMA is concerned about equitable treatment of those covered under the FERS and the CSRS. As you know, Mr. Chairman, employees covered under the FERS derive their benefits from three sources; Social Security, a Federal pension, and the Thrift Savings Plan. FERS employees pay .8 percent of their salary into the retirement trust fund as opposed to CSRS employees who pay 7 percent of their pay into the retirement trust fund. While increasing both CSRS and FERS contributions by 2.5 percent would result in the same immediate out-of-pocket expense for the two classes of employees, FERS employees would be paying for a smaller benefit.

#### *Increasing "High-3" to "High-5"*

Proposals to change the retirement formula to base retiree annuities on the highest 5 years of salary as opposed to current law basing retirement benefits on the highest 3 years of salary would also negatively impact employee morale and the Government's ability to effectively manage workforce attrition. Employee morale would suffer under this proposal because in order for it to produce budgetary savings within the first 5 years, it would have to be applied retroactively by dramatically changing current workers' terms of employment.

The Government's ability to effectively manage workforce attrition would be harmed by this proposal in two ways. First, like the proposal to raise retirement contributions, this proposal would initially motivate some employees to leave the workforce before the "high-5" went into effect. Once the "high-5" went into effect, it would encourage the remaining workers to stay in government service longer in order to make up for losses in expected retirement income. Providing a universal incentive to remain in government service would have the effect of increasing payroll expenditures as more highly-paid senior workers stay on to make up for lost retirement income. In addition, under the House-passed version of this proposal, the incentive to remain in government service would begin 2 years before completion of the largest downsizing in the history of the civil service. FMA is concerned that this could force agencies to resort to expensive reductions-in-force to meet their downsizing goals. OPM estimates that each RIF costs the Government \$36,300.

The Congressional Budget Office estimates that the "high-5" proposal would reduce lifetime retirement benefits by 4 percent for those retiring after 1996. According to the Congressional Research Service, the present value of the average CSRS employee's retirement is \$330,000 for those leaving government service in 1995. A 4 percent loss represents a substantial reduction in retirement income.

#### CONCLUSION

In conclusion Mr. Chairman I would like to reemphasize the importance of viewing changes in retirement benefits in terms of their impact on the Government's ability to effectively manage workforce attrition and employee morale. The retirement system is first and foremost a workforce management tool. Changes to it must take account of all the consequences.

We oppose the following proposed changes to the retirement system:

1. Increasing the "high-3" to "high-5"; and
2. Increasing Federal employee contributions to the retirement trust fund by 36 percent.

Federal employees join the Federal workforce with the understanding that their retirement benefits are a mutually agreed upon term of employment. Reducing Federal retirement benefits represents a serious breach of faith with the men and women who have devoted their working lives to serving the American public. Changes intended to reduce retirement benefits should only apply to new hires.

FMA recommends two changes to the current retirement system:

1. Allow CSRS workers to contribute an additional 5 percent of pay to their TSP accounts; and
2. Enact the legislation proposed in the Administration's 1996 budget to address the unfunded liability of the Federal retirement trust fund.

I want to thank you once again for inviting FMA to comment on proposals to modify the Federal employee retirement system. FMA looks forward to working with you this year to improve the ability of Federal managers and supervisors to cost effectively deliver goods and services to the tax-paying American public.

This concludes my prepared remarks I would be happy to answer any questions you may have.

Federal Employee Cost Associated With Payroll Tax Increase

Average Federal Employee		1996	1997	1998	1999	2000	
Administration Baseline		\$38,000.00	\$38,912.00	\$40,118.27	\$40,960.76	\$41,820.93	\$42,699.17
36% Increase in retirement fund contributions		\$38,000.00	\$38,328.32	\$39,315.91	\$39,936.74	\$40,775.41	\$41,631.69
			\$583.68	\$802.37	\$1,024.02	\$1,045.52	\$1,067.48
							\$4,523.07 5 yr. loss
GS-9 Step 1							
Administration Baseline		\$29,400.00	\$30,105.60	\$31,038.87	\$31,690.69	\$32,356.19	\$33,035.67
36% Increase in retirement fund contributions		\$29,400.00	\$29,654.02	\$30,418.10	\$30,898.42	\$31,547.29	\$32,209.78
			\$451.58	\$620.78	\$792.27	\$808.90	\$825.89
							\$3,499.43 5 yr. loss
GS-15 Step 10							
Administration Baseline		\$91,600.00	\$93,798.40	\$96,706.15	\$98,736.98	\$100,810.46	\$102,927.48
36% Increase in retirement fund contributions		\$91,600.00	\$92,391.42	\$94,772.03	\$96,268.56	\$98,290.19	\$100,354.29
			\$1,406.98	\$1,934.12	\$2,468.42	\$2,520.26	\$2,573.19
							\$10,902.97 5 yr. loss
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	Pay Raise		1996	1997	1998	1999	2000
	1) Assumptions in Clinton budget		2.40%	3.10%	2.10%	2.10%	2.10%
	2) This analysis assumes a 1.5% increase in employee contributions in the first year, 1/2% in the second year and 1/2% in the third year to increase the retirement fund contribution by 2 1/2% beginning in 1996.						
	3) No assumption has been made for scheduled within grade pay increases.						



## PREPARED STATEMENT OF ROBERT S. DUNCAN

On behalf of the more than 3,500 Social Security field office and teleservice center managers and supervisors across the country, the National Council of Social Security Management Associations applauds Chairman Stevens and the Members of this Subcommittee for holding these hearings to consider possible changes in the Federal retirement program. This is an important opportunity to examine the Federal retirement systems apart from the pressures of budget and deficit reduction.

The U.S. Government—the largest employer in the world—has both a moral and a practical responsibility to provide equitable benefits, including a sound, inflation-protected retirement program, to its workforce. Federal retirement benefits are not needs-based “entitlements.” They are earned through work and are due, as promised, to those who earned them during their careers in Federal service. GAO testified last month that “retirement benefits are income that employees earn while performing service for their country during their working years but receive when their working years are over. As with private sector, state, and local Government employees, Federal employees should be able to expect that the benefits they earn while they are working will, in fact, be paid to them when they retire.”

NCSSMA represents Federal employees responsible for direct service every day, in person and over the telephone, to the 43 million Americans already receiving Social Security benefits, 6.3 million receiving Supplemental Security Income, and more than 125 million taxpayers and employers who contribute Social Security payroll taxes. For many Americans, the service delivered by SSA establishes their personal image of the Federal Government. Advocating policies to attract and keep a competent, experienced workforce to deliver quality services in the field is a high priority for our Association.

We strongly oppose reduction in retirement benefits, increases in retirement contributions, and increases in retirement age for current Federal employees under either the old Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS). FERS was developed to replace CSRS with a system patterned after typical private sector retirement plans to reflect the growing trend toward portability and personal responsibility for retirement income through savings. FERS covers Federal employees hired beginning in 1984 and replicates plans provided by medium to large U.S. corporations.

Longtime Federal employees covered under CSRS have already seen retirement benefit losses in recent years—such as elimination of the 3-year recovery rule, which permitted Federal annuitants to receive their annuities tax free until they recouped their own already-taxed contributions to the retirement system, and the placement of severe restrictions on the lump sum pension benefit, which permitted annuitants to elect a reduced annuity combined with a lump sum payment of their own contributions (now available only to the terminally ill). Federal retirees have experienced COLA losses through delay and reduction.

## IMMEDIATE THREATS TO THE FEDERAL RETIREMENT PROGRAM

As the Budget process advances this year, a number of attacks on our retirement program are meeting success. The House Budget Resolution assumes increased employee contributions for both FERS and CSRS employees. Both the House and Senate bills change the formula on which annuities are based by moving from a calculation using high-3 years' salary to one based on high-5 years' salary. Both House and Senate bills also assume savings from reduced Cost of Living Adjustments due to re-formulation of the Consumer Price Index. (CPI is discussed under “The COLA Question” which follows.)

The proposals to increase contributions and modify the annuity calculation would ironically move the Federal retirement program further from comparability with non-Federal retirement plans, as most large private sector plans require *no* employee contribution and many use a more generous basis for annuity calculation.

Proponents of these changes disingenuously rationalize them by maintaining that Federal retirement is overly generous—a fallacy perpetuated by the media. Summarized below are data presented by the U.S. General Accounting Office, the Congressional Research Service and the Wyatt Company unequivocally refuting that claim. Eighty percent of all Federal retirees receive a retirement annuity of less than \$2,000 a month.

Federal employees and retirees across the country know there is no rational basis for the proposed changes—and no interest in fairness to the Federal workforce on the part of legislators targeting us in this way. The aim is simply to extract billions of dollars from us. The proposal to increase employee contributions to our retirement plan is intended to offset tax cuts for others. A typical Federal employee earn-

ing \$30,000 annually would in effect pay an additional \$750 tax which would rise each year, assuming any increases in pay.

The proposed change in the basis for calculating our retirement annuities also carries a heavy cost. We calculated monthly annuity reductions of between 3 percent and 5 percent for a number of sample cases with varying grade and time in grade factors. It is particularly wrong to change the rules so abruptly for those employees who have long served the Federal Government. In the private sector, employees are protected under ERISA laws from such unscrupulous greed on the part of an employer. The employer would be required to combine separate annuity calculations for each retiring employee, guaranteeing them credit under the old rules for the years served prior to the effective date of the change. We strongly urge Congress to provide a comparable guarantee for the current Federal workforce.

Sadly, however, "comparability with the private sector" seems often to be used to cut our benefits. When equal treatment with our private sector counterparts would work to our advantage, comparability is ignored. That fact is evident in the unwillingness of Congress and the Administration to conform to the requirements of the Federal Pay Comparability Act, intended to close the pay gap between the Federal and non-Federal sectors.

Federal employees are infuriated that sufficient numbers of Representatives and Senators, while decrying the inhumanity of attacks on Federal employees, appear eager to themselves attack our well-being, and that of our families, with the weapons at their command. We are easy targets for many purposes.

#### THE "OPEN SEASON" ISSUE

Employees hired prior to 1984 had a short, one-time opportunity to switch from CSRS to FERS. They were rushed in this decision, and many had to make their choice without the benefit of accurate information comparing the two programs. Each employee made the best choice they could under the circumstances, based on their understanding of the different benefit structures of the plans. Changing those benefit structures now, after employees irrevocable decisions for the welfare of themselves and their families were made based on the promises of their employer, would be grossly inequitable. The Federal Government would be breaking faith with its entire workforce.

Having outlined our opposition to the current budget driven proposals to change and reduce Federal retirement benefits, we nonetheless believe that if budgetary or political considerations force modifications to either CSRS or FERS for current employees, there should be another opportunity for employees to switch from CSRS to FERS. We strongly support Senator Stevens' recommendation of another open season. If another open season is made available, employees must receive better comparative information and an adequate period in which to consider the choices.

However, we note GAO's conclusion presented in their testimony before this Subcommittee on May 22, 1995: "The employees in question have already had an opportunity to elect FERS coverage and did not do so. We have seen no information to indicate that sizable numbers of employees in CSRS would elect FERS coverage if given another opportunity."

One reason many Federal employees did not switch to FERS during the first open season involves the relationship between CSRS, FERS, and Social Security. Those switching to FERS have part of their retirement benefit calculated under CSRS and part under FERS. If they work long enough under FERS, with its attendant Social Security coverage, they will become eligible for a Social Security retirement benefit. Two factors in the calculation of a Social Security retirement benefit discouraged transferring to FERS:

First, the formula for calculating a Social Security retirement benefit involves using 35 years of earnings. Most employees considering transferring to FERS would not have had time to gain 35 years of covered earnings before they reached retirement age. This would result in a lower Social Security benefit than if their entire career had been spent in covered employment.

Second, and of greater impact, their Social Security retirement benefit would have been reduced by what is known as the Windfall Elimination Provision (WEP). For employees eligible for a CSRS retirement annuity who do not have 30 years of substantial Social Security covered earnings this provision would result in a reduction in their monthly Social Security retirement benefit of \$194 using the 1995 benefit formula. The reduction is lower, but still significant, for those with between 20 and 30 years of substantial covered earnings. Many employees considering transferring to FERS would have had to work well beyond retirement age to avoid the penalty of the Windfall Elimination Provision.

Both of these factors are still present but would have an even greater impact on the transfer decision in another open season because employees hired before 1984 have even fewer years to build up Social Security coverage before they reach retirement age. These disincentives could be ameliorated by providing an opportunity for employees under CSRS to change to FERS retroactively—to shift their CSRS contributions to Social Security and obtain credit for those years as years of substantial earnings from Social Security-covered employment. Under such an arrangement, employees should be given an opportunity to make retroactive Thrift Savings Plan contributions with appropriate Government matching funds.

Although we do not believe that large numbers of Federal employees would exercise the option to switch to FERS, we contend that equity requires the opportunity for them to do so if significant changes are made to either CSRS or FERS.

### IS THERE A NEED FOR CHANGE?

The two primary rationales used to drive proposals to immediately change Federal retirement benefits are patently false and misleading. Those attacking Federal retirement benefits claim that: (1) The Federal retirement system is overly generous in comparison to private sector retirement plans, and, (2) there is a funding or "solvency" problem with the Federal retirement program. The U.S. General Accounting Office and the Congressional Research Service have offered illuminating testimony before this committee addressing these claims.

GAO's study revealed that:

- Comparing retirement benefits for employees with a final salary of \$40,000, non-Federal retirement plans were more generous than CSRS at most ages used in the comparison. Only at age 55 are benefits under CSRS greater than non-Federal plans—and even for those who retire at that age, their benefits are outpaced by private sector annuitants by age 62 because of the addition of Social Security benefits for non-Federal plan annuitants.
- Because of the 30-year service requirement, most Federal employees do not qualify for optional retirement at age 55.
- The average Federal retirement age is 61.5 for CSRS and in 1994 was 63.5 for FERS.
- Very few private pension plans require employee contributions (whereas all Federal employees contribute to their plans).
- In their work to date on evaluation of typical non-Federal retirement programs, GAO has not seen evidence of significant change in the design of non-Federal retirement programs or benefits since the time FERS was developed to duplicate typical private sector plans; GAO believes that it would, in fact, take "major changes" in non-Federal retirement programs to result in "appreciable differences" between Federal and non-Federal programs.
- The so-called "unfunded liability" is merely an actuarial estimate which "has no effect on the budget or current outlays and is not a measure of the Government's ability to pay retirement benefits in the future. In fact, appropriations to . . . eliminate the unfunded liability would not affect Federal outlays or the deficit or require additional payments by employers or the taxpayers."

CRS confirmed many of the GAO findings, including the fact that 97 percent of private sector employees in medium and large firms are in pension plans fully financed by contributions from their employer and that the average age at which Federal employees retire is 61.5, so that raising the retirement age to 62 would save very little. Regarding the controversy over solvency of the retirement program, CRS reported:

- "Unfunded liabilities" are estimates of benefits for which assets have not been set aside in a retirement fund and for which no future deposits are scheduled. The total liability for CSRS is what the Government would have to pay "all at one time if everyone who is or who ever has been a vested CSRS participant could demand a check for the present value of all the benefits to which they would be entitled from that time throughout their retirement until their death or their survivor's death . . . *This cannot happen in the Federal system.*"
- During the 21st century, the trust fund will stabilize and "have a balance sufficient to authorize advance payment of 18 years of benefits."
- The unfunded liability "has no effect on the cost of the program, on the budget, on the deficit, or on taxpayers, either now or in the future."
- Unlike the retirement of the "baby boomers," which will significantly increase outlays from the Social Security funds, there is no large bulge of Federal retirements looming ahead.

Additional information on the comparison of Federal and non-Federal retirement programs is found in the Wyatt Company "Survey of Retiree Benefits Provided by Plans Covering Salaried Employees of 50 Large U.S. Companies as of January 1, 1994." It reports that Federal retirement is not more generous than many pension programs in the private sector:

- 48 of 50 companies provided for retirement at age 55 with 30 years of service (same as for Federal employees)
- Average benefit calculations as a percentage of final pay at 55 with 30 years of service is 30.5 percent among the top companies and at least 25 percent of final pay among 39 of the companies (compared to 30 percent of the averaged high-3 years salary, a lower basis, for Federal employees under FERS)
- 43 of the 50 Wyatt survey corporations require no employee contribution to their retirement fund. CSRS employees contribute 7 percent of base pay to their retirement plan plus 1.45 percent to Medicare (they do not earn Social Security benefits from their Federal employment) and FERS employees, who contribute to Social Security as part of their retirement program must also contribute 5 percent of pay to their FERS Thrift Savings Plan in order to trigger "matching" Government contributions if they want to obtain full benefit from the plan.
- 35 of the surveyed companies increased benefits over time, either by infrequent but sizable adjustments or smaller periodic increases, to maintain the value of the benefit against inflation. Where annual increases were given, the average was 3 percent.

In addition, Federal annuities are taxable; they do not enjoy the preferential tax treatment applied to Social Security benefits.

All of these findings conclusively show that the Federal retirement program is neither insolvent nor in need of modification to more closely reflect retirement benefits in the private sector.

#### THE COLA QUESTION

In addition to Wyatt Company findings that most large private sector retirement programs surveyed provided some form of benefit increase over time, a more comprehensive study by Hay/Huggins in a 1994 Benefits Report found that 50 percent of 700 firms surveyed provided pension increases during the last decade.

While Federal employees are promised that they will receive annual adjustments each year after they retire to protect their annuities against inflation, Congress may choose to alter the Federal retiree COLA increase in any given year. It has reduced, delayed or skipped COLA's for budgetary reasons. Delaying payment of civilian COLA's from January to April for 1994, 1995 and 1996, effectively reduces the value of this annual adjustment by 25 percent each year. Over the past 10 years, Federal retirees have paid \$40 billion toward deficit reduction in lost and reduced COLA's.

FERS retirees—after they have reached the age of 62—are promised an annual adjustment equal to the percentage change in the Consumer Price Index up to 2 percent; if the CPI increases by 3 percent or more, the adjustment is CPI minus 1 percent. CSRS retirees receive an annual adjustment equal to the change in the Consumer Price Index. The lower FERS COLA was decided upon because FERS retirees contribute to and earn Social Security benefits and therefore receive a more generous COLA on the Social Security benefit portion of their retirement income. CSRS retirees, on the other hand, earn only their CSRS annuity from Federal Government employment. In the past we have seen cost-savings proposals to cut the CSRS COLA to "match" the FERS COLA, but this approach is misguided and inequitable. The two plans are distinctly different. "Equalizing" COLA's would, in fact, result in more unequal benefits under the two plans.

We strongly oppose proposals which would reduce cost-of-living provisions under either CSRS or FERS.

A change could result, however, if statisticians such as the Bureau of Labor Statistics determine that the Consumer Price Index needs to be re-evaluated for accuracy because relevant factors have changed since the original design, and if after careful reevaluation the formula were modified. Such a modification could result in either a higher or lower CPI than under current calculations, and we could not disagree with the result.

The belief that the CPI should be modified, however, does not justify, prior to the careful re-evaluation which would precipitate such a formula change, reductions being taken because of a budgetary "assumption" that the CPI formula needs to be changed and attendant speculation about the degree of the modification. The House and Senate Budget Resolutions assume CPI decreases of .6 percent and .2 percent

respectively. We strongly oppose budget cuts affecting Federal retirement COLA's presumptively in this way.

#### THE ROLE OF DEFINED BENEFITS IN RETIREMENT PROGRAMS

Analysis done during the development of FERS indicated that most non-Federal retirement programs were composed of three elements—Social Security, a defined benefit pension plan, and a Thrift Savings Plan or other capital accumulation plan. FERS follows this model. CSRS is a defined benefit plan. Recently some have suggested shifting the FERS pension plan to a defined contribution model to better control costs to the Government.

Studies done by GAO and others rebut the allegation that non-Federal employers are switching to defined contribution plans. GAO has "seen nothing to indicate that significant changes have occurred in the design of non-Federal retirement programs" since the implementation of FERS. Other studies concur with this finding. Defined benefit plans continue to provide the base on which employees can build through a thrift savings or other capital accumulation program.

We believe that the Federal Government should continue to follow this model and retain a defined benefit pension as an integral part of FERS. It is important for employees and retirees to be able to rely on the calculation of a defined benefit to provide a significant portion of their retirement income. Such a plan encourages employees to maintain their employment and even to postpone their retirement to increase their retirement income according to a fixed formula. The Federal Thrift Savings Plan acts as a defined contribution capital accumulation system to supplement the defined benefit plan. We consider both to be important elements of a fair and equitable retirement system.

#### CONCLUDING REMARKS

The Federal retirement system must be viewed as part of a total compensation package for Federal employees. Ethical as well as practical questions must be considered.

How can we betray the contract between current Federal employees and their employer by inequitably altering the terms of the retirement system promised to them when they entered Federal employ? We ask that Congress uphold for the Federal Government as employer the same standards to which the Government holds private sector employers under the Employee Review Income Security Act (ERISA) of 1974, which protects workers from their employers renegeing on promised income security in retirement.

What is the Federal Government offering its workforce in order to attract and retain qualified personnel who can respond to the challenges of providing efficient, effective service to the American people? The Federal Government is not a model employer. Cuts in Federal pay and benefits since 1981 total \$170 billion. Deficit concerns are slowing the statutory requirement for closure of the pay comparability gap from the 28 percent it lagged behind private sector salaries. In fact, proposed pay increases over the next few years are so low that the gap may be widened rather than narrowed during that time. In addition, Federal employees are subject to political and employment restrictions and prohibitions which do not apply in the private sector.

The hope remains, nevertheless, that by offering a balanced compensation package which includes a sound retirement plan, we can still recruit and keep the talent and skills necessary to maintain vital public services. Diminishment of retirement benefits could seriously erode that ability and jeopardize maintenance of levels of service acceptable to the taxpaying public.

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#### PREPARED STATEMENT OF CAROL A. BONOSARO

The Senior Executives Association (SEA) is most appreciative of the opportunity to present our views on the various proposals to modify the Federal retirement systems, CSRS and FERS. In the mid-80's, Chairman Stevens devoted months of effort to design the Federal Employees Retirement System (FERS) and secure passage of the legislation. SEA believed then that FERS was an intelligent, fair and fiscally sound system, and we continue to believe it is. As the Subcommittee considers which, if any, changes ought to be made to FERS or CSRS, Federal employees couldn't be in better hands than those of Chairman Stevens.

Before proceeding to several specific proposals to change the retirement systems, SEA believes it is important to consider the context of such changes.

### *FERS and CSRS as Part of a Compensation Package for Federal Employees*

FERS and the Civil Service Retirement System (CSRS) constitute the retirement portion of the benefits which, together with pay, comprise the compensation package offered those employed by the U.S. Government. Inevitably, over the years, both the pay and benefits of Federal employees have been the targets of budget deficit reduction plans. Inevitably, too, each has been considered separately instead of as a total compensation plan in relation to the human resources policy of the U.S. Government as an employer.

Few, if any, corporations would approach making decisions regarding individual aspects of their compensation plans outside of the larger context of the plan as a whole. Simply put, we must consider what the Federal Government is offering its work force in order to attract and retain qualified personnel who can respond to the challenges of providing efficient, effective service to the American people in a downsized environment.

Although some measures have been taken to close the gap, a substantial differential continues to exist between Federal and private sector pay. This pay differential has been shown, consistently, to increase as one progresses up the civil service ladder and to be widest at the senior levels. For example, prior to the 1991 Executive, Judicial, and Legislative pay raises, salaries for SES executives lagged 40 percent behind the salaries of their private sector counterparts, while the salaries of rank and file workers lagged only 26 percent behind.

In acknowledgment of the salary differential and of the desirability of a stable workforce, an attractive retirement system was established in the earlier part of this century so that Federal service would present an attractive career choice. The retirement system, however, came with a price—the so-called “golden handcuffs”. Applicants accepting positions with the Federal Government clearly understood that the terms and conditions of their employment included this attractive retirement system. To alter the terms of that retirement system for those currently in the work force is to betray the contract between Federal employees and their employer.

### *FERS and CSRS Do Not Present the Prospect of a Rapidly Increasing Share of the Federal Budget*

As the Federal Government Service Task Force pointed out in 1994, “the demographic phenomena affecting Social Security and Medicare, the two largest entitlement programs, will not affect the size of, or the costs of, the Federal civil service retirement systems. . . . The number of individuals potentially eligible for benefits from the civil service retirement systems is a direct function of the size of the Federal civilian workforce. . . .” And, insofar as the Executive Branch is currently downsizing, with a target reduction of 272,900 positions, “there is no demographic bulge looming on the horizon for these programs either now or in the future.”

As the Task Force pointed out, the “Congressional Budget Office projects that growth in the civil service and military retirement programs will barely exceed inflation . . .” Further, both the Congressional Research Service and the General Accounting Office have discounted the notion that there is any meaningful unfunded liability associated with CSRS.

Whatever problems the Federal retirement system presented were “fixed” by FERS in 1986. This new system, covering all employees first hired on or after January 1, 1984, was the subject of intensive study and hearings by the U.S. Congress and (as the Task Force noted) was designed to replicate “typical retirement plans maintained by medium and large employers in the private sector . . . (Therefore,) the long-term cost of Federal civilian retirement in the next century will be attributable to the new, redesigned FERS.”

### *The Federal Retirement System Is In Line With Private Sector Practices*

Although SEA believes sound reasons exist for exempting the Federal retirement system from any budget-saving proposals, we recognize that the general public (and, indeed, Members of Congress) may view the Federal retirement system as a generous one compared to the private sector. The distinctions between private sector practices and FERS are far fewer than is generally believed.

In several respects, features of the Federal retirement system are comparable to those in private industry. For example, FERS provides for retirement at age 55 (for those born before 1948) with 30 years of service (age eligibility gradually rises to 57 for those born in 1970 and after). In contrast, a Wyatt Company “Survey of Retiree Benefits Provided by Plans Covering Salaried Employees of 50 Large U.S. Companies as of January 1, 1994” reported that:

- 48 of 50 companies provided for retirement at 55/30.
- The average benefit calculations as a percentage of final pay at 55/30 among the top 50 companies is 30.5 percent (contrasted with 30 percent of high-3 years

average pay for FERS). (The range extends as high as 50 percent in the case of The Merck Company.)

- 39 of the 48 plans replace at least 25 percent of final year's pay.

With respect to provisions for periodic adjustment, Wyatt reported that, while PI pensions are not "indexed," many are "adjusted" every several years, often by year of retirement.

- 35 of the 50 companies surveyed increased benefits to retirees in the last 10 years;
- 9 companies gave at least 3 benefit increases during the same period;
- 19 companies had given an increase in the last 3 years;
- While all companies may not provide regular increases, when increases are provided, the percentage increase is often sizable, e.g., Amoco provided a 30 percent maximum increase in 1989.

This contrasts with Cost of Living Adjustments provided by FERS equal to the annual percentage change in the CPI minus one percent, provided, of course, that the formula is not altered by Congress in any given year. Additional private sector data were provided by a 1994 Hay/Huggins Benefits Report. A survey of 700 firms yielded the following results:

- Almost 50 percent had provided a pension adjustment in the last 10 years.
- Private sector employers provide increases ranging from one fourth to one third of inflation. (FERS provides protection against approximately three-fourths of inflation, but the average is closer to one half when one considers the fact that COLA's are not payable to retirees until age 62.)
- The average annual increase is 3 percent.

With respect to employee contributions, FERS pales in comparison with the private sector. The Wyatt Company survey reported that only seven of the 50 corporate pension plans required any employee contributions, ranging from 1.5 percent to 3 percent, for participation in all or a portion of the plan's benefits. Forty three of the corporations required no employee contributions. In contrast, FERS participants contribute 7.65 percent of earnings for Social Security, plus the difference between 7 percent of basic pay and the OASDI tax, which was .8 percent in 1983, for a total of 8.45 percent (Social Security contributions are made, of course, with after-tax dollars, whether a private or public sector employee).

Equally important, Federal employees enrolled in CSRS are limited in their Social Security benefits by application of the Social Security "windfall" and "offset" provisions. The "windfall" provision replaces the 90 percent factor applied to a worker's average earnings with a factor of 40 percent for workers who also receive a pension based on covered employment. To some extent, the "windfall" provision will also affect FERS retirees, depending upon their years of coverage under CSRS. Likewise the Government pension "offset" reduces the Social Security benefit received by a spouse or surviving spouse if that person is also entitled to a Government pension based on his/her own earnings not covered by Social Security (including CSRS).

Finally, as the Federal Government Service Task Force has noted, "civil service and military annuities are fully taxable as ordinary income; social security retirees, however, enjoy preferential tax treatment on their benefits, and, as a result, 76 percent of social security beneficiaries pay no income taxes on their Federal social security benefits."

Thus, the Federal retirement system, if it was overly generous, has been well moderated.

### *The Total Federal Compensation Package*

Since the retirement system must still be viewed as part of a total compensation package for Federal employees, SEA contracted with the Hay Group in 1993, and again in 1994, to conduct a study comparing compensation of SES positions with that of comparable positions in private industry. A sample of SES positions (benchmarks) were selected (across a range of agencies, SES pay rates, and functions) from Hay's data bases of SES evaluated positions. Hay's job content evaluation points served as the basis for making compensation comparisons to the marketplace for 1992 and 1994. That is, using Hay job content points as a common denominator, SES positions were compared to positions which Hay had evaluated in a wide variety of industrial organizations and service industries, as well as in some nonprofit organizations and local governments.

The study revealed that SES total cash compensation (including bonuses) ranged from 47 percent to 74 percent of that of average industry total cash compensation for jobs of the same difficulty. Thus, SES total cash compensation for these positions

in 1994 would have had to be increased by from 35 percent to 114 percent to attain comparability with private industry.

Federal employee benefits, however, ranged from 8 percent to 11 percent higher than the Hay Huggins Benefit Report for private industry at three comparable salary levels, although it is important to note that the report excluded long-term compensation, including stock options. Federal benefits were superior in the Pension Plan, Holiday and Vacation and Capital Accumulation categories. Private sector benefits were superior in the Executive Perk category and the Health Care category.

Nonetheless, when total remuneration was compared (the sum of total annual cash compensation plus benefits value), the fact that Federal benefits were somewhat more valuable than private sector benefits had a relatively minor impact on the disparities seen in the cash compensation comparisons. For the career members of the Senior Executive Service to attain parity with their private sector counterparts (whose total remuneration ranged from 114 percent to 193 percent of the SES), SES total remuneration would have had to increase by from 20 percent to 60 percent.

In its 1988 report to the Office of Personnel Management, *Civil Service 2000*, the Hudson Institute observed that "As (Federal employees covered by the CSRS system) retire, their replacements will be covered under the highly portable FERS and Social Security systems. As a result, Federal employees are likely to be much more willing to leave the Government in response to better opportunities elsewhere or dissatisfaction with their situations. If Federal pay, benefits and working conditions are perceived to be inferior to those available from private employers, Federal employers may be faced with higher levels of turnover at senior levels, and the challenge of recruiting and keeping senior professional and technical people will grow."

#### *Changes to the Federal Employees Retirement Systems*

Over the past 8 years, Congress has not only enacted the Federal Employees Retirement System, but has also taken the following steps with regard to retirement benefits:

- Ended the 3 year recovery rule, which permitted Federal annuitants to receive their annuities tax free until they reached the level of their contributions to the CSRS (the rule recognized that employee contributions to the CSRS were made with after-tax dollars).
- Withheld payment of a COLA due both civil service and military retirees in 1986.
- Delayed implementation of civilian COLA's from January to April for 1994, 1995, and 1996, thereby effectively reducing the value of this annual adjustment by 25 percent each year.
- Suspended the lump sum pension benefit for both CSRS and FERS employees whose annuities begin on or after October 1, 1994 (only those with life threatening medical conditions, and who are eligible for nondisability annuities, may elect the lump sum).

Considering these changes, it is understandable that Federal employees can hold the view that they have already "given at the office."

#### *Proposals for Further Changes to the Federal Employees Retirement Systems*

Although we respectfully disagree, SEA recognizes that the Congress is clearly inclined to include the Federal employee retirement system among its deficit cutting measures. The likelihood of the Subcommittee recommending changes to the retirement system is, therefore, strong. SEA urges you to consider limiting changes, with regard to any aspect of the retirement system, to new hires. By limiting changes to new hires, the rules of the game will not be changed for those already on the field. In contrast, new applicants will be aware of the retirement system offered by the Federal Government as part of a total compensation package and can make their decisions on that basis. That is the only fair and equitable course to take.

SEA has considered the various proposals which have been put forth, including increasing the age of eligibility for optional retirement. On its face, such a proposal is contradictory to efforts to downsize and streamline the workforce, efforts which are often accompanied by "buy out" offers. The Federal Government must decide—do we wish employees to stay, by raising the retirement age, or to leave, by leaving current rules intact and encouraging retirements with buy outs?

The various features of Federal retirement are not out of line with private sector practices, as discussed above. Nonetheless, SEA recognizes that the COLA feature, while not at all uncommon in private industry, is perhaps a prime target for attack. One particularly egregious proposal is to "means test COLA's, by applying a full



COLA, for example, to the first "x" thousand dollars of a retiree's annuity, and a reduced COLA to the remainder or to the next "x" thousand dollars of the annuity.

SEA cannot stress too strongly how completely unacceptable such a proposal is, both to Federal career executives and managers and to Federal human resources policy. "Means testing" of COLA's, simply put, penalizes success. "Means testing" penalizes Federal retirees for their length of service, for the level of responsibility they attained in the civil service, and for the achievements they accomplished. "Means testing" goes totally against the grain of the American dream—to work, to aspire, to accomplish, and to be rewarded for one's contributions. If there is one proposal which would be more demoralizing to the career executive and managerial corps, we cannot conceive of it.

If the Federal Government is to encourage talented, experienced employees to aspire to leadership positions, and to accept the risk attendant to such positions, we cannot diminish their retirement benefits on the basis of the positions they attain and their years of service.

Two proposals, however, are currently under consideration in the conference Committee on the budget resolution and must, of necessity, be viewed as the most likely to take effect. They are (1) to change the formula for calculation of annuities from a "high-3" year salary average to a "high-5", and (2) to increase the contribution rate to both CSRS and FERS by 2.5 percent of salary.

SEA is unequivocally and vehemently opposed to the 35.7 percent increase in the contribution rate because it is unwarranted and constitutes a back door approach to a pay reduction. Although the increased contribution would be offset for GS employees as a result of the proposed January 1996 pay raise, the increased contribution would clearly constitute a pay cut for members of the SES and other career executives (Senior Level, Senior Professional and Technical, and Board of Contract Appeals Judges).

In January of this year, the Administration denied to career executives the 2 percent national comparability increase provided to the General Schedule employees they supervise. Thus, the gap again began to narrow between GS-15 and ES-1. Further, although the Administration has proposed and budgeted funds for a 2.4 percent unspecified pay increase for GS employees in 1996, again it has budgeted no funds for applying this increase to career executives. Moreover, the Senate has proposed that a 7 year freeze on congressional, Executive Schedule and judicial pay include the SES. The cumulative effect of (1) freezing SES pay, (2) increasing the contribution to the retirement system by 2.5 percent of salary, (3) effectively increasing FEHBP premiums by altering the formula for the Government's contribution, and (4) charging employees a commercial rate for parking in government owned lots, will be a substantial cut in compensation for career executives. It is difficult to imagine a more draconian set of circumstances, one which is designed to drive out talented, experienced members of the executive corps and to deter promising candidates from considering entry to the SES.

With regard to the proposal to alter the formula from the current "high-3" to a "high-5", SEA opposes this change for Federal employees over the age of 40. Since employees are eligible for discontinued service retirement as early as age 50 (and some law enforcement positions have early mandatory retirement provisions), altering the formula for those 40 and older, who have already conducted their retirement planning on the basis of the systems in place, will provide them insufficient time and opportunity to alter their planning appropriately. This is an especially important consideration in the current environment where RIF's may yet be required to meet downsizing goals.

Further, while the change to a "high-5" might speed the departure of those currently eligible for optional retirement, such numbers might be more than offset by encouraging those close to eligibility, but not yet eligible, to remain 2 years beyond their expected retirement date, thus diminishing the attrition which might normally be expected, and further increasing the likelihood of RIF's.

It is worth considering the impact of learning, at age 59, that the financial and other plans you have made to retire at age 60 will be altered arbitrarily because the annuity you understood you were entitled to yesterday will be reduced today by several thousand dollars annually. No investment can provide that dramatic increase in yield overnight, so your only choice is to remain employed for another year, albeit with severely diminished morale. This is neither intelligent nor just human resources management.

In contrast, limiting this change to those employees 40 and under will permit sufficient time for them to alter their retirement planning, and will encourage the normal pattern of retirements, as well as provide fairness in the case of involuntary separation and for those close to retirement eligibility.

Most important, if any changes are made to either contribution rates or benefits of either CSRS or FERS, the Congress must permit an "open season" during which employees currently enrolled in CSRS could consider the features of both systems and determine whether they wish to change their enrollment to FERS.

In 1986, when Federal employees were given the option to change their enrollment from CSRS to the new FERS, their understanding was that the features would remain static. They made their decisions on that basis. If the features are to change, employees must be permitted to reexamine those decisions and make changes if they wish.

Finally, one last proposal which the Subcommittee might wish to consider is loosening the restrictions on investment of the Civil Service Retirement and Disability Fund. Current restrictions prohibit the Office of Personnel Management from using short term bonds and require OPM to rely on 15 year bonds at fixed rates. These restrictions result in investments yielding, for example, 3 percent at times when interest rates have risen to 12 percent. Compare the results of these restrictions with the total returns achieved by the Pension Benefit Guaranty Corporation—11 percent in 1992, 27.7 percent in 1993, and a 5 year average of 15.2 percent. SEA urges the Subcommittee to consider permitting diversifying the portfolios under the "Prudent Man" rule in order to maximize return with safety.

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#### PREPARED STATEMENT OF HELENE A. BENSON

Mr. Chairman and Members of the Subcommittee, thank you for the opportunity to present our views on proposals to change the Federal retirement systems. Before I do, I want to especially express our appreciation to you, Senator Stevens, for being a good friend to Federal employees over the years.

I and most Federal employees are concerned and outraged over recent proposals to change various aspects of the Federal employee retirement plans.

I want to make one point before I go on to the others. And, that is that the benefits employees have *already* accrued simply cannot be tampered with, unless, to speak plainly, the Congress is willing to engage in outright stealing from Federal employees and, in addition, do to Federal employees what would be a violation of the Employee Retirement Income Security Act of 1974 (ERISA) in the private sector.

ERISA, which regulates private-sector employee retirement plans, prohibits lowering benefits that employees have already accrued (earned). Would you countenance expropriating employees' thrift savings accounts? Surely not. Lowering benefits employees have already accrued in a defined benefit pension plan (such as the Civil Service Retirement System (CSRS) and the annuity portion of the Federal Employees Retirement System (FERS)) is no different from taking away the amounts that have already been contributed to the Thrift Savings Plan accounts of employees.

Accordingly, if the formula, such as the "high-3" formula, for computing benefits is changed to "high-5", the "high-5" formula cannot apply to past years—it can apply only to future years of accrual. So, if the "high-3" formula is changed to "high-5", all of the years employees have already accrued must be based on "high-3"—only their future years of service for which they have not yet accrued benefits can be based on "high-5."

If Congress, in dealing with Federal employees' retirement, does not abide by these simple protections given under Federal law to private-sector employees, it is allowing itself to strip Federal employees of rights and protections that private-sector employees in this country have long been protected from suffering at the hands of their employers. Not respecting benefits already accrued by employees would be more than breaking the Government's contract with us—it would be robbing us of benefits we have already earned. Remember, Congress recently promised to abide by the rules it imposes on the private sector.

For the Government to renege on any of its retirement promises to current Federal employees (even with respect to those benefits employees have not yet accrued) is to break faith with Federal employees and break the Government's contract with us. Such an action is akin to defaulting on paying interest on Treasury bonds. Federal employees' retirement is deferred compensation—it's an earned contractual benefit and part of employees' compensation package; it's not welfare or charity or an income transfer program. The Federal retirement system is a cost the Federal Government has as employer of more than 2 million employees. Federal employees have kept their part of the bargain by working—the Government, as their employer, must keep its part of the bargain and pay the benefits it has promised to pay them in exchange for that work. We cannot take back our work and years of service and the Government should not take its promises back.

Many employees are close to retirement and made retirement plans based on their contract with the Government. If Congress reneges on its promises, even with respect to benefits employees have not yet accrued but expect to accrue in the future in accordance with the promises made to them, it will cause the maximum hardship to those near retirement. I hope that Congress will abide by its promises. It's the right thing to do.

Any changes to Federal retirement programs should apply only to future employees. However, we see no reason for changes, even for future employees. It wasn't so long ago that FERS was enacted after much study and deliberation to cover employees hired after 1983. Nothing has happened since then to suggest that there are any real problems with or valid complaints about the Federal retirement system. So, we see no sensible reason for major changes. And, we think that, if changes are made (unless they are improvements that increase benefits), the Government will be seen as a less desirable and even frivolous and unstable employer unable to recruit and retain a competent workforce.

As the General Accounting Office testified, the combination of a defined benefit and a defined contribution component is quite common in the private-sector. There are problems in offering only a defined contribution plan. In a defined contribution plan the employee bears all the risk. The employee cannot count on a specified retirement benefit. Employees can be disadvantaged based on when they retire in a defined contribution plan—if the economy is such that their account balance has gone down at the time of their retirement, their pensions will reflect that. Moreover, CSRS and the annuity portion of FERS include protections for survivors of employees who die and for employees who become disabled. A defined contribution plan would not satisfactorily take care of those situations especially if those situations occur early in an employees' career.

The purpose of ERISA, which applies to private-sector retirement plans, is to see that retirement promises to employees are kept. The purpose of ERISA's funding rules is not to protect companies and their stockholders—it is to ensure that benefits will be there for employees even if the employer goes out of business and to ensure that the employer keeps its hands off money belonging to employees for their retirement. There is even insurance through the Pension Benefit Guaranty Corporation (PBGC). And, if the pension plan is in danger of not having the funds to pay the promised benefits, the employer is liable for up to a substantial portion of its assets.

The following should also be kept in mind:

1. Very few private-sector retirement plans require employee contributions whereas the CSRS requires employees to contribute 7 percent of their pay.
2. Some private-sector retirement plans and the majority of State government plans use a "high-3 year average" formula to compute benefits.
3. Many private-sector retirement plans and close to half of State retirement plans allow retirement without benefit reductions at age 55 or earlier, generally with 30 years of service.
4. Changing the retirement system for incumbents will require most employees near retirement to delay their retirement in order to make up the money lost, and that creates a major problem for agencies mandated to downsize the workforce. After all, these employees cannot increase their savings for retirement retroactively.
5. In addition to Social Security Cost of Living Adjustments (COLA's), private-sector retirees from the larger companies generally receive increases in their private-sector annuities periodically. See the Wyatt Company survey of retiree benefits of 50 large U.S. companies as of January 1994. That private-sector retirement system that should not be emulated by the Federal Government in its retirement system.
6. COLA's do not increase annuities. They simply keep their purchasing power from being eroded by inflation. COLA's simply keep Federal retirees from becoming poorer as they age. Without COLA protection the Federal Government pays retirees in cheaper dollars and thus pays, lower pensions to retirees.
7. Civil service annuities are fully taxable as ordinary income, unlike Social Security benefits.
8. While private-sector retirement plans supplement Social Security, Federal employees under CSRS are forced to forego the Social Security benefits (or the benefits are limited) to which they would otherwise be entitled because of the windfall elimination and public pension offset provisions enacted a few years ago.
9. As you know, the so-called "unfunded liability" issue is a red herring. We all know that. If there is anyone who did not, the Congressional Research Service testimony of May 22 and its earlier memorandum of March 18, 1995, on whether there is a financing or funding problem, should have settled that issue, once and for all. As we all know, the "unfunded liability" is purely a bookkeeping artifice that rep-

resents the present value of the entire cost of retirement benefits for all current employees and retirees less the assets of the Civil Service Retirement and Disability Fund and the present value of future contributions to the fund. It is merely an accounting concept that indicates how much it would take to pay simultaneously the annuities for current and future retirees, minus the assets of the fund. The Civil Service Retirement and Disability Fund contained a surplus of almost \$320 billion in 1993, according to the Office of Personnel Management's (OPM) Annual Report on the Fund (1994). The fund has nine times the reserves necessary to provide annuities as they become due, according to the OPM report.

10. Even if the so-called "unfunded liability" were a valid issue, it is the employer's (in this case the Government's) responsibility to see that it contributed sufficient funds to pay for its retirement obligations. In the private sector, if a pension plan is in danger of not having the funds to pay the promised benefits, the employer is liable for up to a substantial portion of its assets. Remember, 95 percent of private sector employees make no contributions to their retirement plan.

11. Federal retirement benefits are not overly generous. They are not out of line with plans in the private sector and with plans in State and local government, as the General Accounting Office has testified. Some of those plans are better than the Federal plans. No proposals to require Federal employees to work longer, pay more, or receive less should be considered. None of the proposed changes to the retirement systems covering Federal employees are really about making valid needed reforms or proper funding or equity. It is unconscionable to take promised benefits from employees to balance the budget or give tax relief or pay for other programs.

12. Federal employees, as Federal employees, have done more than their share in the past few years for deficit reduction, as well as taking hits as citizens. That has not been fair. Suggesting that Federal employees, as such, bear additional burdens ignores the fact that cuts in Federal employee pay and benefits since 1981 have totaled approximately \$170 billion. This continual beating up on Federal employees is distasteful. It would be inappropriate for the Government to engender disrespect from its own employees, but that is what will happen if the Government cavalierly breaks its retirement promises to incumbents, as has been proposed.

Again, thank you for the opportunity to present our views. I will be happy to answer any questions, and to work with you and your staff.

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#### PREPARED STATEMENT OF CHARLES R. JACKSON

Mr. Chairman, I am Charles R. Jackson, President of the National Association of Retired Federal Employees (NARFE). I appreciate the opportunity to appear before you today on behalf of NARFE's one-half million members to comment on proposals to modify the Federal retirement system.

Since January, the most relevant proposals regarding Federal retirement have been made in the context of H.R. 1215, the House-approved tax bill, and the Congressional Budget Resolution. Events leading up to the approval of this legislation in the House and Senate have made us very concerned about the future of Federal retirement. For changes so drastic, the deliberative process was short-lived. As a result, modifications to the Federal retirement system included in the House Tax bill and the Budget Resolution appear to be driven solely to achieve deficit reduction and to finance a middle-class tax cut at the expense of the purpose and promises of the program. We hope that your hearings, Mr. Chairman, will reverse this trend.

Regarding deficit reduction, I want to make it clear that NARFE members share the concern of millions of other Americans with the enormous Federal debt which stunts economic growth today and could presage a financial crisis for future generations. We believe Congress' determination to reduce this burden is not only commendable, but essential. We recognize that in attempts to reduce Federal spending our retirement programs will be subject to review. However, those who want to reduce Federal retirement benefits often ignore the fact that these programs have already been singled out for enormous cuts in years past. Indeed, over the past 10 years, reductions, delays and cancellations of civil service Cost of Living Adjustments (COLA's) alone have reduced earned benefits, and cut spending by \$40 billion. And those savings swell when reductions in pay and other compensation changes are calculated into cost savings to the retirement system. In sum, anyone who believes there are major cost-savings to be found in these programs—without breaking the contract current and former workers have with America—are simply wrong. Long-standing commitments must be kept, time-tested reforms should be sustained, individuals must be allowed to plan for their retirement, and the recruitment and retention of talented employees must remain a priority.

The FY 1996 Budget Resolution adopted last month honored the Government's commitment to Federal retirees because it did not diminish the inflation protection we depend on for our economic security. For this, we are grateful. Nevertheless, Federal retirees are understandably fearful that we will be singled out for COLA reductions in the Budget Reconciliation process.

To allay this fear, we ask Members of Congress to treat us in a "fair and equitable" manner. By fair and equitable, we mean that Federal retirement COLA's must receive the same budgetary treatment as Social Security COLA's. Indeed, we do not believe that older Americans, who chose careers in public service, should be denied the inflation protection that other older Americans receive from Social Security.

Congress itself initiated the principle of COLA equity between Federal retirement and Social Security in 1984 by delaying the scheduled Federal COLA for 7 months and changing the formula for computing the adjustment. At the time Congress asserted that inflation adjustments in all federally administered retirement programs should be computed on the same basis and paid at the same time. This change resulted in Federal retirees being denied 2.6 percent of measured inflation protection, reducing earned retirement benefits (and saving) \$15 billion over the past 10 years. We were assured, however, that the principle of COLA equity would be worth the one time sacrifice. Then, 1 year later, in December 1985, Congress adopted the Gramm-Rudman-Hollings Deficit Reduction Act, with a mandatory sequestration provision that canceled our 1985 COLA completely, even after its effective date. But the Social Security COLA was not affected. Today, that 1985 COLA cancellation has accrued almost \$5 billion in deferred compensation forgone. Then, in 1986, Congress reinstated the principle of COLA equity and adopted the Gorton Amendment to grant Federal COLA's the same sequestration protection as Social Security.

COLA equity remained until the 1993 Omnibus Budget Reconciliation Act broke the equity link by delaying our COLA payment for 3 months. During the past 2 years, Social Security recipients have received 3 monthly benefit checks reflecting the previous year's rate of inflation before Federal retirees and survivors received that adjustment.

Mr. Chairman, we know that when the Congress looks for short term savings from the Federal retirement systems, our promised COLA dollars are the most tempting target. I would urge this Committee to remember that those same COLA dollars are the most important aspect of economic security and resulting peace of mind of today's annuitants. According to the Wyatt Company, "With 4 percent per year inflation and no increases in benefits, pension benefits replacing 20 percent of pre-retirement income lose one-third of their value to inflation after 10 years; the real value of the pension benefit after 10 years is 13 percent of pre-retirement income. In real terms, COLA's were not intended to—and do not—increase annuities. They simply serve to keep earned retirement dollars from being eroded by inflation. Any and all proposals to cancel, delay, defer or reduce COLA's seriously undermine the economic security today's retirees thought they were contributing to during their working years.

Among the COLA reduction options presently circulating, NARFE is most concerned about so-called "means testing" proposals. Means testing our COLA by capping the amount of income protected from inflation at some arbitrary figure totally ignores the intent and eligibility criteria of the Federal retirement systems. The criteria one must meet to become eligible for an annuity are: years of service, achievement or salary level attained during that service, payment of legally mandated contributions during the working years, and age. Means or income-testing is not part of the eligibility criteria. Means or salary level was never a limiting factor in the contribution to the retirement fund, nor in the benefit computation formula. Therefore, why should it become a criterion for limiting COLA's?

Means testing the Federal COLA also penalizes annuitants who were successful in their careers. In addition, means testing the COLA denies inflation protection to those retirees who spent most or all of their careers working for the Federal Government. Long term government service is rewarded in retirement because annuities are also based on length of service. In short, means testing destroys the career incentive. Since means testing Federal COLA's would reduce or eliminate present length of service and job performance incentives, the program would be perceived as an income-based entitlement instead of work-related deferred compensation.

Some might justify means-testing Federal COLA's by explaining that Social Security benefits undergo the means test of taxation. They would say that couples with income over \$44,000 or singles over \$34,000 face means testing because they are required to pay income taxes on 85 percent of their Social Security benefit. But this example ignores the fact that Federal retirement benefits are fully taxable income and always have been.

Some have also suggested basing the Civil Service Retirement System (CSRS) COLA on less than the Consumer Price Index (CPI) and deferring any COLA until the annuitant reaches age 62. They rationalize that this would equate inflation protection of the CSRS to that provided under the reformed Federal Employees Retirement System (FERS). It must be remembered and understood that the promise of a non-reduced CSRS COLA from the time of retirement was a major factor for many workers in 1987 when they had to make an irrevocable decision as to whether to stay in the old system or transfer to FERS. The suggested COLA cuts in earned CSRS benefits would renege on a key factor of that decision now that the affected employees or retirees are powerless to reconsider their options and change plans.

Mr. Chairman, I recognize that some believe that NARFE and other organizations in the Federal community do nothing but object to any and every suggested change to our retirement program. That is not true. Almost a decade ago, when Congress became committed to universal Social Security coverage, NARFE and other groups worked long and hard with the Congress—and with you in particular—to develop a new Federal retirement program. The new program incorporated Social Security coverage and was based on the concepts of private-sector retirement plans. As you know, we fully cooperated in designing a retirement system for future Federal workers that would address the Government's desire to be both competitive and cost efficient. The crowning achievement of that combined effort was the enactment of your legislation to create the Federal Employees Retirement System (FERS).

FERS has been tested and it has met the goals it was designed to achieve. Moreover, the multitiered approach of a small defined benefit, the Thrift Savings Plan (TSP), and Social Security continues to be the type of retirement plan most frequently used in the private-sector. "This design," notes the Wyatt Company, "puts retirement planning for Federal Government employees on the same footing with most private-sector employees. FERS gives Federal employees more flexibility and control in retirement planning through their capital accumulation plan than does CSRS."

We believe this reformed Federal retirement plan should be left intact for those who have been hired since 1984 and those more senior employees who elected to shift to the new plan. NARFE questions whether the Government can afford to let quick budget savings drive long term retirement policy. We strongly believe this relatively new, fully-funded program should be given a sufficient chance to provide a secure retirement to its participants before it is drastically altered.

NARFE members are also concerned that current Federal employees are being asked to contribute more to a smaller retirement. H. Con. Res. 67, the House version of the Budget Resolution, requires CSRS and FERS employees to contribute an additional 2.5 percent to the Civil Service Retirement and Disability (CSRD) Trust Fund while both versions of the Budget Resolution reduce future annuities by raising the salary history formula from the highest 3 years to the highest 5 years. We believe that this proposal is plainly a tax increase on Federal workers, intended, at least in part, to finance a tax cut for other middle-income Americans.

If the goal of increased contributions to the CSRD Fund is to address the issue of the unfunded liability, then policy makers must recognize that there is no unfunded liability attributable to FERS. You and your colleagues saw fit to assure that FERS was fully-funded since its creation. Beyond this incongruity, increased contributions to FERS will compel Federal employees to make smaller voluntary contributions to the Thrift Savings Plan (TSP). This proposal is ironic because it requires greater compulsory contributions for the defined benefit portion of FERS, which would reduce wages available for employees to make voluntary contributions to TSP. Enhancing the accounting ledger of the FERS defined benefit—at the expense of TSP—makes no sense when some Members of Congress want Federal employees to become more responsible for their own retirement savings.

As I mentioned earlier, the unfunded liability in the Civil Service Retirement and Disability Trust Fund has been used to justify proposals to increase employee contribution and reduce future annuities. Mr. Chairman, the testimony you received 4 weeks ago from the nonpartisan Congressional Research Service (CRS) and the General Accounting Office (GAO) shows that there is an adequate balance in the trust fund to provide budget authority necessary to disburse benefits on an ongoing basis into the next century. In other words, there is no funding crisis in the Federal retirement program.

Moreover, the CSRD Trust Fund is not in danger of going broke in the next century when contributions to CSRS will eventually cease. That is because you and former Congressman William Ford anticipated a transition to the new system when you wrote the FERS legislation. Your legislation ensures that FERS and CSRS contributions are deposited in the same trust fund and that liabilities to FERS, created by CSRS, will be paid-off through a series of 30-year amortization payments.

And, unlike Social Security, the retirement of the baby boom generation will not affect Federal retirement programs. In fact, the Federal retiree population reflects the size of the Federal workforce, not the population as a whole.

Despite evidence provided by CRS and GAO, policy makers may still decide that the CSRD Trust Fund should be fully-funded. If that decision is made, we believe there is an alternative to raising employee contributions and reducing earned benefits. A proposal in the Clinton Administration's fiscal year 1996 Budget would begin charging Federal agencies the full cost of the employer's share of CSRS benefits for their employees. With current normal cost of CSRS retirement reported to be approximately 25 percent of payroll, we understand that the proposal would increase the employing agencies' contributions from 7 percent to 18 percent. When added to each affected employee's 7 percent salary contribution, full accruing costs would be met for CSRS covered employees as they have been for employees covered by FERS. An increase in the employing agencies' contribution would not increase the deficit since it is considered an intra-governmental transfer of funds.

Before closing, I want to address an issue that is outside the scope of this hearing, but is, nonetheless, relevant to our discussion about the impact of fiscal year 1996 budget on Federal employees and retirees. NARFE is disturbed by a proposal in S. Con. Res. 13 to limit the government/employer contribution for the Federal Employees Health Benefits Program (FEHBP) premiums to a fixed dollar amount per employee and retiree. The Congressional Budget Office (CBO) estimates that cost savings of \$9.7 billion would be achieved by this proposal since costs would be shifted to employees and retirees forcing them to bear the burden for health care costs above the rate of inflation, as measured by the CPI. This burden would be substantial. The CPI has averaged 3.3 percent over the past 5 years while FEHBP premiums have increased an average of 6.8 percent a year over the same 5-year period. It is wholly inequitable for the Federal Government to shift the risk of health care inflation onto employees and retirees particularly when little is being done to curb health care inflation at the Federal level.

Presently, the Federal Government and FEHBP enrollees share the cost of health care inflation; large private-sector employers bear essentially all of the cost. According to the CBO, the added cost to Federal employees and retirees would be about \$500 per enrollee in 2000 and more in later years.

In addition, inflation erosion in the government/employer contribution would limit the choices of FEHBP enrollees, forcing lower paid workers and retirees living on fixed income into the least comprehensive plans. The proposal would also strengthen existing incentives for FEHBP plans to seek out healthy people and for healthy people to select cheaper plans. Those patterns isolate sick people in selected plans that then experience increases in costs and financial instability.

When coupled with proposals to achieve cost savings in Medicare and Medicaid, the Senate's FEHBP proposal hits Federal retirees with a double whammy. For Federal retirees that are 65 and older and ineligible for Medicare, the 1993 Omnibus Budget Reconciliation Act requires FEHBP plans to use Medicare reimbursement rates for the medical expenses of these retirees. Fewer health care providers and facilities will serve such enrollees when reimbursement rates are lowered.

For Federal retirees eligible to enroll in both FEHBP and Medicare, the cost of reimbursement rate reductions and co-payment and deductible increases in Medicare will be shifted to FEHBP plans (FEHBP is the second payer for these retirees). This cost shifting, as a result, will force FEHBP plans to increase premiums for all nine million enrollees beyond the rate of inflation. Such increases will hasten the erosion of the government/employer contribution to FEHBP for all Federal employees, retirees, survivors and dependents.

Finally, we are distressed by recommendations to eliminate or downsize the Office of Personnel Management (OPM). OPM provides Federal retirees with essential services and information regarding their annuities and health benefits. The expertise and institutional memory of personnel at OPM's Retirement and Insurance Group, which makes these services possible, would be lost if this function is delegated to another agency. We believe that OPM's role as the administrative agency for Federal benefit programs is crucial and must be maintained.

As we review the Federal retirement programs for budget savings, we must consider both current and future employees. Today's workers are entitled to be able to plan for their retirement with some sense of trust that their employer will not renege on its side of the bargain. If earned retirement benefits and eligibility standards are to be changed, the affected individuals should be given ample notification of these changes. NARFE believes that any such changes should be prospective in nature and not break the contract the Government made as an employer when individuals committed their working years to Federal service. It is just as important, however, that the Government fully consider the effect of any changes today on to-

morrow's employees. For if today's goal is to make Government smaller and more efficient, then it must offer a competitive compensation and benefits package to assure that the best and the brightest are attracted to, and stay in, Federal service.

As you consider any changes to Federal retirement programs, we ask you to weigh the consequences. I have discussed the impact of these proposals on public policy and government. While these are critical areas of concern, I cannot sufficiently underscore the human impact any benefit cuts will have on those who served their country ably and honorably. And, I cannot think of a better way to illustrate how your decisions will affect the ordinary people that NARFE represents than by quoting a letter written by one of them, John F. Fleming, a retiree from the U.S. Department of Agriculture's Agricultural Research Service in Beltsville, Maryland:

"When I was young and I had life and talent to bargain with, I was offered a salary plus retirement with a Cost of Living Adjustment to work for the Government of the United States of America. Now that my life and talent have been used, it is not just to lower the promised benefits years into retirement when I certainly cannot take my life back."

Mr. Chairman, thank you again for this opportunity to present NARFE's views. I would be happy to answer any questions you and other Members of the Subcommittee might have.

#### PREPARED STATEMENT OF ROBERT T. MANSKER

Mr. Chairman, Members of the Committee:

My name is Robert Mansker, a staff member of the Joint Committee on Printing through appointment of Congressman Hoyer. I have been a Federal employee for 17 years within the Congress—having been employed in both the House and Senate during that time.

Mr. Chairman, I have always been a defender of the faith. I have believed in the integrity of the U.S. Congress and have verbally responded on many occasions when I have heard skeptics question whether or not Congress will keep its word to the millions of people on Social Security.

Many times, and I am sure you have heard this statement, I have heard—particularly from younger people—the statement, "I pay all that money into Social Security, and there won't be anything there when I get old enough to retire." Verbal assurances that Congress will keep its commitment to retiring generations is meeting with less and less belief.

That is said for background, Mr. Chairman.

Now comes Robert Mansker to Congress—where he signed a contract with the Federal Government to enter into a retirement program. I believed then that the Federal Government would keep its word. I want to continue to believe that now.

I believed it in 1987 when the Federal retirement system was changed, and I was given an option to choose a different program for retirement. At that time, Mr. Chairman, I was again assured that I could continue under the Civil Service Retirement System, with the benefit program intact.

That program, as we all know, has a fundamental calculation within it, an averaging of the participant's salary for the top 36 consecutive months of employment. Virtually everyone in the retirement program plans their future years on these calculations.

Now, in what is being viewed as no less than a sadistic move to cruelly abort all of that planning . . . to unilaterally change the terms of the contract at the very end of many employees' careers, the trust that we placed in our employers may be shown to have been misplaced. In my own case, when I retire, this simple formula change will directly cost me \$6,200 each and every year that I live after retirement.

Mr. Chairman. That's a direct cost of \$6,200 to this one Government employee. I could never have envisioned taking this kind of "punch" from the people who contracted with me when I came to work here.

That figure is equal to another personal income tax on me.

I was once told by a law professor that the Congress has the authority to go back in time and raise the tax rates on American's income for past years—retroactive tax increases. He said Congress could go back to 1990, for example, and legally attempt to collect more taxes from that year.

Of course, that would be ridiculous to attempt. Americans would revolt . . . literally revolt. And no one would ever seriously try to do such a thing. But that is exactly the same principle as the proposal you have before you today.

The difference is, Federal employees have no clout. We are easy targets. And, we can only hope that somewhere within the Congress there are men and women who



will revolt at the thought of retroactive taxation—particularly when it deals with the very sensitive issue of a person's retirement.

I testify today, Mr. Chairman, as an advocate for balancing the Federal budget. We missed many beautiful opportunities to do that during the past 15 years. None of the proposals before Congress, that I can recall, ever attempted to do it, however, on the basis of retroactivity.

The Gramm-Rudman programs were progressive. The Hollings total-freeze proposal was progressive. And none of them attempted to reduce retirement program benefits that had previously been earned.

That concept is simply unconscionable.

So, Mr. Chairman, what would I propose?

1. *Grandfathering.* Current employees should be grandfathered; the retroactive taking of any earned retirement benefits should not occur. And, new rules covering the rate of contribution or the calculation of averages should apply only to future years in the system.

2. *Federal Savings Contribution.* Some immediate savings could be accomplished by eliminating future savings contributions that were added to the program in 1987. Leave what is there, grandfather it, but simply discontinue the Federal contribution. That would be prospective and not retroactive.

3. *Maximum Damage Concept.* In the event that Congress proceeds with retroactive provisions, the damage to any individual's retirement program should be capped. I would suggest no more than a retroactive taking of \$1,000 be adopted. That is more than enough hurt to inflict on anyone's annual retirement receipts.

Six thousand two hundred dollars in my case, Mr. Chairman. In 10 years, with interest that is lost and COLA benefits, this could easily amount to \$100,000 of actual loss.

So, I appear before you today, in essence representing thousands of Federal employees, earnestly beseeching you to make your actions forward in character—progressive in nature rather than retroactive—and to take a major step in allowing me—and countless numbers of others who have lost faith in the Social Security program—to keep the faith in our representative democracy—our Congress.

There is far too much cynicism about the Federal retirement programs in America today. Please don't add to that cynicism by taking away benefits that have already been earned.

Thank you.

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Report on

CONGRESSIONAL PENSIONS

April, 1995

## TABLE OF CONTENTS

## Section I: Comparison of Benefit Provisions

Provides a side by side comparison of executive and legislative branch benefit provisions for the Civil Service Retirement System (CSRS) and Federal Employees Retirement System (FERS). Charts include individual categories for Executive Branch employees, Congressional staff and Members of Congress.

## Section II: CSRS and FERS Costs

Discussion and comparison of normal costs for the various categories of employees covered by the CSRS and FERS retirement plans. General discussion of the reason for changes in normal costs that have occurred over the last ten years (1986-1995).

## Section III: Statistical Information

Part one provides responses to the specific questions raised by the Senate Committee on Governmental Affairs. Part two provides detailed statistics pertaining to retired Members of Congress, Congressional staff and all other retirees currently receiving benefit payments from the CSRS and FERS plans.

## Section IV: Background

Included as background is a CRS Report for Congress issued on November 30, 1994 entitled "Retirement for Members of Congress."

## Comparison of Benefit Provisions

Benefits under the Civil Service Retirement System (CSRS) and Federal Employees Retirement System (FERS) for Members, Congressional staff and their survivors are generally higher than those available to most Executive branch employees. The statutory provisions differ, both as to eligibility requirements and benefit computations. Compared to the percentage paid by most employees, Members make retirement contributions from their salary at a rate 1% higher under CSRS, and 1/2% higher under FERS; Congressional staff at a rate 1/2% higher under both CSRS and FERS.

- Since 1984, all Members have been mandatorily covered by Social Security, regardless of how long they have served. Mandatory Social Security coverage similarly applies to "senior officials" in the Executive Branch, such as Executive Schedule employees and noncareer members of the Senior Executive Service. Most other employees on board before 1984 are covered by CSRS and are not covered by Social Security unless the employee has had a 1-year break in service.
  
- Members of Congress (like "senior officials") who were on-board when mandatory Social Security coverage took effect on January 1, 1984, were allowed to elect:
  - Social Security coverage only;
  - Social Security coverage with full CSRS deductions (and no setoff of Social Security benefits from the CSRS benefit); or
  - Social Security coverage with CSRS coverage at a reduced deduction rate so that the combination equals the CSRS-only rate (with a setoff of Social Security benefits from the CSRS benefit). This coverage is known as "CSRS Offset."
  
- Further elections were provided after FERS took effect in 1987, and the result is that longer-service Members (like "senior officials") may now have one of the three types of coverage listed above, or FERS by election. Individuals who became Members or employees after 1983 have FERS (including Social Security and matching contributions to a Thrift Savings Plan). Members, unlike employees generally, may elect to remain outside FERS. The election is irrevocable.

### Comparison of Benefit Provisions

The attached charts show how the basic provisions for Executive Branch employees generally compare to the provisions for Members and their staffs. Most of the basic provisions are applicable to both Members and employees alike, particularly in FERS.

- The most critical difference involves the percentage of average salary that Members and their staffs earn for each year of work. Also, Members are eligible to retire voluntarily at age 50 with 20 years of service, while employees generally must be involuntarily separated to receive this benefit (Members' staffs are generally considered to be involuntarily separated, for retirement purposes, upon resignation).
- With respect to the earlier eligibility, Members and their staffs are more akin to Presidential appointees in the Executive Branch who qualify under the involuntary separation provisions because their separations are considered to be involuntary, for retirement eligibility purposes, whenever tendered. Presidential appointees, however, do not earn a higher percentage of salary as a retirement benefit than regular employees.

## CSRS Benefits for the Executive and Legislative Branches

### Comparison Table

Item	Executive Branch*	Congressional Staff	Members of Congress
1. Coverage and cost	<p>Most employees hired before 1984 have been continuously covered by CSRS and excluded from Social Security (OASDI) coverage. Employees contribute of 7% of basic pay.</p> <p>CSRS Offset applies to most employees who had 5 years of service as of 1987 but also had a 1-year break in service ending after 1983. For these employees the CSRS 7% contribution is offset by OASDI tax of 6.2%.</p>	<p>Most employees hired before 1984 who have been continuously covered by CSRS are excluded from Social Security (OASDI) coverage. Employees are covered by CSRS only if they elect to participate. Employees contribute 7-1/2% of basic pay. (For CSRS Offset employees, the 7-1/2% contribution is offset by the OASDI tax of 6.2%.)</p>	<p>Since 1984, Social Security (OASDI) has been mandatory. Members in CSRS by election in December, 1983 could elect to have, in combination with Social Security, either full CSRS (8% withholding), CSRS Offset (combined CSRS and OASDI tax equal to 8%), or no CSRS (Social Security only). OASDI tax is currently 6.2% of wage base. CSRS Offset Members contribute 1.8% of pay up to Social Security wage base and 8% thereafter.</p>

\* Does not apply to special categories, such as law enforcement officers or firefighters.

Item	Executive Branch	Congressional Staff	Members of Congress
2. When benefits can be received. <ul style="list-style-type: none"> <li>a. Voluntary retirement benefits</li> </ul>	Available at the following age and service combinations: <ul style="list-style-type: none"> <li>• Age 55 with at least 30 years of service.</li> <li>• Age 60 with at least 20 years of service.</li> <li>• Age 62 with at least 5 years of service.</li> </ul>	Same as Executive Branch.	Available at the following age and service combinations: <ul style="list-style-type: none"> <li>• Age 55 with at least 30 years of service.</li> <li>• Age 60 with at least 10 years of service as a Member.</li> <li>• Age 62 with at least 5 years of service.</li> <li>• Age 50 with at least 20 years of service, or service in 9 Congresses, unless separated by expulsion or resignation.</li> <li>• Any age with at least 25 years of service, unless separated by expulsion or resignation.</li> </ul>
b. Early voluntary retirement benefits	If the employing agency is undergoing a major reorganization, reduction-in-force, or transfer of function as determined by the OPM, retirement is available at the following age and service combinations: <ul style="list-style-type: none"> <li>• Age 50 with at least 20 years of service.</li> <li>• Any age with at least 25 years of service.</li> </ul>	Not available to the Legislative Branch.	

Item	Executive Branch	Congressional Staff	Members of Congress
c. Involuntary early retirement	Available at the following age and service combinations provided separation is not for cause or misconduct: <ul style="list-style-type: none"> <li>• Age 50 with at least 20 years of service.</li> <li>• Any age with at least 25 years of service.</li> </ul>	Same as Executive Branch.	Not applicable to Members.
d. Disability retirement	In order to be eligible for disability benefits, an employee must have at least 5 years of civilian service and have been contributing to the CSRS at the time he/she became disabled.	Same as for the Executive Branch.	



Item	Executive Branch	Congressional Staff	Members of Congress
<p>e. Deferred retirement</p>	<p>Available at age 62 to former employees with at least 5 years of civilian service who did not withdraw their retirement contributions after separation from service.</p>	<p>Same as for the Executive Branch.</p>	<p>Available at the following age and service combinations for Members who did not withdraw their retirement contributions after separation from service:</p> <ul style="list-style-type: none"> <li>• Age 50 with at least 20 years of service, including 10 years of Member service.</li> <li>• Age 60 with at least 10 years of Member service.</li> <li>• Age 62 with at least 5 years of civilian service.</li> </ul>
<p>3. Basic annuity formula</p> <p>a. Salary base</p>	<p>Average of highest three consecutive years of salary.</p>	<p>Same as for the Executive Branch.</p>	

## Members of Congress

## Congressional Staff

## Executive Branch

## Item

b. Benefit calculation formula (For CSRS Offset employees, the benefit is reduced at age 62 by the amount of their Social Security entitlement attributable to CSRS Offset service.)

General formula equal to:

(1)  $11\% \times \text{High-3} \times \text{High-3} \times \text{High-3} \times \text{High-3}$  (first 5 years service) +

(2)  $11\% \times \text{High-3} \times \text{High-3} \times \text{High-3} \times \text{High-3}$  (second 5 years service) +

(3)  $2\% \times \text{High-3} \times \text{High-3} \times \text{High-3}$  (all service over 10 years).

EXAMPLES: 20 years = 36.25% of High-3; 30 years = 56.25% of High-3.

Benefit is reduced 2% for each year under age 65 at retirement.

Maximum benefit is limited to 80% of the High-3 (41 years and 11 months of service).

Employees with a critical medical condition may elect the alternative form of annuity: a reduced annuity with a lump-sum payment of unrefunded retirement contributions. Monthly annuity payments are reduced to account for the value of the lump-sum payment of contributions.

With at least 5 years of Congressional employee or Member service and retirement contributions paid for the last 5 years of civilian service receive:

(1)  $12\% \times \text{High-3} \times \text{High-3} \times \text{High-3}$  (all years of congressional/Member service and up to 5 years of military service) +

(2) (If service used in step (1) is less than 10 years, then number of years service which would increase congressional/Member service to 10)  $\times 11\% \times \text{High-3} +$

(3)  $12\% \times \text{High-3} \times \text{High-3} \times \text{High-3}$  (balance of service not used in steps (1) or (2)).

EXAMPLES: 20 years of Cong./Member service = 50% of High-3; 30 years of Cong./Member service = 75% of High-3.

Benefit is reduced 2% for each year under age 55 at retirement.

Employees with a critical medical condition may elect the alternative form of annuity.

Maximum benefit is limited to 80% of the High-3 (32 years of congressional service).

Same as for Congressional staff except that:

Maximum benefit is limited to 80% of the greater of:

- the final salary
- the High-3
- the final salary of the last appointive position if reemployed after retirement.

Also, the benefit is reduced by 1% for each year (up to 5) under age 60 at retirement plus 2% per year under 55.

## Members of Congress

## Congressional Staff

## Executive Branch

## Item

Item	Executive Branch	Congressional Staff	Members of Congress
<p>4. Disability benefits</p> <p>a. Definition of disability</p>	<p>An employee must be unable to perform his/her duties and there must be no suitable vacancy in his/her own agency within the same commuting area and at the same grade or pay level as the current position.</p>	<p>Same as for the Executive Branch.</p>	<p>A Member must be disabled for service as a Member.</p>
<p>b. Disability benefit formula (For CSRS Offset employees, the benefit is reduced by the amount of Social Security disability entitlement attributable to CSRS Offset service.)</p>	<p>Disability benefits are the higher of two computations:</p> <p>(1) the annuity computed using the employee's years of service and High-3 under the general formula; or</p> <p>(2) the lesser of the following:</p> <p>a) 40% of the High-3; or</p> <p>b) annuity computed according to the general formula after increasing the length of service as if the employee had worked to age 60.</p> <p>If the employee has at least 21 years and 11 months of service, or is age 60 or older, the annuity is computed under (1).</p>	<p>If the employee has at least 5 years of congressional/Member service, disability benefits are the higher of two computations:</p> <p>(1) the annuity computed using the employee's years of service and High-3 under the congressional personnel formula; or</p> <p>(2) the lesser of the following:</p> <p>a) 40% of the High-3; or</p> <p>b) annuity computed according to the congressional personnel formula after increasing the length of service as if the employee had worked to age 60.</p> <p><i>(continued)</i></p>	<p>Same as for the Congressional Staff.</p>



Comparison of CSRS Benefits for the Executive and Legislative Branches

Item	Executive Branch	Congressional Staff	Members of Congress
3.) Spouses of employees who die after leaving Federal service, but before deferred annuity payments begin	Lump-sum death benefit consisting of the deceased's retirement contributions.	Same as Executive Branch.	An eligible spouse of a deceased Member who separated with title to a deferred annuity benefit may elect either a lump-sum death benefit consisting of the Member's retirement contributions or a monthly survivor annuity equal to 55% of the Member's deferred annuity benefit.
c. Cost of survivor benefits for retired employees	Unless waived by the retiree and the spouse, the annuity is reduced in order to provide a survivor benefit. The first \$3,600 of the retiree's annual benefit will be reduced by 2.5%. The remaining annuity benefit is reduced by 10%.	Same as for the Executive Branch.	

Item                      Executive Branch                      Congressional Staff                      Members of Congress

<p>6. Cost-of-living adjustments (COLAs)</p>	<p>Annuity is increased by annual COLAs. Increase is equal to the percent change in the base quarter Consumer Price Index from the previous year to the current year, adjusted to the nearest 1/10 of 1 percent.</p> <p>An annuity cannot be increased by a COLA to an amount which exceeds the greater of:</p> <ul style="list-style-type: none"> <li>• the maximum pay payable for a GS-15 30 days before the effective date of the COLA; or</li> <li>• the final pay (or average pay if higher) of the employee, increased by the overall annual average percentage adjustments in rates of pay of the General Schedule.</li> </ul>	<p>Same as for the Executive Branch.</p>
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Item	Executive Branch	Congressional Staff	Members of Congress
7. Effect on annuity of reemployment in the Federal service	<p>Annuity payments continue unless:</p> <ul style="list-style-type: none"> <li>- retiree is recovered or restored to earning capacity;</li> <li>- retiree receives a Presidential appointment subject to retirement contributions; or</li> <li>- retirement was involuntary and appointment is subject to retirement contributions.</li> </ul> <p>If annuity continues, amount of annuity paid during reemployment is offset from the reemployed retiree's salary.</p>	<p>Same as for the Executive Branch.</p>	<p>Annuity payments are suspended when retiree is reemployed in an appointive or elective position, unless the position is without pay or is on an intermittent basis. If reemployment is intermittent, the amount of annuity paid during actual reemployment is offset from salary.</p>

Item	Executive Branch	Congressional Staff	Members of Congress
<p>8. Annuity benefits after reemployment ends;</p>	<p>Eligible for a supplemental annuity benefit if reemployment consists of at least 1 year of continuous service or equivalent part-time service. The supplemental annuity is the additional annuity benefit derived from the reemployment service only and is added to the existing annuity payment.</p> <p>Eligible for a redetermined annuity if the retiree completes at least 5 years of continuous service or equivalent part-time service. A redetermination is a recomputation of the entire annuity benefit including all service and using a new High-3.</p> <p>If annuity stopped upon reemployment, rights are redetermined as if retiring for the first time, upon separation from reemployment.</p>	<p>Same as for the Executive Branch.</p>	<p>There is no provision for payment of a supplemental or redetermined annuity benefit to a reemployed Member. Instead, retired Member may have the previous annuity (plus COLAs) reinstated, or the Member may have a new computation of the old annuity, if the reemployment service was performed in an appointive position subject to CSRS deductions. The recomputed benefit is based on all periods of service and new High-3. The former Member does not have to meet requirements for non-Member eligibility to qualify for new annuity upon separation from reemployment.</p>
<p>9. Thrift Savings Plan</p>	<p>Employees may contribute up to 5% of basic pay. No Government contributions.</p>	<p>Same as for the Executive Branch.</p>	<p>Same as for the Executive Branch.</p>



## FERS Benefits for the Executive and Legislative Branches Comparison Table

Item	Executive Branch*	Congressional Staff	Members of Congress
<p>1. Coverage and Cost for Basic Defined Benefit</p>	<p>Coverage is automatic for employees hired after 12/31/83. Current Normal Cost Percentage is 12.2% of basic salary, of which employee pays 0.8% and agency pays 11.4%.</p>	<p>Same as Executive Branch. Current Normal Cost Percentage is 18.2% of basic salary, of which employee pays 1.3% and agency pays 16.9%.</p>	<p>Members may irrevocably elect not to be covered by FERS (and have Social Security coverage only). Current Normal Cost Percentage is 18.1% of basic salary, of which employee pays 1.3% and agency pays 17.8%.</p>

\* Does not apply to special categories, such as law enforcement officers or firefighters.

Item	Executive Branch*	Congressional Staff	Members of Congress																										
<p>2. When benefits can be received.</p> <p>a. Voluntary retirement benefits</p>	<p>Available at the following age and service combinations:</p> <ul style="list-style-type: none"> <li>• At least the <i>Minimum Retirement Age</i> (MRA)* with 30 years of service or more.</li> <li>• At least age 60 with 20 years of service or more.</li> <li>• At least age 62 with 5 years of service or more.</li> </ul> <p>*<i>Minimum Retirement Age</i></p> <p>If you were Your MRA is: born:</p> <table border="0"> <tr><td>Before 1949</td><td>55</td></tr> <tr><td>In 1948</td><td>55 and 2 months</td></tr> <tr><td>In 1949</td><td>55 and 4 months</td></tr> <tr><td>In 1950</td><td>55 and 6 months</td></tr> <tr><td>In 1951</td><td>55 and 8 months</td></tr> <tr><td>In 1952</td><td>55 and 10 months</td></tr> <tr><td>In 1953-1984</td><td>56</td></tr> <tr><td>In 1985</td><td>56 and 2 months</td></tr> <tr><td>In 1986</td><td>56 and 4 months</td></tr> <tr><td>In 1987</td><td>56 and 6 months</td></tr> <tr><td>In 1988</td><td>56 and 8 months</td></tr> <tr><td>In 1989</td><td>56 and 10 months</td></tr> <tr><td>After 1989</td><td>57</td></tr> </table>	Before 1949	55	In 1948	55 and 2 months	In 1949	55 and 4 months	In 1950	55 and 6 months	In 1951	55 and 8 months	In 1952	55 and 10 months	In 1953-1984	56	In 1985	56 and 2 months	In 1986	56 and 4 months	In 1987	56 and 6 months	In 1988	56 and 8 months	In 1989	56 and 10 months	After 1989	57	<p>Same as Executive Branch</p>	<p>Same as Executive Branch, plus voluntary retirement is provided, except in cases of resignation or expulsion, if the Member is:</p> <ul style="list-style-type: none"> <li>• Age 60 with at least 20 years of service; or</li> <li>• Any age with at least 25 years of service.</li> </ul> <p>(Special Retirement Supplement begins at MRA and continues until age 62.)</p>
Before 1949	55																												
In 1948	55 and 2 months																												
In 1949	55 and 4 months																												
In 1950	55 and 6 months																												
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In 1987	56 and 6 months																												
In 1988	56 and 8 months																												
In 1989	56 and 10 months																												
After 1989	57																												
<p>b. Reduced voluntary retirement benefits</p>	<p>Available at the MRA with at least 10 years of service. (Benefit is reduced 5% for each year payment begins before age 62.)</p>	<p>Same as Executive Branch</p>	<p>Same as Executive Branch</p>																										

\* Does not apply to special categories, such as law enforcement officers or firefighters.

Item                      Executive Branch                      Congressional Staff                      Members of Congress

<p>c. Involuntary early retirement</p>	<p>Available at the following age and service combinations provided separation is not for cause or misconduct:</p> <ul style="list-style-type: none"> <li>• Age 50 with at least 20 years of service.</li> <li>• Any age with at least 25 years of service.</li> </ul> <p>(Annuity Supplement begins at MRA and continues until age 62.)</p>	<p>Same as Executive Branch</p>	<p>Not Applicable to Members.</p>
<p>d. Disability retirement</p>	<p>Those who apply for FERS disability benefits must also apply for Social Security disability benefits or show that they're not eligible for them.</p>	<p>Same as Executive Branch</p>	<p>Member must have completed 18 months of service as a Member.</p>

Item	Executive Branch*	Congressional Staff	Members of Congress
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e. Deferred retirement

Unreduced benefit available at the following age/service combinations for employees who did not withdraw their retirement contributions:

- At age 62 to those who had at least 5 years of civilian service and did not take a refund.

Reduced benefit is available at MRA with 10 years of service or more. This benefit is reduced 5% for each year below age 62 on the annuity commencing date, unless employee had 30 years of service or benefit begins at age 60 and employee had 20 years of service.

FERS age reduction does not apply at MRA with 30 years of service or at age 60 with 20 years of service.

Same as Executive Branch

Same as Executive Branch

Item                      Executive Branch                      Congressional Staff                      Members of Congress

<p>1. Annuity Supplement</p>	<p>Annuity Supplement approximates the Social Security benefit earned while the employee worked for the Federal Government.</p> <p>Annuity Supplement eligibility:</p> <ul style="list-style-type: none"> <li>• After MRA with 30 years of service or at MRA upon involuntary retirement; or</li> <li>• At age 60 with 20 years of service.</li> </ul> <p>Annuity Supplement ends at age 62.</p>	<p>Same as Executive Branch</p>	<p>Same as Executive Branch</p>
<p>3. Basic annuity formula a. Salary base</p>	<p>Average of highest three consecutive years of salary (High-3).</p>	<p>Same as Executive Branch.</p>	<p>Same as Executive Branch.</p>

Members of Congress

Congressional Staff

Executive Branch\*

Item

<p>b. Benefit calculation formula</p>	<p>The FERS formula is either...</p> <p>(1) <i>If retiring before age 62:</i> (1%) X (High-3) X (all years service) or,</p> <p>(2) <i>If retiring at age 62 or older with at least 20 years of service:</i> (1.1%) X (High-3) X (all years of service)</p> <p>Employees with a critical medical condition may elect the alternative form of annuity; a reduced annuity with a lump sum payment of unrefunded retirement contributions. Monthly annuity payments are reduced to account for the value of the lump-sum payment of contributions.</p> <p><b>Example:</b> Employee retiring at age 50 with 20 years of service receives 20% of High-3; age 55 with 30 years equals 30%; age 62 with 30 years equals 33%.</p>	<p>With at least 5 years of Congressional employee or Member service, congressional staff receive:</p> <p>(1) (1.7%) X (High-3) X (years of congressional employee service not to exceed 20 years) +</p> <p>(2) (1.0%) X (High-3) X (balance of service not used in steps (1) ).</p> <p>Employees with a critical medical condition may elect the alternative form of annuity.</p> <p><b>Example:</b> Staff retiring at age 50 with 20 years of Cong./Member service receives 34% of High-3; age 55 or 62 with 30 years equals 44%</p>	<p>Same as Congressional Employee.</p>
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Item	Executive Branch	Congressional Staff	Members of Congress
4. Disability benefits a. Definition of disability	To be eligible for FERS disability benefits, an employee must be unable to do his/her job, and must not refuse a suitable vacancy within his/her agency in the same commuting area and at the same grade or pay level as the current position.	Same as Executive employee	A Member must be disabled for service as a Member.

## Executive Branch\*

## Congressional Staff

## Members of Congress

Item

Item	Executive Branch*	Congressional Staff	Members of Congress
b. Disability benefit formula	<p>During the first year of disability, FERS pays 60% of an employee's high-three, minus 100% of any Social Security benefits received.</p> <p>No COLAs are paid during this year.</p> <p>During the second and any additional years of disability until an employee reaches age 62, the employee receives 40% of his/her high-three, minus 60% of any Social Security benefits received. COLAs are paid for these years, at the same rate as FERS basic annuities.</p> <p>FERS disability benefits are recomputed at age 62 to be the lesser of (1) 40% of high-three, minus 60% of an assumed Social Security benefit (regardless of whether that benefit is actually being received); or (2) a FERS retirement benefit that includes credit for the period from disability retirement to age 62.</p> <p>If an employee's earned annuity exceeds the disability rate, the earned rate is used instead of the disability rate.</p>	Same as Executive Branch	Same as Executive Branch



**Executive Branch\*      Congressional Staff      Members of Congress**

Item	Executive Branch*	Congressional Staff	Members of Congress
<p>5. Survivor benefits</p> <p>a. Eligibility requirements</p>	<p>FERS pays benefits to the eligible survivors of a worker who had at least 18 months of civilian service under FERS.</p>	<p>Same as Executive Branch</p>	<p>Same as Executive Branch</p>
<p>b. Computation of survivor benefit payments</p> <p>1.) Spouses of deceased employees</p>	<p>FERS provides a two-part benefit to the eligible spouse of a worker who dies while a Federal employee with at least 18 months, but less than 10 years of service: (1) lump-sum payment which is adjusted for inflation (\$20,208.89 beginning March 1986), plus (2) the larger of either 50% of the employee's annual salary at the time of death or 50% of the employee's High-3.</p> <p>FERS provides the eligible spouse of a worker who dies while a Federal employee with 10 years of service or more the above benefits plus an annuity equal to 50% of the employee's accrued Basic Benefit.</p>	<p>Same as Executive Branch</p>	<p>Same as Executive Branch</p>
<p>2.) Spouses of deceased annuitants</p>	<p>FERS provides the eligible spouse of a FERS retiree 50% of the retiree's annuity amount, plus a Special Retirement Supplement if the spouse is younger than age 60 and not yet eligible for Social Security benefits.</p>	<p>Same as Executive Branch</p>	<p>Same as Executive Branch</p>

Item	Executive Branch*	Congressional Staff	Members of Congress
<p>3.) Spouses of employees who die after leaving the Federal service, but before deferred annuity payments begin</p>	<p>FERS provides a benefit to the spouse of an employee who has 10 or more years of Federal service, leaves the Federal workforce, and dies before his/her annuity payments begin. The benefit is payable if the employee did not take a refund of his/her contributions and the spouse does not remarry before age 55. The benefit is 50% of the employee's accrued Basic Benefit. It begins at the time that the employee would have reached age 62, or sooner if a reduced benefit was elected.</p>	<p>Same as Executive Branch</p>	<p>Same as Executive Branch</p>
<p>d. Cost of survivor benefits for retired employees</p>	<p>Unless waived by the retiree and spouse, a retiree's annuity will be reduced in order to provide for a survivor benefit. This reduction amounts to 10% of the entire annual benefit. (Note: The 50% spouse's benefit is based on the amount of the annuity before this reduction is taken.)</p>	<p>Same as Executive Branch</p>	<p>Same as Executive Branch</p>

Item                      Executive Branch                      Congressional Staff                      Members of Congress

<p>6. Cost-of-living adjustments (COLAs)</p>	<p>Paid annually to retirees over 62 years of age, to those who have received disability payments for more than 1 year, and to those receiving survivor benefits.</p> <p>The following chart describes FERS COLAs, which are based on increases in the Consumer Price Index (CPI):</p> <table border="0" style="margin-left: 40px;"> <tr> <td style="padding-right: 10px;"><i>Increase</i></td> <td style="padding-right: 10px;"><i>Annual COLA</i></td> </tr> <tr> <td style="padding-right: 10px;"><i>In CPI</i></td> <td style="padding-right: 10px;"><i>Percentage</i></td> </tr> <tr> <td style="padding-right: 10px;">Up to 2%</td> <td style="padding-right: 10px;">Same as CPI</td> </tr> <tr> <td style="padding-right: 10px;">2% to 3%</td> <td style="padding-right: 10px;">2%</td> </tr> <tr> <td style="padding-right: 10px;">Over 3%</td> <td style="padding-right: 10px;">CPI increase minus 1%</td> </tr> </table>	<i>Increase</i>	<i>Annual COLA</i>	<i>In CPI</i>	<i>Percentage</i>	Up to 2%	Same as CPI	2% to 3%	2%	Over 3%	CPI increase minus 1%	<p>Same as Executive Branch</p>	<p>Same as Executive Branch</p>
<i>Increase</i>	<i>Annual COLA</i>												
<i>In CPI</i>	<i>Percentage</i>												
Up to 2%	Same as CPI												
2% to 3%	2%												
Over 3%	CPI increase minus 1%												
<p>7. Effect on annuity of Reemployment in the Federal service</p> <p>e. Voluntary or involuntary retirement</p>	<p>Annuity payments continue, unless based on disability and retiree is recovered or restored to earning capacity. The amount of annuity paid during reemployment is offset from the reemployed retiree's salary.</p>	<p>Same as Executive Branch</p>	<p>Same as Executive Branch</p>										

Item	Executive Branch	Congressional Staff	Members of Congress
<p>b. Annuity benefits after reemployment ends</p>	<p>Eligible for a supplemental annuity if reemployment consists of at least 1 year of continuous service, or equivalent part-time service. A supplemental annuity is the additional annuity benefit derived from the reemployment service only and is added to the existing annuity payment.</p> <p>Eligible for a redetermined annuity if the retiree completes at least 5 years of continuous service, or equivalent part-time service. A redetermination is a recomputation of the entire annuity benefit including all service and using a new High-3.</p>	<p>Same as Executive Branch</p>	<p>Same as Executive Branch</p>
<p>8. Thrift Savings Plan</p>	<p>Employing agency automatically contributes 1% of basic pay. Employees may contribute up to 10% of basic pay, subject to a limitation (\$9,240.00 in 1995). Agency's total contribution is limited to 5% of salary (agency matches dollar-for-dollar for first 3% contributed by employee and \$0.50-per-dollar for the next 2% contributed by employee.)</p>	<p>Same as Executive Branch</p>	<p>Same as Executive Branch</p>
<p>9. Social Security</p>	<p>Employees covered by full Social Security.</p>	<p>Same as Executive Branch</p>	<p>Same as Executive Branch</p>

## CSRS AND FERS COSTS

The clearest and simplest way to compare the costs of the different retirement plans is to look at what actuaries call their *normal cost*<sup>1/</sup>. Normal cost is the level percentage of pay that would have to be contributed for a typical group of new employees throughout their careers in order to pay for their retirement benefits. More simply, it is the amount of money (expressed as a percent of salary) that has to be set aside every pay period to fully finance a typical worker's pension. This money accumulates in what can be visualized as an account that continuously earns interest, and which is drawn against each month after the person retires to pay his or her benefit. Theoretically, the fund reaches a zero balance at exactly the point when it disburses the person's last retirement check.

	-----Percentage of Salary-----		
	Government Share	Employee Share	Total Cost
CSRS <sup>2/</sup> - Regular Executive Branch Employees	18.1	7.0	25.1
CSRS- Congressional Members	21.3	8.0	29.3
CSRS- Congressional Staff	26.5	7.5	34.0
FERS <sup>3/</sup> - Regular Executive Branch Employees			
oFERS Basic Benefit Plan	11.4	0.8	12.2
oSocial Security <sup>4/</sup>	6.2	6.2	12.4
oThrift Savings Plan <sup>5/</sup>	<u>3.4</u>	<u>2.8</u>	<u>6.2</u>
Total	21.0	9.8	30.8
FERS - Congressional Members			
oFERS Basic Benefit Plan	17.8	1.3	19.1
oSocial Security	6.2	6.2	12.4
oThrift Savings Plan	<u>2.8</u>	<u>3.4</u>	<u>6.2</u>
Total	26.8	10.9	37.7

		-----Percentage of Salary-----		
		Government Share	Employee Share	Total Normal Cost
FERS - Congressional Staff				
	○FERS Basic Benefit Plan	16.9	1.3	18.2
	○Social Security	6.2	6.2	12.4
	○Thrift Savings Plan	<u>2.8</u>	<u>3.4</u>	<u>6.2</u>
	Total	25.9	10.9	36.8
CSRS Offset <sup>6/</sup> - Regular Executive Branch Employees				
	○CSRS	14.4	0.8	15.2
	○Social Security	<u>6.2</u>	<u>6.2</u>	<u>12.4</u>
	Total	20.6	7.0	27.6
CSRS Offset- Congressional Members				
	○CSRS	22.3	1.8	24.1
	○Social Security	<u>6.2</u>	<u>6.2</u>	<u>12.4</u>
	Total	28.5	8.0	36.5
CSRS Offset- Congressional Staff				
	○CSRS	22.9	1.3	24.2
	○Social Security	<u>6.2</u>	<u>6.2</u>	<u>12.4</u>
	Total	29.1	7.5	36.6

Notes:

1/ Normal cost calculations assume that the percentage of salary set aside each pay period for a typical new worker will: (a) earn interest; (b) the worker's salary will increase over the course of his or her career because of inflation, step increases and promotions; and (c) his or her pension will receive cost-of-living adjustments indexed to inflation. The current economic assumptions underlying these normal cost calculations are as follows:

Inflation	4.5%
Interest	7.0%
Wage Growth	4.5%

2/ The CSRS "government shares" listed above are not equal to the matching employee/employer contribution rates required under current law. They represent,

instead, the total normal cost of benefits for the different groups minus employee contributions. Over the years, the Congress has established a series of recurring Treasury payments to the Civil Service Retirement and Disability Fund in an effort to bridge the shortfall between agency contributions and the government share of CSRS benefit costs.

- 3/ In order to compare CSRS and FERS benefits, it is necessary to recognize that CSRS benefits are stand-alone (intended to provide a person's full retirement income), whereas FERS is a multi-tiered benefit package in which the retiree receives income from three different sources: Social Security, the FERS Basic Benefit Plan, and Thrift Savings Plan. In our chart, we have used the Social Security and Thrift Savings Plan contribution rates to measure the cost of these benefits, although are not *technically* normal costs.
- 4/ We have assumed the total cost of Social Security is equal to its combined employee and employer contribution rates. No attempt has been made to attribute an actual Social Security normal cost to Federal participants, or adjust the contribution rates to account for the fact that: (a) contributions are not made on amounts above the maximum taxable wage base; and (b) there is a redistribution of contributions from Federal participants to non-Federal beneficiaries due to the Social Security "tilt" towards lower wage workers.
- 5/ It is difficult to predict long-term contribution rates for the Thrift Savings Plan because it has only been in existence for a decade. In this chart we use the assumptions appearing in Senate Print 99-184, "Supplemental Information Regarding the Federal Employees' Retirement Act of 1986, (October 1986), Report of the U.S. Senate Committee on Governmental Affairs.
- 6/ A few CSRS employees are covered by both CSRS and Social Security. In general, these are people who were rehired after 1983 and who had five or more years of CSRS service when FERS went into effect on 1/1/87. Their CSRS contributions are offset by the amount of Social Security taxes they pay (although their agencies must make full CSRS and Social Security contributions on their behalf), and their CSRS pensions are offset by the amount of their Social Security benefits attributable to "CSRS Offset" service.

#### Reasons for Normal Cost Changes

Normal cost calculations are very sensitive to changes in economic and demographic assumptions. This was certainly true for the CSRS and FERS Basic Benefit Plan normal costs during the 1986 through 1995 period, when the Civil Service Retirement Board of Actuaries revised the assumptions on several occasions, particularly those dealing with inflation and interest. This paralleled the actuarial experience of other private and public sector plans, many of whom made incremental upward adjustments to recognize the significant increase in the long-term "real" interest rate (the differential between interest and inflation) that occurred in the mid-1970's.

## HISTORY OF CSRS AND FERS NORMAL COSTS \*

	-----Percentage of Pay-----					
	86	87	88	89	90-92	93
CSRS	34.8	28.9	28.9	28.3	28.3	25.1
FERS						
○ FERS Basic Benefit Plan	16.1	13.8	14.0	13.7	13.7	12.2
○ Social Security	11.4	11.4	12.1	12.1	12.4	12.4
○ Thrift Savings Plan	<u>6.2</u>	<u>6.2</u>	<u>6.2</u>	<u>6.2</u>	<u>6.2</u>	<u>6.2</u>
Total	33.7	31.4	32.3	32.0	32.3	30.8
Difference (CSRS - FERS)	1.1	(2.5)	(3.4)	(3.7)	(4.0)	(5.7)
Reasons for Normal Cost Change **		E	B, S	D	S	E

\* As published in the OPM's "Civil Service Retirement and Disability Fund Annual Report," to comply with Public Law 95-595.

\*\* Legend: [B] change in benefits  
 [D] change in demographic assumptions  
 [E] change in economic assumptions  
 [S] change in Social Security contribution rate

## ECONOMIC ASSUMPTIONS

	-----Percent-----					
	86	87	88	89	90-92	93
Inflation	5.0	5.0	5.0	5.0	5.0	4.5
Interest	6.5	7.0	7.0	7.0	7.0	7.0
Wage Growth	5.5	5.0	5.0	5.0	5.0	4.5



## Statistical Information

The retirement data reported to OPM by Federal agencies for active workers are agency, as opposed to individual, summaries prepared to support the transfer of funds from agency accounts to the CSRD Fund. Information pertaining to individual contributions into the CSRS are not captured within a centralized, automated system until such time as the individuals attain retirement status.

The recordkeeping system of the Civil Service Retirement System (CSRS) has remained basically unchanged since its inception in the 1920's. For the most part it is a manual, paper-laden system requiring every employing agency to maintain individual service records for each of its active employees covered by the federal retirement system.

The records for employees are maintained by the agency until such time as the employee either retires, transfers to another Federal agency or leaves the federal service. Employees who remain at a single agency throughout their entire federal career typically have a complete history of their work record at a single location.

Records of employees who transfer between federal agencies or leave the federal service are transferred to a central file repository at Boyers, PA. that now houses approximately 5.6 million paper files pertaining to current and former federal employees. Many agencies that have elected to take advantage of cross-servicing agreements with other Federal agencies have also elected to transfer accumulated payroll/personnel records to the Boyers facility as part of the transfer agreement.

Some of the information presented in this statistical section was developed from "reconstructed" records that were purged from active account status within our automated system. To the extent possible, we have kept the statistical data associated with these accounts separate from those developed from more current data. Some of data on the more dated records may be vulnerable to changes in field definitions and code descriptions that have taken place since the record was initially created.

Beginning with their coverage under the system in 1946, Members of Congress have been assigned a separate reporting code within the OPM's annuity roll system. The annual reports issued by the OPM and its predecessor agency have always included a category pertaining to retired Members.

Until 1993, Congressional staff were not assigned a separate retirement code within the annuity roll system. The information developed for this report uses a cross tabulation of several data

fields in order to identify Congressional staff employees. For purposes of this report we have defined Congressional staff as individuals eligible for the special Congressional annuity computation formula and who were last employed and retired from either the House or Senate.

The first part of this section provides answers to the specific questions raised in the Committee's request. The second part of the section provides detailed data for various categories of annuitants. These data provide the types of information customarily presented in our annual reports. For comparison purposes, we have isolated Members of Congress and Congressional staff statistics from other civilian employee annuitants. We have also provided comparative statistical information on the survivors of employees and annuitants.

In order to provide the most current data available, the statistical information was prepared using 3/31/95 data files. The "Onroll" displays reflect current active accounts as of that date. The "Added to the Roll" represents persons placed on the annuity roll since 10/1/94. The adds thus represent approximately one-half those expected in fiscal year 1995.

1. How many Members of Congress have ever paid into (a) the Civil Service Retirement System (CSRS) fund? (b) the Federal Employees Retirement System (FERS) defined benefit plan fund?

How many congressional staff have ever paid into (a) the CSRS fund? (b) the FERS defined benefit plan fund?

OPM periodically collects information from agency payroll offices on the number of active participants covered by the retirement systems. These data requests are designed to collect aggregate information needed in preparing actuarial studies of the system costs and to verify accounting data submitted by agency payroll offices. Because OPM does not maintain systems which capture information by individual participants until they reach retirement, analysis of participation rates, amounts of contributions, etc. are limited.

The following information shows the number of participants contributing to the CSRS and FERS over the past 10 years.

YEAR	CONGRESS		ALL OTHER	
	CSRS	FERS	CSRS	FERS
1985	13,382	NA	2,745,844	NA
1986	11,273	NA	2,730,920	NA
1987	8,564	9,303	2,125,969	669,693
1988	7,159	10,669	1,919,851	886,220
1989	6,440	11,839	1,842,887	1,002,859
1990	6,034	12,189	1,748,246	1,084,685
1991	5,608	13,156	1,673,236	1,163,837
1992	5,372	13,432	1,603,083	1,205,619
1993	4,724	14,619	1,479,313	1,236,315
1994	4,390	14,233	1,397,431	1,282,228
Senate Members	62	38		
Senate staff	1,773	5,476		
House Members	140	293		
House staff	2,415	8,426		

2,745,662

2,698,282

Because of limitations in our database we cannot identify the number of employees who received a refund of their contributions either because they left the Federal service or died in service without survivor benefits or those who have left and not yet applied for a benefit. The following chart represents an estimate of the number of persons that have contributed into the retirement system using the available data sources.

Category of coverage	Number of Covered	
	<u>CSRS</u>	<u>FERS</u>
<b>Members</b>		
Current active Members	202	331
Retired Members <sup>1</sup>	355	30
Former retired Members <sup>2</sup>	451	0
<b>Total</b>	<b>1,008</b>	<b>362</b>
<b>Staff</b>		
Active employees	4,188	13,902
Retired employees <sup>1</sup>	5,004	347
Former retired employees <sup>2</sup>	2,044	0
<b>Total</b>	<b>11,236</b>	<b>14,249</b>

<sup>1</sup> Retired Members and staff employees represent individuals currently receiving monthly payments from the Civil Service Retirement and Disability Fund.

<sup>2</sup> Former retired Members and staff employees represent those individuals who have previously received monthly payments from the Civil Service Retirement and Disability Fund but were subsequently dropped from the roll as a result of death.

2. What is the total amount of money paid by Members of Congress into (a) the CSRS fund? (b) the FERS defined benefit plan fund?

What is the total amount of money paid by congressional staff into (a) the CSRS fund? (b) the FERS defined benefit plan fund?

Based on the information reported by the Congressional payroll offices, we have estimated the accumulated employee contributions for those individuals currently employed in the Congress. The total represents the amount current employees have contributed into the retirement fund from the time they joined the Congress through the end of 1994. We have also estimated the amounts contributed by former and current retired Members and staff based on data available from our automated record files.

<u>Current employees</u>	AMOUNT (in millions)	
	<u>CSRS</u>	<u>FERS</u>
Senate and House (Members and staff)	\$182.7	
Senate (Members and staff)		\$ 11.1
House (Members and staff)		<u>\$ 22.5</u>
Subtotal Active Employees	\$182.7	\$ 33.6
<u>Retired Employees</u>		
Members	\$ 18.8	\$ 1.5
Staff	<u>\$120.3</u>	<u>\$ 5.0</u>
Subtotal Retired Employees	\$139.1	\$ 6.5
<u>Former Retired Employees*</u>		
Members	\$ 12.4	\$ 0
Staff	<u>\$ .5</u>	<u>\$ 0</u>
Subtotal Former Retired Employees	\$ 12.9	\$ 0
<b>TOTAL Employee Contributions</b>	<b>\$334.7</b>	<b>\$ 40.1</b>

\* This amount was constructed from our earliest automated record files. The information for Members was derived using a combination of automated and published data.

3. How much money has been paid out to Members of Congress in annuities from (a) the CSRS fund? (b) the FERS defined benefit plan fund?

How much money has been paid out to congressional staff in annuities from (a) the CSRS fund? (b) the FERS defined benefit plan fund?

For the Group of 5,736 staff and members currently receiving monthly benefit payments, we estimate the following:

Accumulated payments: (in millions)	CSRS	FERS
Members	\$ 143.1	\$ 3.7
Staff	<u>\$ 909.9</u>	<u>\$ 7.7</u>
Subtotal Active Retired	\$1,053.0	\$11.4

For the Group of 2,495 that have received an annuity but have been dropped from the annuity roll, we estimate the following:

Accumulated payments: (in millions)	CSRS	FERS
Members	\$ 85.9	\$ 0
Staff	<u>\$ 262.6</u>	<u>\$ 0.3</u>
Subtotal Former Retired	\$ 348.5	\$ 0.3
<b>TOTAL accumulated payments</b>	<b>\$1,401.5</b>	<b>\$11.7</b>

4. How many Members of Congress have actually retired under (a) CSRS? (b) FERS defined benefit plan? (c) a combination of both?

How many congressional staff have actually retired under (a) CSRS? (b) FERS defined benefit plan? (c) a combination of both?

Beginning with their coverage under the system in 1946, Members of Congress have been assigned a separate reporting code within the annuity roll system. The annual reports published by the OPM and its predecessor agency have always included a category specifically assigned to the members. The information from the attached chart was constructed from the printed reports showing the number of members who have retired during each of the fiscal years since 1947 along with the number who remained on the rolls as of the end of each of those years. During the period from 1947 through 1994, 1,018 members were added to the retirement rolls. Of the 381 who were on roll the end of FY 1994, only 19 were receiving benefits from the FERS defined benefit plan.

Based on data reported from the active annuity roll and data constructed from prior years files, we estimate the following number of congressional staff have retired under CSRS and FERS:

Congressional staff:	CSRS	FERS
Currently on-roll	5,004	347
Former retirees	2,044	0

**Congressional Retirement Activity**  
1947-1994

Fiscal Year	Added to Roll	Average Monthly Annuity	Average Contrib	On-Roll	Average Monthly Annuity	Average Contrib
1947	27	288	3,035	25	281	3,064
1948	3	215	5,857	27	272	3,020
1949	23	269	5,151	46	267	4,046
1950	6	178	5,726	52	257	4,240
1951	18	323	7,122	66	277	5,052
1952	5	250	4,652	65	272	4,956
1953	29	312	6,821	88	291	5,522
1954	10	218	5,433	94	286	5,554
1955	13	374	8,008	107	290	5,825
1956	4	272	5,179	103	304	5,872
1957	24	488	8,756	122	373	6,419
1958	4	315	5,548	114	389	6,359
1959	55	605	13,728	161	454	9,281
1960	4	471	10,957	143	441	9,099
1961	31	783	19,601	163	513	10,495
1962	7	577	11,740	158	514	10,230
1963	38	771	17,259	187	597	11,794
1964	9	443	11,327	184	599	11,943
1965	51	759	18,993	223	642	13,668
1966	10	579	13,944	221	678	13,722
1967	27	1,005	22,279	235	733	14,600
1968	8	602	17,794	225	746	14,764
1969	37	1,192	26,333	249	832	16,402
1970	2	258	8,605	232	886	16,884
1971	34	1,298	24,890	254	1,011	17,630
1972	2	1,021	24,455	246	977	16,616
1973	52	1,719	32,731	267	1,177	20,333
1974	8	948	23,085	251	1,315	20,595
1975	51	1,897	38,229	287	1,575	23,743
1976	7	1,192	20,246	281	1,737	23,631
1977	53	1,970	39,264	317	1,912	26,258
1978	8	1,092	25,662	303	2,088	26,878
1979	51	2,382	43,422	341	2,329	29,518
1980	21	1,571	26,704	347	2,612	29,756
1981	54	2,652	54,571	391	2,665	33,198
1982	5	1,572	40,850	373	2,904	33,598
1983	29	2,379	53,338	378	2,991	35,678
1984	11	1,224	32,428	373	2,983	36,554
1985	23	2,368	58,849	377	3,028	38,350
1986	5	1,505	40,333	362	2,980	38,583
1987	29	2,654	56,143	369	2,956	39,710
1988	4	1,776	45,594	351	3,080	40,105
1989	23	3,113	67,454	352	3,146	42,420
1990	4	1,309	37,527	342	3,271	43,082
1991	20	3,056	55,073	346	3,417	44,186
1992	3	1,723	36,323	336	3,502	44,587
1993	70	4,286	70,160	391	3,707	49,977
1994	6	3,533	63,020	381	3,777	50,532

Source: OPM Annual Publications



5. What is the average length of time that Members of Congress receive an annuity under (a) CSRS? (b) FERS? (c) a combination of both?

What is the average length of time that congressional staff receive an annuity under (a) CSRS? (b) FERS? (c) a combination of both?

The information available on annuitants who have been dropped from the annuity roll indicates that Members receive an annuity for an average of 18.02 years while Congressional staff receive an annuity for an average of 14.06 years.

6. What is the longest amount of time that a Member of Congress has received an annuity under (a) CSRS? (b) FERS? (c) a combination of both?

What is the longest amount of time that a congressional staff person has received an annuity under (a) CSRS? (b) FERS? (c) a combination of both?

The longest amount of time recorded for a Member covered by the the CSRS was 40 years two months. Because FERS is a relatively young system the longest period is only 7 years.

For Congressional staff the longest period in payment status was recorded as 32 years 5 months for a CSRS-covered annuitant and 7 years 5 months for FERS-covered annuitant.

7. What is the shortest amount of time that a Member of Congress has received an annuity under (a) CSRS? (b) FERS? (c) a combination of both?

What is the shortest amount of time that a congressional staff person has received an annuity under (a) CSRS? (b) FERS? (c) a combination of both?

The shortest amount of time recorded for a Member who had joined the annuity roll and subsequently dropped because of death was less than 3 months under the CSRS and 21 months under FERS.

The shortest amount of time recorded for a Congressional staff member who had joined the annuity roll and subsequently dropped because of death was 31 days under the CSRS and 92 days for FERS.

8. How many former Members of Congress have paid into but not received a retirement benefit from (a) CSRS? (b) FERS? (c) a combination of both?

How many former congressional staff have paid into but not received a retirement benefit from (a) CSRS? (b) FERS? (c) a combination of both?

Our recordkeeping system does not allow us to identify former Members of Congress or Congressional employees who have not received a retirement benefit from the system.



## Survivor Annuitants - CSRS/FERS

Report 13	<b>SURVIVOR ANNUITANTS ON THE ROLL</b> <i>Congressional Members and Staff</i> Retiring from the Senate or House
Report 14	<b>SURVIVOR ANNUITANTS ON THE ROLL</b> <i>Congressional Members and Staff</i> Not Retiring from the Senate or House
Report 15	<b>SURVIVOR ANNUITANTS ON THE ROLL</b> <i>Non-Congressional Employees</i>
Report 16	<b>SURVIVOR ANNUITANTS ADDED TO THE ROLL</b> <i>Congressional Members and Staff</i> Retiring from the Senate or House
Report 17	<b>SURVIVOR ANNUITANTS ADDED TO THE ROLL</b> <i>Congressional Members and Staff</i> Not Retiring from the Senate or House
Report 18	<b>SURVIVOR ANNUITANTS ADDED TO THE ROLL</b> <i>Non-Congressional Employees</i>

Report 1

**CSRS**

**EMPLOYEE ANNUITANTS ON THE ROLL**  
*Congressional Members and Staff*  
 Retiring from the Senate or House

	ON THE ROLL		MONTHLY ANNUITY CONTRIBUTIONS		MEAN YEARS OF SERVICE		AGE AT FY		YRS ON		PERCENT WITH						
	NUMBER	%TOTAL	MEAN	MEDIAN	MIL	CIV	TOTAL	MEAN	MEDIAN	MEAN	MEDIAN	FULL	SEN				
<b>NORMAL</b>																	
AGE 60-69	375	5.1	62.5	3,885	3,612	27,631	24,585	5.5	28.4	33.9	71.3	72	14.2	15	94.9	78.9	54.2
AGE 60-61	19	0.3	57.0	2,818	4,575	1,111	1,111	1.6	25.3	26.9	74.3	73	13.4	12	92.3	78.9	46.9
AGE 62 +	874	18.3	47.0	1,793	1,598	20,979	17,017	1.1	18.5	19.6	77.1	76	11.6	10	84.8	68.8	43.7
<b>SUBTOTAL</b>	1,343	25.1	50.9	\$2,346	\$1,935	\$22,881	\$19,350	2.1	21.5	23.6	75.5	75	12.4	11	87.9	72.3	46.3
<b>DISABILITY</b>																	
DIS N/ELI	479	8.9	44.3	1,842	1,358	12,783	9,731	0.8	14.8	16.6	85.2	87	16.5	18	87.3	68.3	37.8
DIS ELI10	25	0.5	48.0	2,147	1,618	14,942	12,840	1.5	22.5	24.0	78.8	81	16.4	18	96.0	76.0	44.0
<b>SUBTOTAL</b>	504	9.4	44.4	\$1,867	\$1,357	\$12,851	\$9,774	0.9	15.2	18.0	85.9	88	16.5	18	87.7	68.7	38.1
<b>DEFERRED</b>	779	14.5	42.7	558	413	9,327	6,013	0.8	10.4	11.2	73.3	72	11.4	10	0.3	0.1	44.5
<b>INVOLUNTARY</b>																	
INVOL 20*	684	12.8	43.7	2,269	2,073	26,273	23,184	0.8	21.1	21.9	67.5	67	13.0	13	82.7	76.3	42.3
INVOL 25*	883	16.5	48.6	2,981	2,764	34,389	29,443	2.1	26.0	28.1	63.7	63	11.6	10	84.7	78.9	48.1
OTHER INV	728	13.6	53.6	2,279	1,847	31,527	25,444	1.8	21.2	23.0	71.5	70	7.8	6	85.3	72.8	49.6
<b>SUBTOTAL</b>	2,295	42.8	48.7	\$2,550	\$2,326	\$31,657	\$26,155	1.6	23.0	24.6	67.3	67	10.8	9	84.3	76.2	46.8
<b>EARLY OUT</b>																	
EARLY 30	2	0.0	50.0	1,608	1,608	11,373	11,373	0.6	19.3	20.0	64.1	64	8.1	8	100.0	100.0	0.0
EARLY ANY	3	0.1	100.0	5,286	5,373	73,969	106,342	0.1	28.2	28.3	48.8	48	0.2	0	66.7	100.0	33.3
<b>SUBTOTAL</b>	5	0.1	80.0	\$3,821	\$2,688	\$48,930	\$12,432	0.3	24.6	25.0	54.9	52	3.4	0	80.0	100.0	20.0
<b>SPECIAL PROV.</b>																	
LIFE	77	1.4	98.7	2,171	2,049	36,115	35,652	2.3	24.5	26.6	68.7	59	2.1	2	89.6	80.5	67.5
LTRE	100	1.8	98.0	1,603	1,603	16,976	16,976	4.0	33.4	27.4	58.2	58	5.2	5	0.0	0.0	100.0
MOG CSRS*	355	6.6	98.2	3,989	4,011	69,129	50,210	2.1	18.2	20.3	74.4	74	11.5	12	71.0	61.4	82.0
<b>SUBTOTAL</b>	433	8.1	95.8	\$3,660	\$3,411	\$50,424	\$45,280	2.1	19.4	21.5	71.8	71	9.8	8	74.1	64.7	79.4
<b>OTHR CSRS</b>																	
<b>TOTAL</b>	5,359	100.0	51.8	\$2,217	\$1,888	\$25,973	\$19,037	1.6	19.8	21.4	70.4	71	11.7	10	72.5	62.5	48.2

\*Denotes Member of Congress

**CSRS**  
**EMPLOYEE ANNUITANTS ON THE ROLL**  
*Congressional Members and Staff*  
 Not Retiring from the Senate or House

	ON THE ROLL		MONTHLY ANNUITY CONTRIBUTIONS		MEAN YEARS OF SERVICE		AGE AT PY		YES. ON		PERCENT WITH:					
	NUMBER	TOTAL	MEAN	MEDIAN	MEAN	MEDIAN	MEAN	MEDIAN	MEAN	MEDIAN	FEGLI	HBX	SEX			
<b>NORMAL</b>																
AGE 55-59	168	13.8	2,636	2,374	25,187	25,381	2.7	31.0	32.7	86.6	84	8.9	9	96.8	85.5	67.1
AGE 60-64	108	11.2	1,965	1,725	26,770	23,130	1.8	26.2	28.7	70.3	70	9.5	9	98.4	83.6	89.4
AGE 65-69	412	30.2	1,888	1,124	20,890	16,973	0.8	21.5	22.3	74.0	73	8.8	8	92.7	81.3	41.7
<b>SUBTOTAL</b>	<b>588</b>	<b>61.1</b>	<b>51,791</b>	<b>51,816</b>	<b>422,899</b>	<b>516,882</b>	<b>1.3</b>	<b>24.3</b>	<b>28.8</b>	<b>71.4</b>	<b>71</b>	<b>6.8</b>	<b>8</b>	<b>94.7</b>	<b>82.9</b>	<b>80.6</b>
<b>DISABILITY</b>																
AGE 55-59	148	12.1	1,181	882	14,878	12,843	0.8	16.7	17.9	82.8	64	10.7	11	87.9	73.8	81.7
AGE 60-64	38	2.3	1,082	1,282	11,481	9,219	1.6	23.0	24.8	80.7	82	17.0	15	100.0	86.8	82.6
<b>SUBTOTAL</b>	<b>187</b>	<b>16.4</b>	<b>51,258</b>	<b>5987</b>	<b>514,022</b>	<b>512,140</b>	<b>1.0</b>	<b>19.0</b>	<b>19.0</b>	<b>87.3</b>	<b>67</b>	<b>12.0</b>	<b>12</b>	<b>90.4</b>	<b>78.5</b>	<b>81.9</b>
<b>DEFERRED</b>	<b>51</b>	<b>4.8</b>	<b>890</b>	<b>760</b>	<b>17,198</b>	<b>13,703</b>	<b>1.1</b>	<b>12.9</b>	<b>13.8</b>	<b>88.2</b>	<b>68</b>	<b>7.4</b>	<b>7</b>	<b>0.0</b>	<b>0.0</b>	<b>88.9</b>
<b>INVOLUNTARY</b>																
IMVOL 20+	59	5.2	2,688	2,688	44,011	42,378	0.8	21.5	22.4	81.4	81	7.1	6	78.0	88.6	80.8
IMVOL 25+	88	7.8	3,072	3,038	43,881	39,814	1.4	26.8	28.2	89.8	80	7.8	7	81.2	80.0	48.4
OTHER INV	28	2.5	2,885	3,050	40,382	33,171	1.8	24.3	25.8	70.0	70	6.3	6	85.7	85.7	64.3
<b>SUBTOTAL</b>	<b>172</b>	<b>15.1</b>	<b>82,928</b>	<b>82,988</b>	<b>842,208</b>	<b>840,310</b>	<b>1.3</b>	<b>24.6</b>	<b>28.8</b>	<b>82.0</b>	<b>62</b>	<b>7.2</b>	<b>7</b>	<b>80.8</b>	<b>84.3</b>	<b>82.3</b>
<b>EARLY OUT</b>																
EARLY 50	1	0.1	1,846	1,846	37,307	37,307	0.0	21.7	31.7	86.8	87	0.4	0	100.0	100.0	0.0
EARLY INV	3	0.3	2,504	1,967	48,878	40,811	1.3	28.8	30.1	88.2	84	3.6	1	66.7	86.7	33.3
<b>SUBTOTAL</b>	<b>4</b>	<b>0.4</b>	<b>82,388</b>	<b>81,887</b>	<b>848,788</b>	<b>839,108</b>	<b>1.0</b>	<b>27.0</b>	<b>28.0</b>	<b>88.6</b>	<b>88</b>	<b>2.8</b>	<b>1</b>	<b>75.0</b>	<b>78.0</b>	<b>28.0</b>
<b>SPECIAL PROV.</b>																
LAW/FIRE	2	0.2	2,087	2,087	38,308	36,308	4.0	23.8	27.8	86.0	86	2.8	3	100.0	100.0	100.0
AIR TRAFIC	26	2.3	2,884	2,400	44,407	39,131	2.1	14.7	18.8	71.4	71	9.4	9	46.2	80.0	82.3
<b>SUBTOTAL</b>	<b>28</b>	<b>2.8</b>	<b>82,808</b>	<b>82,400</b>	<b>842,828</b>	<b>838,131</b>	<b>2.2</b>	<b>18.4</b>	<b>17.8</b>	<b>70.3</b>	<b>70</b>	<b>9.0</b>	<b>8</b>	<b>80.0</b>	<b>83.8</b>	<b>82.8</b>
<b>OTHER CSRS</b>																
<b>TOTAL</b>	<b>1,137</b>	<b>100.0</b>	<b>51,862</b>	<b>51,622</b>	<b>825,278</b>	<b>820,208</b>	<b>1.2</b>	<b>22.6</b>	<b>23.8</b>	<b>69.2</b>	<b>69</b>	<b>9.0</b>	<b>8</b>	<b>86.8</b>	<b>77.6</b>	<b>82.3</b>

\*Denotes Member of Congress

## Report 3

**CSRS**  
**EMPLOYEE ANNUITANTS ON THE ROLL**  
*Non-Congressional Employees*

	ON THE ROLL		MONTHLY ANNUITY		CONTRIBUTIONS		MEAN YEARS OF SERVICE		AGE AT FY		YRS. ON		PERCENT WITH:				
	NUMBER	% TOTAL MEN	MEAN	MEDIAN	MEAN	MEDIAN	MIL	CIV	TOTAL	MEAN	MEDIAN	MEAN	MEDIAN	FEGLI	HEX	SEK	
<b>NORMAL</b>																	
AGE 25-59	412,307	25.3	84.7	2,121	1,891	25,892	22,954	3.2	30.8	34.1	68.5	68	11.8	11	96.3	88.5	71.4
AGE 60-61	205,249	12.6	68.0	1,643	1,422	22,461	20,105	2.2	27.0	29.2	72.0	71	11.3	10	91.8	83.9	60.4
AGE 62 +	416,340	25.6	64.9	1,393	1,143	20,074	17,289	1.6	23.9	25.5	75.9	75	11.0	10	94.0	79.6	55.5
<b>SUBTOTAL</b>	<b>1,033,696</b>	<b>63.5</b>	<b>73.4</b>	<b>\$1,717</b>	<b>\$1,552</b>	<b>\$22,868</b>	<b>\$20,035</b>	<b>2.4</b>	<b>27.3</b>	<b>29.7</b>	<b>72.2</b>	<b>72</b>	<b>11.3</b>	<b>10</b>	<b>95.3</b>	<b>84.0</b>	<b>62.8</b>
<b>DISABILITY</b>																	
DIS N/ELI	216,513	13.3	64.4	1,110	999	10,188	8,080	1.4	16.8	18.0	67.0	69	17.9	18	92.8	73.2	55.4
DIS ELIG	36,687	2.3	79.0	1,879	1,548	14,504	13,131	2.5	28.1	28.6	78.3	78	17.5	18	97.6	88.4	64.3
<b>SUBTOTAL</b>	<b>253,200</b>	<b>15.6</b>	<b>66.6</b>	<b>\$1,193</b>	<b>\$1,037</b>	<b>\$10,816</b>	<b>\$8,930</b>	<b>1.5</b>	<b>18.0</b>	<b>19.5</b>	<b>68.6</b>	<b>70</b>	<b>17.8</b>	<b>18</b>	<b>93.5</b>	<b>75.1</b>	<b>56.7</b>
<b>DEFERRED</b>	89,508	4.3	49.9	338	269	4,931	2,998	0.9	12.2	13.0	76.9	77	15.1	15	0.1	0.1	32.2
<b>INCOLUNTARY</b>																	
INCOL	28,519	1.8	99.5	1,246	1,098	16,130	10,957	1.2	21.3	22.6	70.9	72	16.4	18	88.9	73.5	53.4
INCOL 25+	77,810	4.8	77.0	1,803	1,894	23,321	12,857	2.0	29.3	30.0	69.2	69	15.5	17	91.2	82.2	62.9
OTHER INV	18,708	1.1	79.0	1,768	1,592	28,995	22,448	2.8	27.4	30.0	70.2	69	9.6	7	84.9	79.1	67.7
<b>SUBTOTAL</b>	<b>124,835</b>	<b>7.7</b>	<b>73.3</b>	<b>\$1,670</b>	<b>\$1,494</b>	<b>\$21,285</b>	<b>\$16,255</b>	<b>2.3</b>	<b>25.4</b>	<b>27.7</b>	<b>69.1</b>	<b>70</b>	<b>14.8</b>	<b>16</b>	<b>89.7</b>	<b>79.7</b>	<b>61.4</b>
<b>EARLY OUT</b>																	
EARLY 50	22,508	1.4	48.6	1,202	1,082	21,866	22,715	1.2	21.6	22.9	62.6	50	7.7	4	90.5	79.7	47.4
EARLY ANY	84,981	5.2	75.1	1,741	1,861	29,266	30,487	2.5	27.1	29.6	60.0	57	7.1	2	91.3	87.7	60.6
<b>SUBTOTAL</b>	<b>107,489</b>	<b>6.6</b>	<b>69.5</b>	<b>\$1,628</b>	<b>\$1,453</b>	<b>\$27,717</b>	<b>\$29,003</b>	<b>2.3</b>	<b>25.9</b>	<b>28.2</b>	<b>60.5</b>	<b>58</b>	<b>7.2</b>	<b>2</b>	<b>91.3</b>	<b>85.8</b>	<b>58.0</b>
<b>SPECIAL PROV</b>																	
LAW/FIRE	25,189	1.5	97.5	2,826	2,686	30,129	26,413	2.4	26.2	28.7	66.9	67	12.5	13	95.5	93.6	81.5
AIR TRAFIC	5,280	0.3	99.2	2,718	2,660	40,283	39,807	4.0	27.3	31.3	62.3	62	8.5	8	98.9	96.9	83.1
<b>MDC CSRS4</b>																	
<b>SUBTOTAL</b>	<b>30,449</b>	<b>1.9</b>	<b>97.8</b>	<b>\$2,807</b>	<b>\$2,682</b>	<b>\$31,883</b>	<b>\$28,730</b>	<b>2.7</b>	<b>26.4</b>	<b>29.1</b>	<b>66.1</b>	<b>65</b>	<b>11.8</b>	<b>11</b>	<b>95.7</b>	<b>94.2</b>	<b>81.8</b>
<b>OTHR CSRS</b>	7,829	0.5	79.1	1,277	1,087	16,677	16,798	0.9	26.6	27.4	65.9	68	9.5	10	93.5	84.8	66.3
<b>TOTAL</b>	<b>1,627,408</b>	<b>100.0</b>	<b>71.6</b>	<b>\$1,885</b>	<b>\$1,428</b>	<b>\$20,572</b>	<b>\$17,437</b>	<b>2.2</b>	<b>24.9</b>	<b>27.1</b>	<b>70.7</b>	<b>71</b>	<b>12.5</b>	<b>12</b>	<b>90.2</b>	<b>79.0</b>	<b>60.5</b>

\*Denotes Member of Congress

Report 4

**CSRS**  
**EMPLOYEE ANNUITANTS ADDED TO THE ROLL**  
**Congressional Members and Staff**  
**Retiring from the Senate or House**

	ADDED TO THE ROLL		MONTHLY ANNUITY CONTRIBUTIONS		MEAN YEARS OF SERVICE		AGE AT ACQ.		PERCENT WITH		ALTER. ANN. NUMBER	AVG.					
	NUMBER	%TOTAL	MEAN	MEDIAN	MIL	CIV	MEAN	MEDIAN	FEGLI	HS%			SEX				
<b>NORMAL</b>																	
AGE 56-59	2	0.7	2,636	44,843	44,843	3.9	30.7	57.4	57	80.0	50.0	100.0	1	15,363			
AGE 60-61	3	1.0	2,116	48,214	55,220	0.4	20.9	61.2	61	100.0	66.7	100.0	2	71,162			
AGE 62+	8	2.0	1,479	28,203	28,884	0.9	19.9	20.7	67.5	88.9	88.9	66.7	2	31,493			
<b>SUBTOTAL</b>	<b>14</b>	<b>4.6</b>	<b>6,231</b>	<b>121,260</b>	<b>128,947</b>	<b>5.2</b>	<b>21.5</b>	<b>49.8</b>	<b>75</b>	<b>93.3</b>	<b>78.6</b>	<b>78.6</b>	<b>5</b>	<b>\$44,134</b>			
<b>DISABILITY</b>																	
DISABILITY	5	1.7	2,047	2,026	28,727	13,731	0.0	12.7	45.1	47	40.0	80.0	20.0	0	-		
DIS ELIG	1	0.3	-	-	-	-	-	-	-	-	-	-	-	-	-		
<b>SUBTOTAL</b>	<b>6</b>	<b>1.7</b>	<b>2,047</b>	<b>2,026</b>	<b>28,727</b>	<b>13,731</b>	<b>0.0</b>	<b>12.7</b>	<b>45.1</b>	<b>47</b>	<b>40.0</b>	<b>80.0</b>	<b>20.0</b>	<b>0</b>	<b>-</b>		
<b>DEFERRED</b>	<b>39</b>	<b>10.9</b>	<b>717</b>	<b>969</b>	<b>17,767</b>	<b>19,160</b>	<b>1.0</b>	<b>10.9</b>	<b>61.4</b>	<b>62</b>	<b>0.0</b>	<b>0.0</b>	<b>33.3</b>	<b>17</b>	<b>12,193</b>		
<b>INVOLUNTARY</b>																	
INVOL 20+	48	15.6	2,594	2,308	54,642	52,378	0.5	21.4	52.7	63	64.6	87.5	56.3	30	58,098		
INVOL 28+	78	25.6	3,121	2,629	56,905	53,198	0.8	27.4	52.4	62	71.8	83.7	57.3	56	58,098		
OTHER INV	78	28.2	2,897	2,280	49,788	37,927	1.2	24.7	58.9	63	84.8	83.5	54.4	56	44,477		
<b>SUBTOTAL</b>	<b>205</b>	<b>67.9</b>	<b>8,612</b>	<b>8,217</b>	<b>164,440</b>	<b>147,484</b>	<b>0.9</b>	<b>25.0</b>	<b>56.7</b>	<b>55</b>	<b>75.1</b>	<b>86.8</b>	<b>53.7</b>	<b>142</b>	<b>\$53,017</b>		
<b>EARLY OUT</b>																	
EARLY 50	1	0.3	1,288	1,288	12,432	13,432	0.0	22.4	53.3	63	100.0	100.0	0.0	1	12,432		
EARLY ANY	3	1.0	5,288	5,379	72,969	106,342	0.1	28.2	48.6	47	66.7	100.0	33.3	0	-		
<b>SUBTOTAL</b>	<b>4</b>	<b>1.3</b>	<b>6,576</b>	<b>6,667</b>	<b>85,401</b>	<b>119,774</b>	<b>0.1</b>	<b>26.7</b>	<b>49.8</b>	<b>50</b>	<b>75.0</b>	<b>100.0</b>	<b>25.0</b>	<b>1</b>	<b>\$12,432</b>		
<b>SPECIAL PROV.</b>																	
LAW/FIRE	13	4.3	2,688	2,211	46,776	41,724	2.0	24.9	26.6	54.1	92.3	92.3	69.2	1	27,936		
AIR TRAFIC	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
MCC CSRS*	28	9.3	5,012	4,767	76,840	81,666	1.1	20.9	32.1	65.4	65	92.3	89.3	92.9	1	37,285	
<b>SUBTOTAL</b>	<b>41</b>	<b>13.6</b>	<b>7,700</b>	<b>7,078</b>	<b>123,616</b>	<b>123,390</b>	<b>3.1</b>	<b>22.2</b>	<b>33.6</b>	<b>61.9</b>	<b>92.7</b>	<b>90.2</b>	<b>85.4</b>	<b>2</b>	<b>\$32,611</b>		
<b>OTHR CSRS</b>																	
TOTAL	302	100.0	63.9	\$2,607	\$2,448	\$51,239	\$46,242	1.0	22.7	23.7	58.0	58	69.2	77.5	56.0	167	\$48,324

\*Denotes Member of Congress



Report 5

CSRS

EMPLOYEE ANNUITANTS ADDED TO THE ROLL  
Congressional Members and Staff  
Not Retiring from the Senate or House

	ADDED TO THE ROLL		MONTHLY ANNUITY CONTRIBUTIONS			MEAN YEARS OF SERVICE			AGE AT ACC			PERCENT WITH:			ALTER ANN. NUMBER	AVG.
	NUMBER	%TOTAL	MEAN	MEAN	MEAN	MIL	CIV	TOTAL	MEAN	MEAN	MEAN	FEOLI	HBX	SEX		
NORMAL	6	14.6	100.0	3,108	2,708	84,328	84,889	0.8	37.2	38.0	86.1	88	100.0	100.0	83.3	0
AGE 60-81	4	9.8	25.0	1,808	1,192	31,183	38,217	6.4	16.2	16.0	86.0	86	100.0	100.0	25.0	0
AGE 62 +	20	48.8	40.0	1,312	1,073	27,972	24,008	0.6	23.4	24.0	86.0	86	95.0	75.0	45.0	0
SUBTOTAL	30	73.2	50.0	\$1,688	\$1,273	\$33,670	\$28,137	1.4	25.6	27.0	85.4	84	96.7	83.3	50.0	0
DISABILITY	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
DIS N/ELI	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
DIS ELTO	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
SUBTOTAL	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
DEFERRED	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
INVOLUNTARY	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
INVOL 20+	3	7.3	66.7	3,188	2,821	83,888	70,674	0.6	22.7	23.3	86.2	85	66.7	66.7	33.3	2
INVOL 25+	4	9.8	25.0	2,218	2,048	46,121	38,681	0.5	23.7	26.1	86.6	81	75.0	100.0	25.0	4
OTHER INV	3	7.3	33.3	3,488	3,148	83,428	68,604	0.0	28.8	28.9	86.6	82	66.7	100.0	33.3	1
SUBTOTAL	10	24.4	40.0	\$2,688	\$2,635	\$56,825	\$48,101	0.4	26.0	26.4	85.4	85	70.0	90.0	30.0	7
EARLY OUT	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
EARLY 60	1	2.4	0.0	1,946	1,946	37,307	37,307	0.0	21.7	21.7	86.3	86	100.0	100.0	0.0	0
EARLY INV	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
SUBTOTAL	1	2.4	0.0	\$1,946	\$1,946	\$37,307	\$37,307	0.0	21.7	21.7	86.3	86	100.0	100.0	0.0	0
SPECIAL PROV.	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
SPECIAL AIR TRAF	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
MDC CSRS*	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
SUBTOTAL	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
OTHER CSRS	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
TOTAL	41	100.0	46.3	\$1,995	\$1,448	\$38,406	\$34,280	1.1	25.6	26.7	81.3	82	90.2	85.4	43.9	7

\*Denotes Member of Congress

## Report 6

**CSRS**  
**EMPLOYEE ANNUITANTS ADDED TO THE ROLL**  
 Non-Congressional Employees

	ADDED TO THE ROLL		MONTHLY ANNUITY CONTRIBUTIONS		MEAN YEARS OF SERVICE		AGE AT ACC		PERCENT WITH:		ALTER. ANN. NUMBER	AVG.					
	NUMBER	% TOTAL MEN	MEAN	MEDIAN	MIL	CIV	TOTAL	MEAN	MEDIAN	FEGLI			MBX	SEN.			
<b>GENERAL</b>																	
AGE 55-59	6,984	18.5	78.9	2,487	2,310	90,783	66,800	2.0	21.8	24.8	87.0	87	90.6	81.8	71.2	18	83,285
AGE 60-64	3,924	9.8	81.1	1,781	1,472	40,884	34,804	1.8	27.3	29.1	60.8	61	92.0	87.0	82.4	18	41,684
AGE 65+	9,750	23.7	84.9	1,832	1,503	37,489	33,468	1.4	35.5	37.0	68.4	64	93.1	84.3	81.0	39	39,786
<b>SUBTOTAL</b>	<b>20,658</b>	<b>50.2</b>	<b>88.2</b>	<b>\$1,841</b>	<b>\$1,710</b>	<b>\$42,900</b>	<b>\$37,732</b>	<b>2.0</b>	<b>28.0</b>	<b>30.0</b>	<b>81.7</b>	<b>62</b>	<b>92.1</b>	<b>87.5</b>	<b>84.7</b>	<b>74</b>	<b>\$43,352</b>
<b>DISABILITY</b>																	
DIS W/ILL	2,178	5.2	60.7	1,048	868	23,078	21,980	0.8	16.8	17.6	48.7	49	87.0	81.7	49.4	0	-
DIS W/NO	72	0.2	68.1	1,288	592	33,360	29,584	1.2	21.1	23.4	68.9	63	94.4	76.4	70.8	0	-
<b>SUBTOTAL</b>	<b>2,250</b>	<b>5.5</b>	<b>60.9</b>	<b>\$1,088</b>	<b>\$968</b>	<b>\$56,438</b>	<b>\$51,564</b>	<b>0.8</b>	<b>17.0</b>	<b>17.8</b>	<b>48.3</b>	<b>49</b>	<b>87.2</b>	<b>81.5</b>	<b>50.1</b>	<b>0</b>	<b>-</b>
<b>DEFERRED</b>																	
DEFERRED	912	2.2	86.4	488	388	12,862	9,428	0.8	13.9	14.7	68.0	62	0.0	0.0	48.5	66	13,433
<b>INCUMBENT</b>																	
INCUMB. 50+	881	1.6	88.0	1,188	1,037	34,908	31,840	1.3	21.4	23.6	84.9	83	79.3	80.0	55.1	904	26,811
INCUMB. 55+	2,827	7.2	78.7	1,847	1,728	48,843	46,888	1.9	27.6	28.8	68.8	68	78.6	80.5	71.2	2,204	81,737
OTHER INV	2,288	5.8	82.0	2,288	2,281	97,697	96,621	2.2	30.6	31.8	80.4	80	80.4	88.7	74.9	2,170	81,980
<b>SUBTOTAL</b>	<b>5,438</b>	<b>12.2</b>	<b>78.3</b>	<b>\$1,992</b>	<b>\$1,817</b>	<b>\$80,712</b>	<b>\$47,773</b>	<b>2.0</b>	<b>28.1</b>	<b>30.1</b>	<b>89.2</b>	<b>86</b>	<b>82.8</b>	<b>87.6</b>	<b>88.9</b>	<b>4,816</b>	<b>\$52,432</b>
<b>EARLY OUT</b>																	
EARLY 50	2,480	6.1	48.0	1,210	1,071	31,818	29,899	1.0	21.7	22.7	89.1	85	81.2	81.5	47.1	3	32,887
EARLY 55	8,187	19.9	81.4	1,787	1,613	41,486	36,903	1.6	27.6	28.3	82.8	83	83.7	88.8	85.0	10	44,182
<b>SUBTOTAL</b>	<b>10,667</b>	<b>26.0</b>	<b>67.5</b>	<b>\$1,828</b>	<b>\$1,473</b>	<b>\$89,198</b>	<b>\$89,789</b>	<b>1.6</b>	<b>28.2</b>	<b>27.8</b>	<b>83.4</b>	<b>84</b>	<b>83.1</b>	<b>87.2</b>	<b>83.2</b>	<b>13</b>	<b>\$41,564</b>
<b>SPECIAL PROV.</b>																	
LAW/FIRE	879	2.1	88.0	3,073	3,083	88,881	89,483	3.2	25.8	27.8	88.0	88	81.8	84.2	76.8	268	88,289
AIR TRAFIC	101	0.2	88.0	2,800	2,888	81,788	82,842	3.7	26.6	23.3	88.2	88	91.1	88.0	85.2	3	77,883
<b>SUBTOTAL</b>	<b>980</b>	<b>2.4</b>	<b>88.0</b>	<b>\$3,088</b>	<b>\$3,012</b>	<b>\$88,186</b>	<b>\$89,872</b>	<b>2.4</b>	<b>25.8</b>	<b>28.3</b>	<b>88.0</b>	<b>88</b>	<b>82.8</b>	<b>84.4</b>	<b>79.9</b>	<b>271</b>	<b>\$88,64</b>
<b>OTHER CSRS</b>																	
OTHER CSRS	218	0.5	82.6	1,339	1,078	31,944	19,789	0.1	25.2	26.4	84.9	85	85.6	84.7	81.2	36	38,974
<b>TOTAL</b>	<b>41,088</b>	<b>100.0</b>	<b>86.4</b>	<b>\$1,808</b>	<b>\$1,678</b>	<b>\$41,384</b>	<b>\$37,468</b>	<b>1.8</b>	<b>26.8</b>	<b>28.4</b>	<b>87.9</b>	<b>88</b>	<b>85.8</b>	<b>85.3</b>	<b>81.3</b>	<b>5,278</b>	<b>\$51,84</b>

## Report 7

**FERS**  
**EMPLOYEE ANNUITANTS ON THE ROLL**  
**Congressional Members and Staff**  
**Retiring from the Senate or House**

	ON THE ROLL		MONTHLY ANNUITY CONTRIBUTIONS		MEAN YEARS OF SERVICE		AGE AT FY		YRS. ON		PERCENT WITH:							
	NUMBER	%TOTAL	MEAN	MEDIAN	MIL	CIV	TOTAL	MEAN	MEDIAN	MEAN	MEDIAN	FEGLI	HBX	SEX				
<b>IMMEDIATE</b>	8	2.1	50.0	743	601	11,704	13,406	0.7	12.4	13.2	60.7	61	1.3	1	50.0	62.5	62.5	
IMM W/RED	79	21.0	29.1	776	640	15,290	14,796	0.6	12.5	13.2	68.1	68	4.6	5	75.9	62.0	39.2	
IMM N/RED	11	2.9	27.3	1,692	1,291	22,450	19,166	1.6	22.3	23.9	66.4	88	4.4	4	81.8	63.8	27.3	
IMM 01.1%	88	26.0	30.6	\$698	\$796	\$15,801	\$14,946	0.8	13.6	14.4	67.5	68	4.3	4	74.5	62.2	39.6	
<b>SUBTOTAL</b>																		
<b>DISABILITY</b>	4	1.1	50.0	233	63	4,235	612	1.6	7.7	9.5	66.0	65	2.2	2	50.0	50.0	50.0	
D15 ERNEO	19	5.0	52.6	930	665	7,364	3,522	0.4	7.7	8.1	47.8	54	2.3	1	78.9	68.4	47.4	
D15 64RR	23	6.1	52.2	\$609	\$567	\$6,920	\$2,609	0.7	7.7	8.4	51.0	57	2.3	2	73.9	65.2	47.8	
<b>SUBTOTAL</b>																		
<b>POSTPONED</b>	1	0.3	0.0	581	581	21,710	21,710	0.0	15.8	15.8	60.7	61	0.6	1	100.0	100.0	0.0	
PSP W/RED	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
PSP N/RED	1	0.3	0.0	\$581	\$581	\$21,710	\$21,710	0.0	15.8	15.8	60.7	61	0.6	1	100.0	100.0	0.0	
<b>SUBTOTAL</b>																		
<b>DEFERRED</b>	7	1.9	14.3	245	214	5,136	2,335	0.4	7.1	7.6	65.0	64	3.6	4	0.0	0.0	28.6	
OPD W/RED	7	1.9	14.3	\$245	\$214	\$5,136	\$2,335	0.4	7.1	7.6	65.0	64	3.6	4	0.0	0.0	28.6	
<b>SUBTOTAL</b>																		
<b>INVOLUNTARY</b>	50	13.3	46.0	1,122	624	18,716	8,761	0.9	13.9	14.6	64.1	64	3.0	3	64.0	64.0	36.0	
INV/DISCN	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>EARLY OPT</b>	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>SPECIAL PROV.</b>	1	0.3	100.0	2,883	2,883	47,959	47,959	3.7	26.8	30.8	50.2	50	1.4	1	100.0	100.0	0.0	
LAW/FIRE	30	8.0	93.3	4,368	2,972	49,851	38,901	2.1	21.7	23.8	69.9	69	2.2	2	93.3	93.3	63.3	
MAR FERS*	187	44.3	38.5	944	435	19,803	9,831	0.7	12.7	13.4	65.0	65	1.5	2	71.9	54.5	42.3	
<b>MOC STAFF</b>	198	52.5	48.0	\$1,472	\$837	\$19,223	\$8,567	0.9	14.2	15.1	65.7	65	1.6	2	75.3	60.6	48.5	
<b>SUBTOTAL</b>																		
<b>OTHER FERS</b>	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>TOTAL</b>	377	100.0	42.7	\$1,211	\$655	\$17,255	\$8,956	0.9	13.5	14.3	65.0	65	2.6	2	72.1	60.7	44.3	

\*Denotes Member of Congress

Report 8

**FERS**  
**EMPLOYEE ANNUITANTS ON THE ROLL**  
*Congressional Members and Staff*  
 Not Retiring from the Senate or House

	ON THE ROLL		MONTHLY ANNUITY CONTRIBUTIONS			MEAN YEARS OF SERVICE			AGE AT PY			YRS. ON			PERCENT WITH:		
	NUMBER	STOTAL	MEAN	MEDIAN	MAX	MIL	CIV	TOTAL	MEAN	MEDIAN	MAX	MEAN	MEDIAN	MAX	FEEL	HRX	SEX
IMMEDIATE	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
IMM H/RED	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
IMM H/RED	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
IMM 61.1%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
SUBTOTAL	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
DISABILITY	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
OIS ERNED	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
OIS 64RR	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
SUBTOTAL	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
POSTPONED	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
PSP H/RED	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
PSP H/RED	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
SUBTOTAL	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
DEFERRED	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
DFD H/RED	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
DFD H/RED	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
SUBTOTAL	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
INVOLUNTARY	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
INV/DISCN	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
EARLY OPT	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
SPECIAL PROV.	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
LAW/FIRE	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
AIR TRAFIC	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
MOC FERS-H	1	4.0	100.0	638	0	0.0	8.2	8.2	70.7	71	7.0	7	100.0	100.0	100.0	100.0	100.0
MOC STAFF	24	96.0	94.2	1,054	701	16,928	1.3	15.4	16.7	89.2	64	1.1	1	83.3	78.0	84.2	84.2
SUBTOTAL	25	100.0	96.0	\$1,614	\$686	\$18,131	\$6,908	1.3	15.0	16.3	89.4	64	1.3	1	84.0	76.0	86.0
OTHER FERS	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
TOTAL	25	100.0	96.0	\$1,614	\$686	\$18,131	\$6,908	1.3	15.0	16.3	89.4	64	1.3	1	84.0	78.0	86.0

\*Denotes Member of Congress

## Report 9

**FERS**  
**EMPLOYEE ANNUITANTS ON THE ROLL**  
*Non-Congressional Employees*

	ON THE ROLL		MONTHLY ANNUITY CONTRIBUTIONS		MEAN YEARS OF SERVICE		AGE AT FY		YRS. ON		PERCENT WITH:							
	NUMBER	% TOTAL MEN	MEAN	MEDIAN	MIL	CIV	MEAN	MEDIAN	MEAN	MEDIAN	FEDLI	%S						
<b>IMMEDIATE</b>	3,118	6.6	51.9	416	328	6,972	6,166	1.1	13.7	14.8	60.4	60	1.9	2	77.6	82.4	40.4	
IMM W/RED	21,857	47.3	43.9	618	324	9,157	3,687	0.9	13.7	14.7	66.5	66	3.5	3	85.1	64.9	41.2	
IMM N/RED	5,885	12.9	20.9	1,157	950	20,560	19,438	0.8	23.6	26.4	66.2	69	4.3	5	93.1	81.4	31.3	
<b>SUBTOTAL</b>	30,530	67.0	40.3	\$630	\$427	\$11,284	\$8,510	0.9	18.0	16.9	66.2	66	3.5	3	85.9	67.8	39.2	
<b>DISABILITY</b>																		
DIS EARNED	654	1.4	74.0	258	114	3,481	891	1.7	6.9	8.6	59.1	62	3.2	3	80.6	44.6	57.0	
DIS 64RR	10,171	22.3	58.9	599	508	2,092	1,072	0.4	6.0	6.4	48.3	48	3.2	3	85.5	71.1	42.9	
<b>SUBTOTAL</b>	10,825	23.8	59.8	\$578	\$483	\$2,176	\$1,061	0.5	6.1	6.6	48.9	48	3.2	3	85.2	69.5	43.8	
<b>POSTPONED</b>																		
PSP W/RED	9	0.1	66.7	425	289	9,210	8,399	1.4	12.2	13.6	59.6	59	0.7	0	22.2	22.2	66.7	
PSP N/RED	40	0.1	42.5	489	297	10,665	4,282	0.8	13.9	14.7	63.6	63	1.6	1	15.0	10.0	42.5	
<b>SUBTOTAL</b>	49	0.1	46.9	\$477	\$295	\$10,398	\$4,874	0.9	13.6	14.5	62.9	63	1.4	1	16.3	12.2	46.9	
<b>DEFERRED</b>																		
DFD W/RED	55	0.1	41.8	599	395	17,836	13,288	0.8	15.8	16.6	56.5	56	1.2	1	0.0	1.8	20.1	
DFD N/RED	335	0.7	56.1	345	175	7,467	1,558	0.8	9.8	10.5	63.3	63	2.4	2	0.0	0.6	43.3	
<b>SUBTOTAL</b>	390	0.9	54.1	\$372	\$194	\$6,830	\$2,132	0.6	10.7	11.3	62.3	63	2.3	2	0.0	0.8	41.3	
<b>INVOLUNTARY</b>																		
INV/DISCN	1,438	3.2	37.7	1,103	966	19,043	19,258	1.2	21.7	22.9	60.9	61	4.2	4	44.8	71.2	37.3	
<b>EARLY OPT</b>	1,808	4.0	57.9	859	787	13,250	10,822	2.1	18.0	20.0	60.8	61	1.7	2	86.1	73.7	47.0	
<b>SPECIAL PROV.</b>																		
LAW/FIRE	460	1.0	99.1	3,834	3,886	47,871	51,877	1.2	27.1	28.3	54.7	55	3.6	3	80.0	97.0	79.1	
AIR FERS	2	0.0	100.0	2,078	2,078	37,035	37,035	4.0	28.9	32.8	66.5	66	4.9	3	100.0	100.0	50.0	
TELEFERS	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
MOC STAFF	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>SUBTOTAL</b>	462	1.0	99.1	\$3,627	\$3,581	\$47,824	\$51,763	1.2	27.1	28.3	54.7	55	3.6	4	80.1	97.0	79.0	
<b>OTHER FERS</b>	47	0.1	2.1	756	860	118	0	0.0	9.2	9.2	49.7	49	0.7	1	4.3	80.9	2.1	
<b>TOTAL</b>	45,549	100.0	46.2	\$670	\$471	\$9,781	\$2,918	0.9	14.0	14.8	61.6	64	3.4	3	84.7	68.2	40.9	

Report 10

**FERS**

**EMPLOYEE ANNUITANTS ADDED TO THE ROLL  
Congressional Members and Staff  
Retiring from the Senate or House**

	ADDED TO THE ROLL		MONTHLY ANNUITY CONTRIBUTIONS				MEAN YEARS OF SERVICE		AGE AT ACQ		PERCENT WITH		ALTER ANN.				
	NUMBER	%TOTAL	MEAN	MEDIAN	MEAN	MEDIAN	MIL	CIV	MEAN	MEDIAN	FEGLI	HRK	SEX	NUMBER	AVG.		
IMMEDIATE	5	6.7	60.0	71.7	10,126	6,900	1.2	11.5	12.7	58.6	59	40.0	40.0	80.0	2	12.715	
IMM W/RED	2	2.7	50.0	1,788	38,877	28,877	0.0	23.1	25.2	60.9	61	50.0	100.0	50.0	1	49.091	
IMM N/RED	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
IMM 81-1%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
SUBTOTAL	7	8.3	71.4	\$1,023	\$827	\$17,426	\$16,884	0.8	15.5	16.4	59.3	59	42.9	57.1	71.4	3	\$24,840
DISABILITY	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
D1\$ EARNED	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
D1\$ 84RR	4	5.3	50.0	1,260	1,131	3,126	3,713	0.0	8.0	8.0	38.1	34	75.0	50.0	50.0	0	-
SUBTOTAL	4	5.3	50.0	\$1,260	\$1,131	\$3,126	\$3,713	0.0	8.0	8.0	38.1	34	75.0	50.0	50.0	0	-
POSTPONED	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
PSP W/RED	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
PSP N/RED	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
SUBTOTAL	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
DEFERRED	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
DFD W/RED	1	1.3	0.0	164	164	1,195	1,195	0.0	5.9	5.9	62.1	62	0.0	0.0	0.0	0	-
DFD N/RED	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
SUBTOTAL	1	1.3	0.0	\$164	\$164	\$1,198	\$1,195	0.0	5.9	5.9	62.1	62	0.0	0.0	0.0	0	-
INVOLUNTARY	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
INV/D1SCN	10	13.3	70.0	2,856	2,809	42,044	49,224	3.3	18.3	21.8	58.4	58	70.0	90.0	50.0	7	48,125
EARLY DPT	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
SPECIAL PROV.	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
LAW/FIRE	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
AIR TRAFIC	12	16.0	83.3	4,323	2,483	44,981	21,885	1.0	21.3	22.3	65.2	65	83.3	91.7	91.7	0	-
MOC FERS *	41	54.7	46.3	1,261	872	14,380	4,872	0.5	14.2	14.8	62.2	62	68.3	56.1	46.3	13	15,970
MOC STAFF	83	70.7	54.7	\$1,854	\$1,088	\$21,308	\$6,312	0.6	15.8	16.5	62.9	69	71.7	64.2	56.6	13	\$15,970
SUBTOTAL	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
OTHER FERS	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
TOTAL	76	100.0	57.3	\$1,887	\$1,088	\$22,474	\$6,312	1.0	15.8	16.6	60.6	62	68.0	65.3	56.0	23	\$26,913

\*Denotes Member of Congress

## Report 11

## FERS

EMPLOYEE ANNUITANTS ADDED TO THE ROLL  
 Congressional Members and Staff  
 Not Retiring from the Senate or House

	ADDED TO THE ROLL NUMBER %TOTAL %MEN	MONTHLY ANNUITY CONTRIBUTIONS		MEAN YEARS OF SERVICE			AGE AT AGO			PERCENT WITH:			ALTER . ANN. NUMBER . AVG.		
		MEAN	MEAN	MEAN	MEAN	MEAN	MEAN	MEAN	FEGLI	HBX	SEX				
IMMEDIATE	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
IMM N/RED	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
IMM 01.1%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
SUBTOTAL	-	-	-	-	-	-	-	-	-	-	-	-	-	0	
DISABILITY	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
DIS EARNED	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
DIS 6ARR	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
SUBTOTAL	-	-	-	-	-	-	-	-	-	-	-	-	-	0	
POSTPONED	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
PSP W/RED	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
PSP N/RED	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
SUBTOTAL	-	-	-	-	-	-	-	-	-	-	-	-	-	0	
OFFERED	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
OFD W/RED	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
OFD N/RED	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
SUBTOTAL	-	-	-	-	-	-	-	-	-	-	-	-	-	0	
INVOLUNTARY	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
INV/DISCN	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
EARLY OPT	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
SPECIAL PROV.	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
LAW/FIRE	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
AIR TRAF	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
MOC FERS	8 100.0	37.5	1,724	826	22,731	10,016	0.9	13.6	14.6	63.3	62	75.0	87.5	50.0	1 12,380
MOC STAFF	8 100.0	37.5	1,724	826	22,731	10,016	0.9	13.6	14.6	63.3	62	75.0	87.5	50.0	1 12,380
SUBTOTAL	8 100.0	37.5	1,724	826	22,731	10,016	0.9	13.6	14.6	63.3	62	75.0	87.5	50.0	1 12,380
OTHER FERS	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
TOTAL	8 100.0	37.5	1,724	826	22,731	10,016	0.9	13.6	14.6	63.3	62	75.0	87.5	50.0	1 12,380

Report 12

**FERS**  
**EMPLOYEE ANNUITANTS ADDED TO THE ROLL**  
*Non-Congressional Employees*

	ADDED TO THE ROLL		MONTHLY ANNUITY		CONTRIBUTIONS		MEAN YEARS OF SERVICE		AGE AT ACC.		PERCENT WITH:		ALTER. ANN. NUMBER AVG.					
	NUMBER	% TOTAL	MEAN	STANDARD DEVIATION	MEAN	STANDARD DEVIATION	MIL	CIV	TOTAL	MEAN	STANDARD DEVIATION	FEGLI		SEX				
<b>IMMEDIATE</b>																		
IME W/REG	888	11.2	86.5		282	274	6,083	2,178	1.0	12.6	13.6	88.8	88	74.9	60.9	40.2	8	2,329
IME W/REG	2,388	49.2	86.2		846	815	21,116	7,116	1.2	18.3	18.5	84.8	84	83.8	68.7	50.7	5	6,748
IME 01-1%	388	7.0	30.8		1,357	1,099	21,707	19,348	1.2	18.3	27.7	85.4	83	83.2	86.4	42.5	2	16,728
<b>SUBTOTAL</b>	<b>3,122</b>	<b>58.2</b>	<b>84.7</b>		<b>8820</b>	<b>8200</b>	<b>97,837</b>	<b>38,721</b>	<b>1.2</b>	<b>13.4</b>	<b>14.6</b>	<b>82.8</b>	<b>83</b>	<b>82.2</b>	<b>87.6</b>	<b>47.7</b>	<b>15</b>	<b>56,822</b>
<b>DISABILITY</b>																		
DIS W/REG	84	1.6	81.0		284	151	2,089	1,050	1.6	6.9	6.7	86.1	88	82.1	88.2	81.9	0	-
DIS 01-1%	1,462	37.2	88.4		888	778	1,828	1,328	0.4	6.7	7.1	89.4	88	88.0	77.0	48.0	0	-
<b>SUBTOTAL</b>	<b>1,526</b>	<b>38.8</b>	<b>88.6</b>		<b>8820</b>	<b>8744</b>	<b>91,689</b>	<b>51,219</b>	<b>0.8</b>	<b>6.7</b>	<b>7.2</b>	<b>46.0</b>	<b>48</b>	<b>85.8</b>	<b>78.0</b>	<b>45.0</b>	<b>0</b>	<b>-</b>
<b>POSTPONED</b>																		
POP W/REG	8	0.1	100.0		509	282	6,006	2,178	3.1	11.6	19.8	80.5	60	40.0	40.0	100.0	0	-
POP 01-1%	8	0.2	37.8		288	220	7,481	6,428	0.8	10.7	11.2	83.2	82	12.3	0.0	50.0	1	3,206
<b>SUBTOTAL</b>	<b>12</b>	<b>0.2</b>	<b>61.8</b>		<b>8261</b>	<b>8289</b>	<b>97,108</b>	<b>99,206</b>	<b>1.1</b>	<b>11.1</b>	<b>12.3</b>	<b>82.0</b>	<b>82</b>	<b>33.1</b>	<b>18.4</b>	<b>69.2</b>	<b>1</b>	<b>83,206</b>
<b>DEFERRED</b>																		
DFR W/REG	11	0.3	48.8		814	302	21,088	11,233	1.2	15.2	16.4	88.8	88	0.0	0.0	27.3	1	10,802
DFR 01-1%	48	0.9	88.3		329	188	5,482	1,821	0.4	7.3	8.3	81.8	82	0.0	0.0	47.8	2	1,888
<b>SUBTOTAL</b>	<b>59</b>	<b>1.1</b>	<b>88.9</b>		<b>8506</b>	<b>8184</b>	<b>88,760</b>	<b>51,893</b>	<b>0.6</b>	<b>8.2</b>	<b>9.8</b>	<b>80.8</b>	<b>82</b>	<b>0.0</b>	<b>0.0</b>	<b>44.1</b>	<b>3</b>	<b>54,828</b>
<b>INVOLUNTARY</b>																		
IMP/DTICH	180	3.6	84.0		1,142	768	19,448	16,812	1.6	19.6	21.2	80.4	81	78.7	78.7	48.7	84	23,828
EARLY OPT	340	6.4	44.1		1,099	944	16,839	14,908	1.9	21.4	29.2	86.4	88	78.6	73.5	48.0	3	9,388
<b>SPECIAL PROV.</b>																		
SPR W/REG	40	0.8	97.8		4,488	4,287	84,891	86,992	0.9	28.9	28.6	82.7	82	78.0	98.0	88.0	8	47,888
SPR 01-1%	-	-	-		-	-	-	-	-	-	-	-	-	-	-	-	-	-
REG FERS	-	-	-		-	-	-	-	-	-	-	-	-	-	-	-	-	-
REG STAFF	-	-	-		-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>SUBTOTAL</b>	<b>40</b>	<b>0.8</b>	<b>97.8</b>		<b>84,488</b>	<b>84,227</b>	<b>884,891</b>	<b>899,993</b>	<b>0.9</b>	<b>28.9</b>	<b>28.6</b>	<b>82.7</b>	<b>82</b>	<b>78.0</b>	<b>98.0</b>	<b>88.0</b>	<b>8</b>	<b>47,888</b>
<b>OTHER FERS</b>																		
OTR FERS	23	0.6	0.0		798	880	0	0	0.0	8.8	8.8	48.1	48	0.0	81.8	0.0	0	-
<b>TOTAL</b>	<b>8,284</b>	<b>100.0</b>	<b>88.4</b>		<b>8882</b>	<b>8447</b>	<b>97,182</b>	<b>92,187</b>	<b>1.0</b>	<b>12.2</b>	<b>13.2</b>	<b>87.7</b>	<b>81</b>	<b>81.7</b>	<b>69.9</b>	<b>48.7</b>	<b>124</b>	<b>822,206</b>



Report 13

**CSRS/FERS**  
**SURVIVOR ANNUITANTS ON THE ROLL**  
*Congressional Members and Staff*  
 Retiring from the Senate or House

SURVIVOR CATEGORY	ON THE ROLL NUMBER	%	MONTHLY ANNUITY		AGE AT		YRS. MEAN	ENROLL MEDIAN
			MEAN	MEDIAN	MEAN	MEDIAN		
<b>SURVIVORS OF DECEASED ANNUITANTS</b>								
WIDOWERS	791	83.3	1,698	1,408	77.0	78	10.0	8
FORMER SPOUSES	87	7.0	676	874	76.8	77	7.3	6
INSURABLE INTEREST	10	0.8	2,240	2,354	72.0	71	4.9	5
CHILDREN	8	0.4	1,141	701	71.7	71	17.5	20
NO SPOUSE SURVIVING	2	0.2	314	316	31.3	22	7.9	7
NO SPOUSE SURVIVING	2	0.2	380	380	33.3	33	6.2	7
<b>SUBTOTAL</b>	<b>919</b>	<b>73.5</b>	<b>1,584</b>	<b>1,252</b>	<b>75.8</b>	<b>77</b>	<b>9.7</b>	<b>8</b>
<b>SURVIVORS OF DECEASED EMPLOYEES</b>								
WIDOWERS	275	21.0	1,085	1,022	69.6	71	18.4	18
FORMER SPOUSES	21	1.7	719	854	69.1	61	10.0	10
CHILDREN	35	2.8	318	316	19.4	18	8.1	4
SPOUSE SURVIVING	33	2.6	315	316	16.6	17	8.2	3
NO SPOUSE SURVIVING	2	0.2	379	379	32.2	32	6.6	7
<b>SUBTOTAL</b>	<b>331</b>	<b>26.5</b>	<b>1,213</b>	<b>772</b>	<b>63.9</b>	<b>68</b>	<b>16.8</b>	<b>16</b>
<b>SUMMARY BY RELATIONSHIP</b>								
WIDOWS	1,066	85.3	1,611	1,329	75.1	76	12.2	10
WIDOWERS	108	8.6	682	592	74.4	75	7.8	7
FORMER SPOUSES	10	0.8	2,240	2,354	72.0	71	4.9	5
INSURABLE INTEREST	5	0.4	1,141	701	71.7	71	17.5	20
CHILDREN	61	4.9	319	316	24.5	20	8.0	5
<b>TOTAL</b>	<b>1,250</b>	<b>100.0</b>	<b>1,471</b>	<b>1,128</b>	<b>72.5</b>	<b>75</b>	<b>11.6</b>	<b>10</b>

## Report 14

**CSRS/FERS**  
**SURVIVOR ANNUITANTS ON THE ROLL**  
**Congressional Members and Staff**  
**Not Retiring from the Senate or House**

	ON THE ROLL		MONTHLY ANNUITY		AGE AT FY		YRS. DRODGL		
	NUMBER	%	MEAN	MEDIAN	MEAN	MEDIAN	MEAN	MEDIAN	
<b>SURVIVORS OF DECEASED ANNUITANTS</b>									
WIDOWS	285	88.6	1,110	877	74.1	78	8.9	8	
WIDOWERS	15	5.1	831	433	76.3	78	8.9	6	
FORMER SPOUSES	3	1.0	2,409	1,282	79.7	82	8.0	7	
INSURABLE INTEREST	9	2.8	328	317	73.4	74	8.2	7	
CHILDREN	7	2.2	328	317	73.4	74	8.2	7	
INSURABLE INTEREST	2	0.7	314	313	29.3	30	8.6	8	
SPOUSE SURVIVING	2	0.7	378	378	29.0	28	13.8	14	
NO SPOUSE SURVIVING	292	89.0	1,068	839	72.9	74	8.8	8	
SUBTOTAL									
<b>SURVIVORS OF DECEASED EMPLOYEES</b>									
WIDOWS	3	1.0	2,137	2,631	70.7	73	12.1	3	
WIDOWERS	-	-	-	-	-	-	-	-	
FORMER SPOUSES	-	-	-	-	-	-	-	-	
CHILDREN	-	-	-	-	-	-	-	-	
INSURABLE INTEREST	-	-	-	-	-	-	-	-	
SPOUSE SURVIVING	-	-	-	-	-	-	-	-	
NO SPOUSE SURVIVING	3	1.0	2,137	2,631	70.7	73	12.1	3	
SUBTOTAL									
<b>SUMMARY BY RELATIONSHIP</b>									
WIDOWS	288	89.8	1,121	888	74.0	78	8.9	8	
WIDOWERS	15	5.1	831	433	76.0	78	8.9	6	
FORMER SPOUSES	3	1.0	2,409	1,282	79.7	82	8.0	7	
INSURABLE INTEREST	9	3.0	848	848	73.4	73	8.2	7	
CHILDREN	9	3.0	329	317	29.2	30	8.2	8	
TOTAL	298	100.0	1,078	840	72.8	74	8.9	8	



Report 16

**CSRS/FERS**  
**SURVIVOR ANNUITANTS ADDED TO THE ROLL**  
 Congressional Members and Staff  
 Retiring from the Senate or House

SURVIVOR CATEGORY	ADDED TO ROLL NUMBER	AGE AT RETIREMENT MEAN	MONTHLY ANNUITY		AGE AT ACB	
			MEAN	MEDIAN	MEAN	MEDIAN
<b>SURVIVORS OF DECEASED ANNUITANTS</b>						
WIDOWS	35	74.6	1,714	1,621	72.9	74
WIDOWERS	5	10.6	266	266	74.4	77
FORMER SPOUSES	1	2.1	4,446	4,446	78.7	77
INSURABLE INTEREST	-	-	-	-	-	-
CHILDREN	-	-	-	-	-	-
SPOUSE SURVIVING	2	4.3	318	318	18.0	16
NO SPOUSE SURVIVING	2	4.3	318	318	18.0	16
<b>SUBTOTAL</b>	<b>43</b>	<b>91.5</b>	<b>1,956</b>	<b>1,348</b>	<b>70.5</b>	<b>74</b>
<b>SURVIVORS OF DECEASED EMPLOYEES</b>						
WIDOWS	2	4.3	298	298	53.3	53
WIDOWERS	1	2.1	1,071	1,071	35.4	35
FORMER SPOUSES	-	-	-	-	-	-
CHILDREN	1	2.1	318	318	2.2	2
SPOUSE SURVIVING	1	2.1	318	318	2.2	2
NO SPOUSE SURVIVING	-	-	-	-	-	-
<b>SUBTOTAL</b>	<b>4</b>	<b>8.5</b>	<b>496</b>	<b>397</b>	<b>36.1</b>	<b>44</b>
<b>* SUMMARY BY RELATIONSHIP</b>						
WIDOWS	37	76.7	1,637	1,483	71.9	74
WIDOWERS	6	12.9	464	376	67.9	74
FORMER SPOUSES	1	2.1	4,446	4,446	78.7	77
INSURABLE INTEREST	-	-	-	-	-	-
CHILDREN	3	6.4	318	318	11.4	16
<b>TOTAL</b>	<b>47</b>	<b>100.0</b>	<b>1,466</b>	<b>1,076</b>	<b>67.6</b>	<b>73</b>

**CSRS/FERS**

**SURVIVOR ANNUITANTS ADDED TO THE ROLL  
Congressional Members and Staff  
Not Retiring from the Senate or House**

SURVIVOR CATEGORY	ADDED TO ROLL NUMBER	AGE AT ROL %	MONTHLY ANNUITY		AGE AT ACD	
			MEAN	MEDIAN	MEAN	MEDIAN
<b>SURVIVORS OF DECEASED ANNUITANTS</b>						
WIDOWS	10	90.8	1,304	1,129	70.7	72
WIDOWERS	1	9.1	883	883	73.8	74
FORMER SPOUSES						
INSURABLE INTEREST						
CHILDREN						
NO SPOUSE SURVIVING						
NO SPOUSE SURVIVING						
<b>SUBTOTAL</b>	<b>11</b>	<b>100.0</b>	<b>1,248</b>	<b>879</b>	<b>71.0</b>	<b>74</b>
<b>SURVIVORS OF DECEASED EMPLOYEES</b>						
WIDOWS						
WIDOWERS						
FORMER SPOUSES						
CHILDREN						
NO SPOUSE SURVIVING						
NO SPOUSE SURVIVING						
<b>SUBTOTAL</b>						
<b>SUMMARY BY RELATIONSHIP</b>						
WIDOWS	10	90.8	1,304	1,129	70.7	72
WIDOWERS	1	9.1	883	883	73.8	74
FORMER SPOUSES						
INSURABLE INTEREST						
CHILDREN						
<b>TOTAL</b>	<b>11</b>	<b>100.0</b>	<b>1,248</b>	<b>879</b>	<b>71.0</b>	<b>74</b>

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## CSRS/FERS

SURVIVOR ANNUITANTS ADDED TO THE ROLL  
Non-Congressional Employees

SURVIVOR CATEGORY	ADDED TO ROLL NUMBER	%	MONTHLY ANNUITY		AGE AT ACD	
			MEAN	MEDIAN	MEAN	MEDIAN
<b>SURVIVORS OF DECEASED ANNUITANTS</b>						
WIDOWS	16,291	81.6	893	860	70.8	72
FORMER SPOUSES	1,078	5.4	82	97	62.3	64
INSURABLE INTEREST	18	0.8	1,107	881	62.3	64
CHILDREN	609	3.0	838	861	70.1	72
NO SPOUSE SURVIVING	529	2.6	317	318	20.1	18
NO SPOUSE SURVIVING	80	0.4	378	318	18.5	18
<b>SUBTOTAL</b>	<b>18,256</b>	<b>91.2</b>	<b>916</b>	<b>816</b>	<b>69.1</b>	<b>71</b>
<b>SURVIVORS OF DECEASED EMPLOYEES</b>						
WIDOWS	904	4.8	818	890	80.4	80
FORMER SPOUSES	188	0.8	592	621	83.7	84
CHILDREN	89	0.4	744	766	82.0	83
NO SPOUSE SURVIVING	622	3.2	307	318	13.7	14
NO SPOUSE SURVIVING	89	0.3	249	282	12.8	13
<b>SUBTOTAL</b>	<b>1,770</b>	<b>8.8</b>	<b>699</b>	<b>682</b>	<b>36.4</b>	<b>42</b>
<b>SUMMARY BY RELATIONSHIP</b>						
WIDOWS	17,295	86.4	988	884	69.7	71
FORMER SPOUSES	1,242	6.2	818	472	69.6	71
INSURABLE INTEREST	22	0.8	1,088	972	67.3	68
CHILDREN	1,300	6.5	514	318	70.1	72
<b>TOTAL</b>	<b>20,026</b>	<b>100.0</b>	<b>886</b>	<b>786</b>	<b>68.3</b>	<b>70</b>

# CRS Report for Congress

## Retirement for Members of Congress

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Congressional Research Service • The Library of Congress



## RETIREMENT FOR MEMBERS OF CONGRESS

### SUMMARY

The 1983 amendments to the Social Security Act (P.L. 98-21) included a requirement that all Members of Congress be covered under social security as of January 1, 1984. Before that time, only one retirement plan was available to Members, a congressional service version of the Civil Service Retirement System (CSRS). Because the CSRS was not intended to coordinate with social security, Congress designed a new retirement system, including a plan for Members and a plan for other Federal workers covered by social security. This new plan, the Federal Employees' Retirement System Act of 1986 (FERS), was signed as P.L. 99-335 on June 6, 1986. Although Members first entering Congress after 1983 are covered automatically under the congressional version of FERS (unless they decline coverage), many already in Congress when social security coverage went into effect had an opportunity to change their retirement program coverage. As a result, Members are now covered under one of four different retirement arrangements. These arrangements are:

- Full coverage under the CSRS plus social security;
- The "CSRS Offset" plan, under which Members are covered by CSRS and social security, with CSRS contributions and benefits reduced by social security contributions and benefits;
- FERS plus social security; and
- Social security alone.

Under both CSRS and FERS, Members must serve a minimum of 5 years to be eligible to draw a pension, but must meet certain minimum age and service requirements for a pension to be payable immediately upon retirement.

Congressional pensions, like those of other Federal employees, are financed mainly by general revenues, although required participant contributions cover a small portion of the cost.

At the end of FY 1994, there were 381 living retired Members of Congress. Of these, 362 had retired under the CSRS and had an average gross congressional pension of \$45,120. Nineteen had retired with a combination of CSRS and FERS service; their average gross congressional pension was \$49,128.



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## RETIREMENT FOR MEMBERS OF CONGRESS

### HISTORY AND BACKGROUND

In January 1942, P.L. 77-411 extended to Members of Congress coverage under the Federal Civil Service Retirement System (CSRS), the pension plan established in 1920 for executive branch personnel. However, that law was repealed 2 months later because of adverse public opinion and the war. In 1946, P.L. 79-601 extended CSRS coverage to Members again, at their option, with somewhat more generous benefits than those applicable to regular Federal employees. In support of that legislation, S. Rept. 79-1400 (May 31, 1946) averred that a retirement plan for Members:

*would contribute to independence of thought and action, [be] an inducement for retirement for those of retiring age or with other infirmities, [and] bring into the legislative service a larger number of younger Members with fresh energy and new viewpoints concerning the economic, social, and political problems of the Nation.*

Originally, Members contributed 6 percent of their salary into the CSRS. Annuities ranged from about 15 percent of a Member's final annual pay if the Member had at least 6 years of service and was age 62 or over, to a maximum of 75 percent at age 60 after 30 years. Over time, Congress changed various provisions of the CSRS. Currently, Members contribute 8 percent of salary; benefits at the time of retirement range from about 12.5 percent of pay if the Member has 5 years of service and is age 62 or over, to a maximum of 80 percent after 32 years if the Member is at least age 60. A Member may retire with a reduced annuity if he or she is not reelected and is at least age 50 with 20 years of service. Since 1962, CSRS pensions to retired Federal workers and Members have been protected against inflation through cost-of-living adjustments (COLAs).

In 1983, P.L. 98-21 required social security coverage for Federal civilian employees entering the civil service after 1983. All incumbent Members were included, regardless of when they entered Congress. Those participating in the CSRS before 1984 could elect to stay in that plan in addition to social security or under special rules that integrate CSRS and social security, but the CSRS was closed to new employees and Members, and the plan will eventually end when all who entered service before 1984 (and their survivors) die.

P.L. 99-335 established the Federal Employees' Retirement System (FERS) to coordinate with social security for those entering Federal service or Congress after 1983. Like CSRS, FERS was designed to provide somewhat more generous benefits for Members than for most other Federal employees because of the uncertain tenure of congressional service and to compensate for the interruption of retirement benefits Members might otherwise accrue if they remained in private careers rather than entering public service. FERS requires enrolled Members to pay 1.3 percent of salary into that

system, plus social security taxes (6.2 percent in 1995). For Members who meet the age requirements, starting annuities range from about 8.5 percent of final annual pay after 5 years of service to 34 percent after 20 years plus 1.0 percent for all years of service beyond 20, with no maximum. To be eligible to retire, Members participating in FERS must be age 50 with at least 20 years of service, age 62 with 5 years, or may be any age with at least 25 years. As a cost-saving measure, FERS pensions do not have full inflation protection.

On the one hand, Members' pensions have been criticized as being more generous than those for private sector workers. On the other hand, some say private sector executives are generally paid more, which generates higher pensions, and they usually are not required to pay into their pension plan. Further, private executives may receive retirement benefits in addition to a pension. Nevertheless, most private pension plans provide only partial inflation protection, and thus the benefits lose value over the course of retirement.

Congressional pensions, like those of other Federal employees, are financed mainly by general revenues, although required participant contributions cover a small portion of the cost.

As of the end of fiscal year 1994, there were 381 living former Members of Congress receiving a pension, 362 of whom retired under the CSRS and 19 of whom retired under FERS. (These Members switched from CSRS to FERS during the 1987 open season.) On average, they had been retired for about 12 years. For those under CSRS, Federal service averaged 20.1 years, their average age was 74.7, and their average monthly annuity was \$3,760. For those under FERS, Federal service averaged 23.8 years, their average age was 72.4, and their average monthly annuity was \$4,094.

#### **RETIREMENT PLANS AVAILABLE TO MEMBERS OF CONGRESS**

The retirement plans available to Members of Congress are: (1) *CSRS*, which was extended to Members in 1946 but is now closed to new enrollees; (2) *social security*, which covered all Members as of January 1, 1984; (3) *FERS*, which was designed to coordinate with social security; (4) the *Thrift Savings Plan (TSP)* in which Members may choose to deposit limited sums for investment for retirement. The retirement system covering any individual Member depends on when he or she was first elected to Congress and on certain choices the Member made when social security coverage was extended to congressional service and when the FERS was implemented.

**Members First Elected Before January 1, 1984**

Current Members first elected to Congress before January 1, 1984, are *now* covered under one of four retirement arrangements:<sup>1,2</sup>

1. **Dual Coverage**  
Covered in full by CSRS plus social security.
2. **CSRS Offset**  
Covered by CSRS and social security with CSRS contributions offset by social security contributions and CSRS benefits offset by social security benefits.<sup>3</sup>
3. **FERS and Social Security**  
FERS plus social security.
4. **Social Security only**  
No additional pension plan coverage.

**Members First Elected After January 1, 1984**

Most Members first elected to Congress after January 1, 1984, participate in FERS plus social security, or they may decline FERS coverage and participate only in social security. The exceptions are: (1) any Member who enters Congress with at least 5 years of previous Federal employment covered by the CSRS or the Foreign Service Retirement System (such as employment in the executive branch or as a congressional staff member) may join the CSRS Offset Plan; (2) any Member elected to Congress between January 1, 1984, and January 1, 1987, who had some Federal service, but fewer than 5 years, before entering Congress, but who, as of December 31, 1986, completed 5 years with the addition of the new congressional service, may have joined the CSRS Offset Plan. (Like all Federal employees, Members could elect to switch from a CSRS plan to FERS during a governmentwide "open season" for making retirement plan choices between July 1, 1987, and December 31, 1987.) No Member elected to Congress after January 1, 1984, may have dual coverage under CSRS plus social security, regardless of previous Federal service.

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<sup>1</sup>Unlike other Federal employees, Members of Congress (and certain other employees of the legislative branch) were not required to join CSRS when it was available to them, and Members have a one-time option to decline FERS coverage or drop out of FERS.

<sup>2</sup>Members who are covered by CSRS or FERS are eligible also to participate in the TSP.

<sup>3</sup>The amount of social security subtracted from the CSRS pension is the amount attributable to congressional service only.

## AGE AND SERVICE REQUIRED FOR RETIREMENT

Members must participate in CSRS or FERS for a minimum of 5 years to be "vested" for pension plan benefits. The age and service requirements for retirement eligibility for vested Members are determined by the plan under which a Member is covered *at the time of retirement*, regardless of whether he or she has previous service covered under a different plan.<sup>4</sup>

### Retirement Under CSRS

Retirement for Members with Dual Coverage (full CSRS plus social security) and for those under the CSRS Offset Plan is governed by the CSRS rules, as follows:

**Retirement with full pension.** Age 60 or over with 10 years of Member service, or age 62 with 5 years of civilian service, including Member service;

**Retirement with pension reduced if Member is under age 60.** Age 55 to 60 with at least 30 years of service. If the Member separates for a reason other than resignation or expulsion, after completing 25 years of service or after becoming age 50 and completing 20 years of service, or after having served in nine Congresses;<sup>5</sup>

**Deferred retirement with full pension.** The pension begins at age 62, if the Member had 5 through 9 years of service; it begins at age 60, if the Member had at least 10 years of Member service;<sup>6</sup>

**Deferred retirement with reduced pension.** The pension begins at age 50, if the Member had at least 20 years of service, including at least 10 years as a Member.<sup>7</sup>

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<sup>4</sup>In general, active duty military service can be counted toward retirement (but may not count toward 5 year vesting). However, there are limits on the amount of such service that can be counted under the congressional retirement formula.

<sup>5</sup>The pension is reduced by 1/12 of 1 percent for each month not in excess of 60 months, and 1/6 of 1 percent for each month in excess of 60 months that the Member is under age 60 at the date of separation.

<sup>6</sup>Under a "deferred pension," the Member may leave Congress before reaching the age requirement for an immediate pension, but later draw a pension when the specified age is reached. At the time of separation, the Member must leave any required contributions in the plan in order to subsequently become eligible for the deferred pension.

<sup>7</sup>Same as footnote 5.

### Retirement Under FERS

The age and service rules governing retirement under FERS are:

**Retirement with full pension.** Age 62 or over with at least 5 years of service; age 50 or over with at least 20 years of service; any age with at least 25 years of service;

**Retirement with reduced pension.** Minimum age varies from 55 (for persons born before 1948) to 57 (depending on year of birth) with 10 through 19 years of service;<sup>8</sup>

**Deferred retirement with full pension.** The pension begins at age 62 if a Member had at least 5 years of service;

**Deferred retirement with reduced pension.** A Member separated before his or her minimum retirement age of 55-57 (depending on year of birth) with at least 10 years of service may start drawing an annuity any time from that minimum retirement age until age 62.<sup>8</sup>

The FERS plan was designed to be a supplement to social security retirement benefits. Therefore, FERS retirees under age 62 who retire with an *unreduced* pension after at least 20 years of service are eligible for a temporary "supplement" to their FERS pension, to fill in until social security eligibility is reached. The supplement is an amount estimated to equal future social security benefits accrued from congressional service, and is paid from the time of retirement until age 62 when social security payments may begin. (Like social security benefits, the supplement is *not* payable if the retiree is employed and has earnings above a specified amount. See page 6.) It is payable under the following condition:

**Retirement with FERS supplement.** Age 55-57 (depending on year of birth) or over, with at least 20 years of service. A Member retiring before age 55-57 with at least 20 years of service may begin to draw the supplement upon reaching age 55-57.

### Retirement Under Social Security

Since January 1, 1984, all congressional service has been covered under social security. Social security taxes and the eligibility and benefit rules are the same for Members as they are for any covered worker. The age and covered employment rules governing eligibility for social security retirement benefits are:

**Retirement with full benefits.** Age 65, with 40 quarters of covered employment for those born after January 1, 1929. Fewer quarters of covered

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<sup>8</sup>Pension is reduced by 5 percent for each year the Member is under age 62 when the pension begins (unless the Member had completed 20 or more years of service).

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employment are required for those born before that date. The age for full benefits will gradually increase from 65 to 67 for those born between 1937 and 1959;

**Retirement with reduced benefits.** Age 62, with the required quarters of coverage. Benefits are approximately 80 percent of the full benefit that would be payable at age 65 (this reduction will be about 70 percent when the age for full benefits is 67).

In 1995, social security benefits are reduced if the retiree has annual earnings above \$8,160 and is under age 65, or \$11,280 if 65 through 69 (these exempt earnings amounts are adjusted annually for average wage growth in the U.S. economy). Benefits are phased out for earnings above these levels. Retirees at least 70 years old draw full benefits regardless of earnings.

### REQUIRED PAYMENTS TOWARD RETIREMENT

CSRS, FERS, and social security require that participating Members pay into the plan while they serve in Congress. These required payments are often referred to as "contributions" or "taxes." CSRS contributions are 8.0 percent of a Member's gross congressional salary; in 1995, FERS contributions are 1.3 percent of salary. All Members pay into social security, regardless of their other retirement plan coverage. Social security taxes in 1995 are 6.2 percent of gross wages up to \$61,200. (This taxable wage base is adjusted each year for wage growth in the economy.<sup>9</sup>) These payments are made from after-tax income and, thus, receive no special tax treatment.

The total payments Members are required to make depend on the combination of programs under which they are enrolled. The required payments, exclusive of any *voluntary* investment in the TSP, are as follows for 1995:

**Dual Coverage.** Members with Dual Coverage (full CSRS plus social security) pay a total of 14.2 percent on the first \$61,200 of salary (8.0 percent to CSRS plus 6.2 percent to social security). They pay 8.0 percent to CSRS on salary above \$61,200.

**CSRS Offset.** Members in the CSRS Offset Plan pay, on the first \$61,200 of salary, 1.8 percent to CSRS plus 6.2 percent to social security. They pay 8.0 percent to CSRS on salary above \$61,200.

**FERS.** FERS participants pay, on the first \$61,200 of salary, 1.3 percent to FERS plus 6.2 percent to social security. They pay 1.3 percent to FERS on salary above \$61,200.

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<sup>9</sup>In addition, all Members pay into Medicare, for which the tax rate is 1.45 percent in 1995. The Medicare tax applies to all earnings.

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**Social Security.** All Members pay 6.2 percent of their gross congressional salary, up to \$61,200, to social security. The \$61,200 level is indexed and rises annually.

**PENSION PLAN BENEFIT FORMULAS**

Pension benefits are computed according to a formula that has three factors: (1) the retiree's *average annual salary for the highest-paid 3 consecutive years* of covered service (known as "high-3" salary); (2) the *number of years of service* covered by the pension plan; (3) an *"accrual rate"* at which pensions accumulate for each year of service. The pension is the product of these factors, expressed as the following formula:<sup>10</sup>

$$\begin{array}{ccccccc} \text{high-3} & & \text{years of} & & \text{accrual} & & \text{annual} \\ \text{salary} & \times & \text{service} & \times & \text{rate} & = & \text{pension} \end{array}$$

As a general rule, the pension, as a percentage of the high-3 salary level, can be determined by multiplying the accrual rate times years of service. Also, because the high-3 salary is virtually always the salary received in the 3 years immediately preceding retirement, pay increases received in those years are reflected in the pension.

**Civil Service Retirement System (CSRS)**

The accrual rate for congressional service covered by the CSRS is 2.5 percent. The CSRS formula is:

$$\begin{array}{ccccccc} \text{high-3} & & \text{years of} & & & & \text{CSRS} \\ \text{salary} & \times & \text{service} & \times & .025 & = & \text{pension} \end{array}$$

For example, after 26 years of congressional service and a high-3 salary of \$132,233, the initial annual CSRS pension for a Member retiring in January 1995 at the end of the 103rd Congress would be:

$$\$132,233 \times 26 \times .025 = \$85,951$$

The law specifies that the maximum CSRS pension that may be paid at the *start* of retirement is 80 percent of the Member's final salary. (A Member must complete 32 years of congressional service covered by the CSRS to be eligible for an initial pension of 80 percent of final salary.) The smallest pension is 12.5 percent of high-3 salary with

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<sup>10</sup>For Members of the House of Representatives retiring in January 1991 (the end of the 101st Congress), the high-3 salary was about \$91,867; for Members of the Senate, the high-3 was about \$92,467. For Members retiring at the end of the 102nd Congress in January 1993, high-3 salary was about \$117,067 for Representatives and \$112,834 for Senators. As of January 1992, pay for House Members and Senators was \$129,500. As of August 1991, pay for Senators was \$125,100. As of January 1993, and currently, House Members and Senators earn \$133,600. For all Members retiring at the end of the 103rd Congress, the high-3 is \$132,233.



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5 years service (2.5 percent times 5 years), although the age and service requirements for retirement must be met in order for a pension to be payable.

Most Members who entered Congress before 1984 and who elected to stay in the CSRS elected the "CSRS offset" plan, described on page 9. When Members who retired under the offset plan are age 62 or over, their CSRS pension is reduced by the amount of social security to which they are entitled due to congressional service. In this example, the reduction would be approximately \$3,165 in 1995.

### Federal Employees' Retirement System (FERS)

The accrual rate for congressional service covered by FERS is 1.7 percent for the first 20 years under FERS and 1.0 percent for years over 20. The FERS formula is:

$$\left[ \text{High-3 Salary} \times 0.17 \times \frac{\text{Years of Service through 20}}{20} \right] + \left[ \text{High-3 Salary} \times .01 \times \frac{\text{Years of Service over 20}}{20} \right] = \text{Annual Pension}$$

Members who began congressional service before 1984 and who elected to join FERS will receive credit toward that program from January 1, 1984, forward. Thus, at the close of the 103rd Congress in 1995, FERS participants will have had a maximum of 11 years of FERS credit.

However, in order to illustrate the difference between benefits under the FERS formula and under the CSRS formula, we will assume a hypothetical example in which a Member retiring at the 1994 salary level had a full 26-year career under FERS. After 26 years of congressional service covered under FERS and a high-3 salary of \$132,233, the hypothetical initial annual FERS pension in 1995 would be:

$$[\$132,233 \times .017 (20)] + [\$132,233 \times .01 (6)] = \$52,893$$

There is no maximum pension under FERS; the smallest pension is 8.5 percent of high-3 salary with 5 years of service (1.7 percent times 5 years), although the age and service requirements for retirement must be met in order for a pension to be payable.

### SOCIAL SECURITY BENEFITS

Social security benefits are determined by a complex formula that takes into account all social security-covered employment and earnings. Social security benefits "replace" a certain percentage of the retiree's average lifetime covered wage. The replacement rate is higher for lower paid workers than for the higher paid, varying from about 60 percent for those with low wages to 27 percent of the social security maximum taxable wage base (\$61,200 in 1995) for those with high wages. Currently, 65-year-old workers retiring

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after having been high-wage workers throughout their careers receive annual social security benefits of about \$14,388. At age 62, the benefit would be \$11,510.

### **PENSIONS FOR MEMBERS WITH SERVICE UNDER BOTH CSRS AND FERS**

Members who were serving in Congress and participating in CSRS or the CSRS Offset Plan when the new FERS plan went into effect in 1987 could elect to drop out of those plans and join FERS during the July 1 through December 31, 1987, open season. If they had completed at least 5 years under CSRS before January 1, 1984, they are entitled to a CSRS pension for those pre-1984 years, and FERS coverage from January 1, 1984, forward. When they retire, their pension is computed using the CSRS formula for the CSRS-covered years and the FERS formula for the FERS-covered years. The same high-3 salary is used in both formulas, which is generally the salary of the Member in the 3 years immediately preceding retirement. The two pension amounts (CSRS and FERS) are then added together. However, the FERS rules govern the age and years of service for retirement eligibility.

For example, the pension for a Member of the House of Representatives retiring at the end of the 103d Congress with a total of 26 years of service (15 years covered under CSRS and 11 years covered under FERS) and a high-3 salary of \$132,233 would be computed as follows:

$$\begin{array}{rclcl}
 \$132,233 & \times & 15 & \times & .025 & = & \$49,587 & \text{(CSRS)} \\
 + \$132,233 & \times & 11 & \times & .017 & = & \$24,728 & \text{(FERS)} \\
 & & & & & & \text{Total pension} & = & \$74,315
 \end{array}$$

### **BENEFITS UNDER THE CSRS OFFSET PLAN**

Members who were participating in the CSRS on December 31, 1983 (the day before social security coverage for Members went into effect), were given an opportunity to elect to stay in the CSRS, with their retirement plan contributions and benefits reduced ("offset") by social security taxes and benefits. In addition, new Members entering Congress with at least 5 years of previous Federal civilian employment covered under CSRS may join the offset plan. Under this plan, Members pay into the CSRS only the difference between the 8.0 percent CSRS contribution required for Members and the 6.2 percent social security tax on the first \$61,200 of congressional salary (in 1995), and 8.0 percent on salary above \$61,200. When Members covered under this plan retire, their CSRS pension is reduced at age 62 by the amount of their social security benefit that is attributable to their congressional service (whether or not they actually begin to draw social security at that time).

As an illustration of the CSRS offset plan, take the example of a Member retiring at the end of the 103rd Congress with 26 years of congressional service. According to the CSRS example on page 7, this Member's full 1995 CSRS pension would be \$85,951. However, if he or she were age 62 or over, this amount would be reduced by

approximately \$3,165, the amount of social security earned from congressional service from January 1, 1984, through 1994.

### REPLACEMENT RATES

Pension plans are often evaluated by comparing the benefits paid at the time of retirement with pre-retirement wages. That is, the annual initial pension is computed as a percentage of annual pay before retirement. This percentage is referred to as a "replacement rate," meaning it is a measure of the amount of wages earned while employed that are replaced by retirement income. As noted earlier, in the civil service and congressional plans, the measure of pre-retirement income on which pensions are based is the average annual wage of the highest-paid 3 consecutive years, generally the final 3 years before retirement.

Table 1 shows the percentage of high-3 average pay represented by a congressional pension for Members retiring with an immediate pension under CSRS or FERS at specified ages and years of service. (Note that because FERS is a new system, no Member will retire after having completed 20 years under that plan until 2004, or until 2014 after having completed 30 years.)

**TABLE 1. Replacement Rates for Members Retiring With an Immediate Annuity**

	CSRS	FERS
Age 50, 20 yrs. in Congress . . . . .	42.5%	34.0%
Age 55, 30 yrs. in Congress . . . . .	71.3	44.0
Age 60, 10 yrs. in Congress . . . . .	25.0	15.3
Age 62, 5 yrs. in Congress . . . . .	12.5	8.5

### COST-OF-LIVING ADJUSTMENTS

COLAs periodically increase CSRS pensions, FERS pensions, and social security benefits to keep pace with inflation as measured by the Consumer Price Index (CPI). COLAs for all recipients of CSRS pensions and social security benefits are based on a comparison of the full CPI in the third quarter of the preceding calendar year with the third quarter of the calendar year before that. FERS pensions are adjusted only for retirees age 62 or over, and the increase is limited to 1 percentage point less than the CPI increase if inflation is 3.0 percent or more.<sup>11</sup> For Members receiving a pension based on both the CSRS and FERS benefit formulas, the CSRS COLA formula applies to the CSRS

<sup>11</sup>If inflation is 2.0 percent or less, the COLA equals the CPI increase; if inflation is 2.0 percent to 3.0 percent, the COLA is 2.0 percent.

part of the pension, and the FERS COLA formula applies to the FERS part of the pension. Since 1984, the law has required that COLAs be implemented in checks issued in January of each year. However, the Omnibus Budget Reconciliation Act of 1993 delays the payment date for CSRS and FERS COLAS to April 1 in 1994, 1995, and 1996.

CSRS pensions may not be increased by a COLA to an amount which would exceed the final pay of the Member plus any overall annual average percentage increases (compounded) in the rates of pay for General Schedule (GS) Federal employees that were provided since the Member began drawing a pension. Thus, over time, the CSRS pensions of retired Members may exceed the final pay of that Member *and* may exceed the pay of incumbent Members if the rate of GS pay increases exceeds pay increases for Members.

### **THRIFT SAVINGS PLAN**

The Thrift Savings Plan (TSP) is a tax-deferred investment program through which Federal employees and Members enrolled in either CSRS or FERS can save money to supplement their pension income. CSRS participants may invest up to 5 percent of their gross salary; FERS participants may invest up to 10 percent of their salary subject to an indexed ceiling (\$9,240 in 1994) and receive a matching investment from Government funds of up to 5 percent of their salary (\$6,680 for Members in 1994). The higher investment amounts and Government matching available for FERS participants are designed to compensate for the lower pension benefits payable under FERS than under CSRS.

On behalf of all employees and Members enrolled in FERS, the Government automatically deposits into the TSP an amount equal to 1.0 percent of the individual's basic pay, regardless of whether the individual voluntarily invests additional sums. A Member of Congress is entitled to the 1.0 percent, plus investment earnings on it, after completing 2 years of service (including noncongressional, civilian Federal service). A Member is immediately entitled to funds deposited in the TSP as matching of his or her voluntary contributions.

The money invested is not taxable until it is withdrawn. At the time the Member retires with eligibility for an immediate annuity, the TSP account balance can be withdrawn either as a lump sum or as an annuity. Members separating with more than 5 years of service, but before reaching eligibility for a pension, may roll over the account balance to an Individual Retirement Arrangement (IRA) or receive it as an annuity, but they may not withdraw it in a lump sum.

## PREPARED STATEMENT OF WILLIAM H. QUINN

Chairman Stevens and Members of the Subcommittee. My name is William H. Quinn, and I am President of the National Postal Mail Handlers Union. The Mail Handlers Union currently represents more than 55,000 active mail handlers employed by the United States Postal Service. There are, moreover, tens of thousands of former mail handlers who currently are receiving benefits under the Federal retirement system. On behalf of our members, I appreciate the opportunity to testify about proposals to modify the Federal retirement system.

Let me say at the outset that, notwithstanding the great importance of this issue to our membership, my testimony can be relatively brief because our position is extremely simple. *The National Postal Mail Handlers Union is vehemently opposed to any changes in the current Federal retirement system.* We consider any attempt to increase the contribution rates for employees or to reduce the benefits for retirees—including the most recent proposal, as included in the Senate budget resolution, to go from a high-3 to a high-5 calculation for future annuities—to be a totally unacceptable breach of the terms and conditions of employment under which Federal and Postal employees have agreed to work. Such cuts in pension benefits are nothing more, and nothing less, than another tax that singles out for unfair treatment millions of loyal and dedicated employees.

Moreover, absolutely no justification has been offered for these proposals—other than the unexpressed desire to cut the Federal budget deficit on the backs of working-class taxpayers who have served, and continue to serve, their country. Indeed, the witnesses and reports that were presented to this Subcommittee on May 22, 1995 from the General Accounting Office and the Congressional Research Service were unanimous in their conclusion that there is nothing wrong with the current financing of either the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS).

Furthermore, as this Subcommittee is well aware, it was not that many years ago that the Federal retirement system underwent a major overhaul, during the late 1980's, which closed the CSRS to future participants and established the FERS. These plans have operated since that time in precisely the manner predicted. More changes are not needed.

Finally, I would be remiss if I did not note, on behalf of all Postal employees, that the United States Postal Service pays for all of its own retirement costs, including all of the unfunded retirement liabilities that might result from past or future increases in wages. Indeed, on several occasions in the past, Congress has used its annual budget process and the enactment of various Omnibus Budget Reconciliation Acts to saddle the Postal Service with billions of dollars in retroactive payments that allegedly represented full payment for prior retirement costs. Today, no such unfunded costs remain; and the Federal Government provides absolutely no tax subsidies to the Postal Service, which continues to raise all of its revenue and to pay all of its bills from fees charged to mail service users. Thus, there is no basis whatsoever for saddling the Postal Service or its employees with additional retirement costs or with further cuts in benefits.

This is especially true for the Senate proposal to change from the current high-3 formula for calculating retirement annuities to a new high-5 formula. It is projected that this change would cut retirement benefits for the average Postal worker by approximately 4 percent. But these employees, including all mail handlers, have provided loyal and dedicated service with the firm expectation that part of their compensation will be a pension under the *current* Federal retirement programs, not a pension that might be 4 percent less than previously guaranteed. This change is totally unwarranted and totally unjustified. If Congress wants to cut the deficit, it should find sources of revenue that are not taken solely and exclusively from Federal and Postal employees.

The National Postal Mail Handlers Union is well aware of the leadership role that Members of this Subcommittee—led by Senator Stevens—have taken in the past to protect the Federal retirement system. We urge you to continue in that leadership role, and to oppose all proposals that would change the current Federal retirement system to the detriment of covered employees.

Thank you for your time and attention.

## PREPARED STATEMENT OF WILLIAM A. POPE, II

I am Judge William A. Pope, II, President of The Federal Administrative Law Judges Conference. The purpose of my testimony is to present the concerns of the members of our Conference, and Administrative Law Judges, as a class of Govern-

ment employees, regarding possible changes now being discussed in Congress which will adversely impact the compensation, retirement plans, and health insurance benefits of Government employees.

#### OVERVIEW

First, I would like to briefly describe our Conference, and then the unique role of Administrative Law Judges in the U.S. Government. The Federal Administrative Law Judges Conference (FALJC) is a voluntary professional association, with approximately 500 members, organized almost 50 years ago for the purpose of improving the administrative judicial process, presenting educational programs to enhance the judicial skills of Administrative Law Judges, and representing the concerns of Administrative Law Judges. The Conference sponsors educational and social programs for its members, and from time to time speaks out on behalf of its members on issues relating to the administrative judicial process and our status as employees of the United States. Among the educational programs sponsored by the Conference is an annual 3-day seminar at which speakers from the judiciary, academia, and the private practice of law speak on a variety of topics related to administrative law and trial practice. The Conference's membership includes Judges from every administrative agency, and by virtue of its broad membership base, it is the only organization of Judges which can speak for the broad spectrum of Federal Administrative Law Judges. Over the years, the Conference has taken leadership roles in preserving the decisional independence of Administrative Law Judges, supporting measures enhancing due process of law in administrative judicial proceedings, and in obtaining improvements in the pay and benefits of Judges.

Federal Administrative Law Judges, often referred to as the Federal Administrative Trial Judiciary, perform judicial functions within the Executive Branch of the U.S. Government. Administrative Law Judges conduct formal trial-type hearings in cases arising under a wide variety of Federal statutes and Federal regulations, interpret the law, apply agency regulations, and issue written or oral initial or recommended decisions. In performing these functions, Administrative Law Judges are unique within the Executive Branch of the United States Government. The U.S. Supreme Court has said that the role of an administrative law judge is "functionally comparable" to that of Federal trial judges. *Butz v. Economou*, 438 U.S. 478, 513 (1978). In 1946, Congress enacted the Administrative Procedure Act (APA) to ensure a fair, impartial, and objective agency decisional process, and vested the responsibility for conducting on-the-record hearings in Administrative Law Judges (previously called hearing examiners). Under the APA and other Federal statutes, Administrative Law Judges have complete decisional independence, and to protect that independence, have "tenure very similar to that provided for Federal judges under the constitution." Sen. Rep. No. 95-697, 95th Cong. 1st Sess. 2 (1978), reprinted in 1978 U.S. Code Cong. & Admin. News 496, 497.

There are over 1,300 Administrative Law Judges assigned to 31 Federal agencies. The agency employing the largest number of Administrative Law Judges, over 1,050, is the Social Security Administration. Two other agencies with large numbers of Administrative Law Judges include the Department of Labor, with 71, and the National Labor Relations Board, with 68. The remaining Administrative Law Judges are employed in agencies with 1 to 19 judges. Although all Administrative Law Judges are assigned to specific agencies, under a program administered by the Office of Personnel Management, Judges from one agency can be assigned to hear cases for another agency when case loads warrant such action.

Administrative Law Judges adjudicate cases falling into three broad categories: Regulatory cases; entitlement cases; and, enforcement cases. Regulatory cases, such as those of the Federal Energy Regulatory Commission, involve economic regulation of industries vital to the U.S. economy. Entitlement cases involve adjudication of claims by citizens to benefits provided by law, such disability benefits under the Social Security Act and workmen's compensation benefits under the Longshore and Harbor Workers' Compensation Act, to cite but two examples. Enforcement cases involve adjudication of cases brought by various Federal agencies against individuals or companies to enforce Federal laws and regulations. Three examples are mine safety cases heard by Judges of the Mine Safety and Health Review Commission, work place safety cases heard by Judges of the Occupational Safety and Health Review Commission, and aviation safety cases heard by Judges of the National Transportation Safety Board.

Administrative Law Judges affect far more Americans by their decisions than do United States District Courts. It is estimated that Administrative Law Judges hear as many as four times the number of cases heard by the United States District Courts, and they do that more swiftly and at lower cost. Indeed, the United States

courts would be overwhelmed if they suddenly had to assume responsibility for the cases which are now tried before Administrative Law Judges. Administrative Law Judges play a vital role in ensuring that American citizens receive due process of law from their Government.

To protect and preserve their decisional independence, which is a critical element of due process of law, Administrative Law Judges have absolute appointments, and are not subject to agency efficiency ratings, promotions, or demotions. Some of the specific protections enacted by Congress to protect the decisional independence of Administrative Law Judges include requiring agencies to appoint as Administrative Law Judges only persons certified by the Office of Personnel Management as qualified on the basis of merit (5 U.S.C. § 1104 and 5 U.S.C. § 3105); exempting the pay of Administrative Law Judges from agency performance recommendations and ratings prescribed for other civil service employees (5 U.S.C. § 4301(2)(D) and 5 U.S.C. § 5372); requiring that rulemakings and hearings be assigned to Administrative Law Judges in rotation as far as practical (5 U.S.C. § 3105); requiring that decisions of Administrative Law Judges be made after an on-the-record hearing (5 U.S.C. § 554); prohibiting *ex parte* communications with Administrative Law Judges (5 U.S.C. § 551, § 556, and § 557(d)); prohibiting agencies from assigning duties to Administrative Law Judges that are inconsistent with judicial duties and responsibilities (5 U.S.C. § 3105); and prohibiting agencies from removing Administrative Law Judges except after a hearing before the United States Merit Systems Protection Board (MSPB) and upon a showing of good cause (5 U.S.C. § 554 and 5 U.S.C. § 7521).

#### DISPARITY IN PAY AND BENEFITS OF ADMINISTRATIVE LAW JUDGES

Because their functions and responsibilities are analogous to the Federal judiciary, Administrative Law Judges logically should be considered the functional equivalent of U.S. Magistrate Judges and U.S. Bankruptcy Judges for pay and retirement purposes. The functional similarity, however, does not extend to pay and retirement benefits. The pay of Administrative Law Judges is set under the Federal Employees Pay Comparability Act of 1990 (5 U.S.C. § 5372), at rates substantially below those of Magistrate Judges and Bankruptcy Judges, and our retirement and other benefits are the same as for other employees of the Executive Branch.

Administrative Law Judges are career absolute civil servants who are paid as follows: AL-1 level Judges are paid 100 percent of Executive Level IV, which is \$115,700 per year (AL-1 Judges are chief judges at agencies with very large numbers of judges), AL-2 level Judges are paid 95 percent of Executive Level IV (AL-2 Judges are deputy chief judges at agencies with large numbers of judges or chief judges at agencies with somewhat fewer judges). All other Judges are compensated at the AL-3 level, which is broken down in six steps (AL-3A to AL-3F), ranging from 65 percent to 90 percent of Executive Level IV. By comparison, the Magistrate Judges and Bankruptcy Judges are compensated at the rate of \$122,912 per year and have a significantly enhanced benefits package. For example, they contribute only 1 percent of salary to their retirement and can retire on full salary if 65 years of age with 14 years service.

Administrative Law Judges start at AL-3A, and advance to rates AL-3B, C, and D at 52 week intervals, and to rates E and F at 104 week intervals. Only 33 Judges serve at the AL-1 or AL-2 level. Administrative Law Judges also receive locality pay, bringing the compensation of an AL-3A Judge in Washington, D.C., for example, to \$79,326.

Even within the Executive Branch, however, Administrative Law Judges are at a disadvantage for pay and certain other purposes compared to the Senior Executive Service and to Board of Contract Appeals members. All but 33 Administrative Law Judges are paid less than most members of the Senior Executive Service, and unlike the Senior Executive Service, Administrative Law Judges cannot carry over unlimited amounts of unused annual leave. Neither can Administrative Law Judges receive bonuses, something which would be incompatible with decisional independence, but nevertheless substantially increases the pay of members of the Senior Executive Service compared to the compensation of Administrative Law Judges. There is, unfortunately, simply no method provided in pay legislation to recognize the fact that Administrative Law Judges provide public service as important to good government as that provided by the Senior Executive Service. Board of Contract Appeals members are paid under a three level scale, with no within level steps, but levels two and three of their pay scale are paid at a greater percentage of Executive Level IV than are pay levels AL-2 and AL-3 of the Administrative Law Judges pay scale. The result is that of the 1,300 Administrative Law Judges, only the four in AL-1 receive pay equal to members of the Boards of Contract Appeals, notwithstanding that the duties and functions of Administrative Law Judges are at the very least

as complex and important to the process of government as those performed by Boards of Contract Appeals.

Administrative Law Judges perform functions and responsibilities that are at the very least equal in importance to those of the Senior Executive Service and Boards of Contract Appeals. There is no rational basis for the disparity in pay and benefits which currently exists between these three classes of Federal employees. The Conference urges that prompt action be taken to correct the inequitable imbalance in compensation and benefits applicable to Administrative Law Judges. This can be easily accomplished by regulation, or statute, with minimal budgetary impact, by changing the pay structure for Administrative Law Judges to provide that all Administrative Law Judges may progress to pay level AL-2 after 2 years service at pay level AL-3F.

#### GOVERNMENT EMPLOYEES ARE BEING SINGLED OUT FOR UNFAIR CUTS

The Federal Administrative Law Judges Conference strongly believes that the budget proposals directed at increasing the employee retirement contributions, changing the method of calculating retirement pay, placing caps on cost of living increases for retired employees, reducing health care benefits, and freezing the pay of senior Government employees, represent a breach of faith with Government employees who have worked long, hard and faithfully as public servants based on the earlier promises made to them concerning their pay, retirement benefits, and health care benefits. If the U.S. Government's promises to its own employees cannot be relied upon, what Government promises can?

Moreover, not only is it unfair to change the rules after employees have been hired, under these proposals Government employees will be singled out for far greater sacrifices than will be asked of the rest of the American people. Just one example is the proposal to increase Government employee pension contributions by 2.5 percent. That increase represents a direct 2.5 percent reduction in each employee's take-home pay, which the employee will never recover because the extra 2.5 percent will be paid into the general treasury and will not be used to fund employees' pensions, which are already fully funded. By any other name it is a 2.5 percent income tax assessed against Government employees, alone.

The Federal Administrative Law Judges Conference believes simple fairness requires that any changes reducing pension and health care benefits of Government employees, imposed in the name of budget reduction, should apply only to future employees, who can accept or reject Government employment based upon full knowledge of what benefits they will receive.

The consequences of singling out current Government employees for unfair treatment in the name of budget reduction are likely to include rapid departure from Government service of many of the best employees, difficulties in recruiting the best qualified candidates for Government positions, lowering of the morale of Government employees, and lowering of productivity. It is obvious that freezing the pay of senior level Government employees for a long period of time, such as the 7 years proposed by some, will have two adverse impacts: First, it will drive the best senior level employees to leave Government service, and, second, it will quickly lead to severe pay compression at the top of the Government pay system, with mid-level workers making as much as their supervisors. Especially at a time of downsizing of the Government workforce, these are losses which the United States can ill afford. These consequences easily can be avoided by treating Government employees fairly and not singling them out for sacrifices not asked of any other segment of the American public.

While all of the proposed changes are patently unfair, the most onerous for Administrative Law Judges would be an increase in our retirement contribution, changes to the health benefits program, and a cap on Cost of Living Adjustments to retirement pay. We believe that aside from fairness issues, these changes will serve only to induce Judges to leave Government service at the earliest opportunity, and will discourage the most qualified individuals from applying for Administrative Law Judge positions. In the long run, the ultimate losers will be the American people, because the quality of their Government will inevitably decline.

#### CONCLUSIONS

We recognize that Congress is under enormous pressure to reduce the budget deficit, and that difficult choices will necessarily have to be made affecting the American people. We hope that this Committee will not take the easy route of singling out Administrative Law Judges and all other Government employees for inequitable treatment. We share with the Committee the goal that the Government employee compensation and retirement system should be one that is fair to the employees,



sets the model for private systems, and encourages the recruitment and retention of the best and most qualified Judges and Government employees. We stand ready to work with the Committee in seeking budget reduction measures which will be fair to Government employees, but still take into account budgetary and political realities.

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AMERICAN FEDERATION OF STATE, COUNTY AND  
MUNICIPAL EMPLOYEES, AFL-CIO  
Washington, DC, June 14, 1995.

HON. TED STEVENS, *Chairman,*  
*Governmental Affairs Subcommittee on Post Office and Civil Service,*  
*U.S. Senate, Washington, DC. 20510.*

DEAR MR. CHAIRMAN: On behalf of the 1.3 million members of the American Federation of State, County and Municipal Employees (AFSCME) which include Federal employees in the Department of Justice, the Department of Agriculture, the Library of Congress, the Corporation for National and Community Service, the Peace Corps and the U.S. Commission on Civil Rights, I ask that this letter be included in the record of the Senate Governmental Affairs Subcommittee on Post Office and Civil Service hearing on the Federal employee retirement system.

AFSCME's members in the Federal sector are extremely concerned with recent legislative proposals relating to their retirement. Specifically, the budget resolutions of both the House of Representatives and the Senate contain recommendations that would lower Federal employee retirement annuities by basing them on the highest 5 years of salary instead of the highest 3 years, as is the current practice. The House of Representatives budget resolutions also recommends that employees pay an additional 2.5 percent towards their retirement benefits. This additional contribution is to be used to finance tax reductions for large corporations and wealthy individuals.

AFSCME believes that these proposals are both unfair and bad policy. The Federal workforce is comprised of Americans who are competent and dedicated professionals and who work hard to carry out the missions of their agencies. Many of them accepted Federal jobs which pay less than comparable work in the private sector because of the promise that they would have adequate retirement benefits.

Proponents of these proposals argue that their objective is simply to make Federal sector pensions more similar to those in the private sector. However, according to the Government Accounting Office (GAO), few private sector pension plans require employee contributions. The GAO also said that the switch to high-5 salary year formula from high-3 would significantly reduce Federal pensions in comparison to those of large private employers. Further, a majority of State government plans use the high-3 formula.

Federal retirees' gross income is almost \$2,000 less than the \$19,371 average for all U.S. retirees. Put simply, Federal retirees are not getting rich at the taxpayers' expense.

In 1986 Congress made significant changes in Federal retirement when it created the Federal Employees Retirement System (FERS). At that time, a promise was made that this would be the last concession that Federal employees would have to make affecting their retirement benefits. We ask you to honor that promise by rejecting the current proposals and by supporting full and adequate funding for Federal retirement benefits.

Sincerely,

GERALD W. MCENTEE,  
*International President.*  
WILLIAM LUCY,  
*International Secretary-Treasurer.*

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NATIONAL ASSOCIATION OF GOVERNMENT EMPLOYEES,  
Arlington, VA, June 20, 1995.

HON. TED STEVENS, *Chairman,*  
*Governmental Affairs Subcommittee on Post Office and Civil Service,*  
*Washington, DC.*

DEAR MR. CHAIRMAN: The National Association of Government Employees (NAGE) is an affiliate of the Service Employees International Union, the third largest union in the AFL-CIO. NAGE is the fourth largest Federal employee union in the country. I ask that this letter be included in the record of the Senate Govern-

mental Affairs Subcommittee on Post Office and Civil Service hearing on the Federal retirement system.

The members of NAGE are united in its opposition to changing the current Federal retirement system. Our members, entered into a contract with the Federal Government with a level of expectations for retirement benefits. Any change in the current system would be a violation of trust between employer and employee.

Relating to their retirement, NAGE is concerned over the budget resolutions of the House and Senate. The House of Representative advocates that Federal employees pay an additional 2.5 percent towards their retirement benefits. Federal workers are once again bearing an unfair burden as we try to balance the budget.

Also included in both budget resolutions is a proposal to reduce retirement benefits by basing them on the highest 4-year salary average for workers retiring in 1996 and on the highest 5-year salary average for those retiring in 1997 or thereafter. Annuities are now based on a high-3 formula. A switch from high-3 to high-5 would reduce pension benefits anywhere from a few hundred to a couple of thousand dollars a year for employees. The present high-3 annuity calculation formula has been in effect since 1969. Federal workers have assumed these calculations for over 25 years. To change these figures is just another example of singling out the Federal worker.

NAGE believes that Federal workers have already made sacrifices for the sake of a balance budget. Federal employment has continued to drop since 1991. The Federal workforce is at its lowest level since John F. Kennedy was President. At a time when these workers are being asked to do more with less, the proposed changes in Federal retirement plans amounts to another financial burden to these dedicated Americans.

Sincerely,

KENNETH T. LYONS,  
*National President.*

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U.S. OFFICE OF PERSONNEL MANAGEMENT,  
*Washington, DC, July 19, 1995.*

HON. TED STEVENS, CHAIRMAN,  
*Subcommittee on Post Office and Civil Service, Committee on Governmental Affairs,  
U.S. Senate, Washington, DC.*

DEAR SENATOR STEVENS: Thank you for your letter of May 24, referring follow-on questions related to my testimony of May 15. I am pleased to provide the answers to those questions.

Q. What percentage of Federal employees withdraw the cash value of their pension plans and don't get a retirement?

A. For a group of new employees, we estimate that 47 percent will separate and elect a refund and 6 percent will separate and elect a deferred annuity. This estimate is based on experience under CSRS where the employee contribution rate is generally 7 percent of basic pay. Under FERS, where the employee contribution rate is generally only 0.8 percent of basic pay, the proportion of separated employees electing to wait for a deferred annuity may very well increase. However, FERS has not been in existence long enough to see if this proves to be the case.

Q. What is the average age of Federal employees when they first participate in the pension plan?

A. The average entry age used in actuarial valuations of the system is 32 years.

Q. How many years does the average Federal employee work before retiring?

A. The average years of service for employees who retired under the CSRS during fiscal year 1994 was 29.5. This average includes employees who retired under the involuntary and early out provisions as well as those who retired under normal optional retirement. The average of 29.5 years consists of 27.3 years of civilian service and 2.2 years credited for military service. If disability retirees are also included, the average is 28.3 years of service, of which 26.2 years are civilian service and 2.1 years are military service.

The comparable numbers for employees who retired under the FERS are 14.0 years of civilian service and 1.2 years credited for military service for an overall average of 15.2 years of service. If disability retirees are also included, the average is 12.5 years of total service, of which 11.5 years are civilian service and 1.0 year is military service. As might be expected, the average years of service recorded under the FERS reflects the relative immaturity of the system when compared to the CSRS, and the influence of a proportionately higher number of disability retirements occurring within the group added during the year.

Q. What is the average age of Members of Congress when they first participate in the pension plan?

A. The average entry age used in actuarial valuations of the system is 46 years.

Q. What is the average age for Members of Congress when they elect to receive retirement compensation?

A. The average age for the 60 Members who retired under the CSRS during fiscal year 1993 was 65.5 years. The average age for the ten Members who retired under the FERS during fiscal year 1993 was 69.2 years.

Q. What is the average time of service of Members of Congress?

A. Members of Congress retiring under the CSRS during fiscal year 1993 on average had 1.6 years of military service credit and 19.2 years of civilian service for a total of 20.9 years of service. Members retiring under FERS had 2.2 years of military service credit and 18.6 years of civilian service for a total of 20.8 years of service.

There were 362 Members of Congress on the CSRS retirement roll as of the end of fiscal year 1994. The average number of years credited for military service was 2.2 years and for civilian service 17.9 years for a total of 20.1 years. The comparable year-end numbers for the 19 Members of Congress covered by the FERS were 2.7 years of military service and 21.1 years of civilian service for a total of 23.8 years.

Q. How many Members of Congress have retired under CSRS? How many Members of Congress have retired under FERS?

A. During the period from 1947 through 1994, 1,018 Members were added to the retirement roll. We did not begin reporting separate FERS data until fiscal year 1992. For fiscal years 1992-1994, 13 Members of Congress were added to the FERS roll. As of the end of fiscal year 1994, there were 19 Members of Congress on the FERS roll.

Q. What is the average length of time that Members receive annuities?

A. The information available on annuitants who have been dropped from the annuity roll indicates that Members receive an annuity for an average of 18.02 years.

Q. What is the average age of Congressional staff employees when they first participate in the pension plan?

A. We cannot answer this question because we do not tabulate a separate entry age for Congressional staff employees and these employees are not included in our Central Personnel Data File (CPDF).

Q. How many Federal employees are there in the CSRS system?

A. As of October 1, 1994, there were 1,443,000 active employees covered by the CSRS.

Q. How many in the FERS system?

A. As of October 1, 1994, there were 1,375,000 active employees covered by the FERS.

Q. How many Members of Congress have ever paid into the CSRS fund? How many into the FERS defined benefit plan?

How many Congressional staff have ever paid into the CSRS fund. How many into the FERS defined benefit plan?

A. OPM periodically collects information from agency payroll offices on the number of active participants currently covered by the retirement systems. These data requests are designed to collect aggregate information needed in preparing actuarial studies of the system costs and to verify accounting data submitted by agency payroll offices. Because OPM does not maintain systems which capture data by individual participants until they reach retirement, our knowledge of participation rates, amounts of contributions, etc. over time is limited. The following data was reported as of the end of fiscal year 1994:

	CSRS	FERS
Senate Members .....	62	38
Senate staff .....	1,773	5,476
House Members .....	140	293
House staff .....	2,415	8,426

Q. What is the total amount of money paid by Members into the CSRS fund and FERS defined benefit plan?

What is the total amount of money paid by Congressional staff into the CSRS fund and FERS defined benefit plan?

A. Based on the information reported by the Congressional payroll offices, we have estimated the accumulated employee contributions for those individuals currently employed in the Congress. The total represents the amount current employees have contributed into the retirement fund from the time they joined the Congress through the end of 1994. We have also estimated the amounts contributed by

former and current retired Members and staff based on data available from our automated record files.

	AMOUNT (in millions)	
	CSRS	FERS
Current employees		
Senate and House (Members and staff) .....	\$182.7	
Senate (Members and staff) .....		\$11.1
House (Members and staff) .....		22.5
Subtotal Active Employees .....	\$182.7	\$33.6
Retired Employees		
Members .....	18.8	1.5
Staff .....	120.3	5.0
Subtotal Retired Employees .....	\$139.1	\$ 6.5
Deceased Retirees*		
Members .....	12.4	0
Staff .....	0.5	0
Subtotal Former Retired Employees .....	\$ 12.9	\$ 0
TOTAL Employee Contributions .....	\$334.7	\$40.1

\* This amount was constructed from our earliest automated record files. The information for Members was derived using a combination of automated and published data.

Q. How much money has been paid out to Members in annuities from the CSRS fund and FERS defined benefits plan?

A. For the Group of 5,736 staff and Members currently receiving monthly benefit payments, we estimate the following:

	ACCUMULATED PAYMENTS (in millions)	
	CSRS	FERS
Members .....	\$ 143.1	\$ 3.7
Staff .....	909.9	7.7
Subtotal Active Retired .....	\$1,053.0	\$11.4

For the Group of 2,495 that have received an annuity but have been dropped from the annuity roll, we estimate the following:

	ACCUMULATED PAYMENTS (in millions)	
	CSRS	FERS
Members .....	\$ 85.9	\$ 0
Staff .....	262.6	0.3
Subtotal Former Retired .....	\$ 348.5	\$ 0.3
TOTAL accumulated payments .....	\$1,401.5	\$11.7

I hope that this information is useful to you. If you have any further questions for us, we will be glad to attempt to respond to them.

Sincerely,

WILLIAM E. FLYNN, III,  
Associate Director for Retirement and Insurance

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June 22, 1995

Honorable Ted Stevens, Chairman  
Subcommittee on Post Office  
and Civil Service  
U. S. Senate  
Washington, D. C. 20510

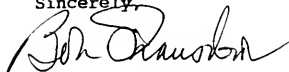
Dear Senator Stevens:

During the hearing on the 19th, you asked me to submit to you figures on my retirement program that was mentioned during my testimony.

I have gone even farther than my example. I have given you a second example of a person who made less money during his/her service and who loses almost as much as I do under the proposed change to a five year averaging.

These are incredible losses for retiring workers to sustain, and again I would urge 1] grandfathering current employees for accrued benefits, and 2] a "cap" on any loss resulting from such a change in averaging to no more than \$1,000 per federal employee.

Sincerely,


ROBERT T. MANSKER  
Deputy Minority Director

[1]

RETIREMENT EXAMPLES

Assumptions: Legislation passes that changes the averaging from high three years to high five years without grandfathering past earnings.

Benefits are reduced to 2% per year of service, grandfathering past service.  
20 years of service at eligible retirement age

ANNUAL EARNINGS: 1991 -- \$42,575.00  
1992 -- 49,590.96  
1993 -- 65,756.32  
1994 -- 72,180.83  
1995 -- 30,746.89

Current rules: Top three year average: \$62,509.37  
Benefits: 20 years x .025 = 50%

Annual benefit: \$31,254.68

New rules: Top five year average: \$52,170.00  
Benefits: 17.5 years x .025 = .4375  
2.5 years x .02 = .05  
Total = .4875

Annual benefit: \$25,432.87

ANNUAL REDUCTION IN RETIREMENT BENEFITS: \$5,821.81

[2]

RETIREMENT EXAMPLES

Assumptions: Legislation passes that changes the averaging from high three years to high five years without grandfathering past earnings.

Benefits are reduced to 2% per year of service, grandfathering past service.

ANNUAL EARNINGS:

1991 -- \$82,575.00  
 1992 -- 89,590.96  
 1993 -- 105,756.32  
 1994 -- 112,180.83  
 1995 -- 70,746.89

Current rules:

Top three year average: \$102,509.00

Benefits: 20 years x .025 = 50%

Annual benefit: \$51,254.00

New rules:

Top five year average: \$92,170.00

Benefits: 17.5 years x .025 = .4375

2.5 years x .02 = .05

Total = .4875

Annual benefit: \$44,932.00

ANNUAL REDUCTION IN RETIREMENT BENEFITS: \$6,322.00

U.S. Department of Justice  
Federal Bureau of Investigation

Office of the Director

Washington, D.C. 20535

August 7, 1995

1995 AUG - 7 PM 3: 58

Honorable Ted Stevens  
Chairman  
Subcommittee on Post Office  
and Civil Service  
Committee on Governmental Affairs  
United States Senate  
Washington, D.C.

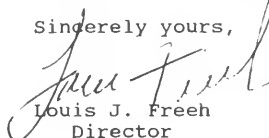
Dear Mr. Chairman:

When I recently testified on the impact that proposed changes to federal retirement systems could have on federal law enforcement, several issues were raised that required a later response. You will find enclosed with this letter, my responses to five issues that were outstanding from that hearing. In addition, I have enclosed the final results of the FBI's field-wide retirement survey.

As you will recall, at the time of my testimony, I could only provide the Subcommittee with the survey's findings from 28 of the FBI's 56 field offices. The final results of the FBI retirement survey show that of the 1,728 FBI Special Agents now eligible to retire 1,079 or 62 percent would retire immediately if what are perceived to be adverse changes occur in federal retirement systems. These statistics mirror the preliminary estimates that I provided the Subcommittee when I testified and underscore the very real concerns that I have for the public's safety if such a large number of experienced Special Agents prematurely retire.

I am grateful for the courtesies that you and the Subcommittee have extended and appreciate the interest that you and the other Members have demonstrated in this regard.

Sincerely yours,



Louis J. Freeh  
Director

Enclosures



RESPONSES TO QUESTIONS DURING DIRECTOR FREEH'S 6/19/95 TESTIMONY

**1. The number and percentage of SAs that stay until mandatory retirement.**

YEAR	MANDATORY RETIREMENTS	PERCENTAGE OF ALL SA RETIREMENTS
1985	20	15.63
1986	16	7.66
1987	16	9.20
1988	27	11.39
1989	33	13.15
1990	29	16.76
1991	10	14.29
1992	20	17.24
1993	45	18.37
1994	54	11.76
1995*	25	12.08
TOTAL	295	13.00

\*AS OF 6/27/95

**2. The number of SAs who have had the mandatory retirement provisions waived.**

There have been ten SAs who have had an exemption granted to continue their service beyond their mandatory retirement date. Of those ten, there are currently six who are still in the Bureau's service.

**3. Breakdown of the technical and/or specialty skills of the SAs currently eligible to retire.**

By the end of the 1995 calendar year, the following numbers of SAs will be eligible to retire:

Street Agents (GS 13)	1453
Supervisors in the Field	258
Supervisors at FBIHQ	138
Executives in the Field	54
<u>Executives at FBIHQ</u>	<u>55</u>
Total	1958

The above figures include:

- 239 attorneys
- 120 linguists
- 99 accountants
- 66 pilots
- 25 scientists
- 21 instructors
- 11 electronics specialists

#### **4. The costs associated with administering a separate retirement plan for federal law enforcement officers.**

In estimating the cost associated with administering retirement programs, the District of Columbia (DC Police and Firemen's Retirement System), the Department of State (Foreign Service Retirement System) and the Office of Personnel Management (Civil Service and Federal Employees Retirement Systems) were contacted. The functions of administration are basically the same for all retirement systems. These include collecting contributions, managing and investing the systems income, processing claims, paying benefits, policing the system to protect against fraud and abuse, and maintaining records. In establishing a separate retirement plan for federal law enforcement officers, all of these functions would be required for the administration of the system.

There were significant differences when comparing the costs related to the administration of the above mentioned systems. In analyzing the costs, it was found the annual administration cost per annuitant was significantly lower where there was a greater number of claims being serviced. The Office of Personnel Management, who currently is servicing approximately 2.2 million claimants, estimates their cost per claim to be \$32.80 per year, whereas, the Department of State, who administers 11,000 Foreign Service Retirement System claims, advised their cost is approximately \$160 per year for each claim. Being of a smaller group in the federal work force and having a unique retirement system, the cost associated with administering a separate retirement plan for federal law enforcement officers would most likely be in the higher range of \$125 to \$175 per year for each per claim.

#### **5. Comparative data between federal, state and local law enforcement officers as it pertains to salaries, benefits, and retirement plans.**

The National Advisory Commission on Law Enforcement (NACLE) was established by the Anti-Drug Abuse Act of 1988. It was charged with studying pay, benefits, and other issues related to the recruitment, retention, and morale of federal law enforcement officers. Approximately 700 state and local law enforcement organizations and 55 federal agencies were surveyed to gather information. Comparative information in regard to compensation and benefits is not routinely gathered, therefore, the report of this commission is the most current source of information on which we can rely. The NACLE report dated April 25, 1990, provides the following information:

"The most significant conclusion we can draw is that despite the general comparability of jobs and higher qualifications at the federal level, state and local law enforcement positions offer higher average salaries than federal

positions. This pay gap was found to be most extensive at the entry level but was also significant at full performance levels in certain geographic areas. Overtime rates are also more generous at the state and local level. State and local agencies pay overtime at a generally higher rate and without the earnings limitations imposed on federal law enforcement officers." Because of the pay changes brought about by the Federal Law Enforcement Pay Reform Act of 1990 as a result of the recommendations by the Commission, inequities found at the time of this study no longer exist.

In regard to benefits, the NACLE report states "the Commission concludes that the federal government's benefits range from generally comparable to somewhat less generous. The degree of comparability varies among the various benefits. Our data indicate that federal employees pay a higher proportion of the costs of their health insurance than employees in many state and local organizations. Retirement benefits overall can be considered to be roughly comparable among the two broad groups. In the short term, state and local plans are generally more generous. However, over time, the effect of cost of living adjustments equalizes and eventually exceeds the value of the state and local plans. Growing concern about the earnings offset under the Federal Employees Retirement System before reaching age 62, the higher contributions to the Thrift Savings Plan (TSP) necessary to achieve a benefit equal to the state and local sector, or the perceived disadvantage faced by lower paid employees in their ability to contribute to the TSP could result in the government facing serious problems in the competition to recruit and retain high-quality personnel."

"Our study also found that state and local law enforcement organizations are generally more generous with life insurance, both in terms of benefits and cost, and with leave and paid holidays."

FIELD RETIREMENT SURVEY

FIELD OFFICE	TOTAL AGENTS	AGENTS ELIGIBLE	PERCENT ELIGIBLE	NUMBER WHO WILL RETIRE	PERCENT WHO WILL RETIRE
ALBANY	61	11	18%	3	27%
ALBUQUERQUE	64	13	20%	9	69%
ANCHORAGE	25	6	24%	3	50%
ATLANTA	191	71	37%	26	34%
BALTIMORE	185	55	30%	32	58%
BIRMINGHAM	56	9	16%	7	78%
BOSTON	241	64	27%	34	53%
BUFFALO	90	17	19%	9	53%
CHARLOTTE	90	30	33%	23	77%
CHICAGO	377	48	13%	36	75%
CINCINNATI	72	25	35%	18	72%
CLEVELAND	148	35	24%	22	63%
COLUMBIA	68	20	29%	15	75%
DALLAS	217	27	12%	22	81%
DENVER	124	36	29%	11	31%
DETROIT	222	33	15%	22	67%
EL PASO	84	8	10%	5	63%
HONOLULU	64	14	22%	2	14%
HOUSTON	247	30	12%	16	53%
INDIANAPOLIS	81	23	28%	12	52%
JACKSON	59	11	19%	8	73%
JACKSONVILLE	67	18	27%	15	83%
KANSAS CITY	127	28	22%	22	79%
KNOXVILLE	61	24	39%	15	63%
LAS VEGAS	88	31	35%	24	77%
LITTLE ROCK	71	14	20%	8	57%
LOS ANGELES	567	83	15%	51	61%

LOUISVILLE	70	26	37%	20	77%
MEMPHIS	82	20	24%	13	65%
MIAMI	349	76	22%	50	66%
MILWAUKEE	64	23	36%	21	91%
MINNEAPOLIS	91	26	29%	18	69%
MOBILE	44	14	32%	11	79%
NEWARK	301	29	10%	12	41%
NEW HAVEN	92	21	23%	15	71%
NEW ORLEANS	145	18	12%	12	67%
NEW YORK CITY	1002	92	9%	86	93%
NORFOLK	47	20	43%	12	60%
OKLAHOMA CITY	108	34	31%	19	56%
OMAHA	62	12	19%	10	83%
PHILADELPHIA	297	80	27%	41	51%
PHOENIX	150	39	26%	30	77%
PITTSBURGH	109	25	23%	14	56%
PORTLAND	70	20	29%	11	55%
RICHMOND	56	21	38%	6	29%
SACRAMENTO	94	17	18%	13	76%
ST. LOUIS	76	24	32%	18	75%
SALT LAKE	122	29	24%	12	41%
SAN ANTONIO	153	27	18%	7	26%
SAN DIEGO	185	29	16%	22	76%
SAN FRANCISCO	286	75	26%	58	77%
SAN JUAN	108	7	7%	5	71%
SEATTLE	101	25	25%	16	64%
SPRINGFIELD	47	13	28%	10	77%
TAMPA	132	48	36%	22	46%
WMFO	531	54	10%	25	46%

ILLUSTRATIONS OF EFFECTS OF CHANGING THE RETIREMENT SALARY BASE  
FROM HIGH-3 AVERAGE TO HIGH-4 AND HIGH-5 AVERAGES

The Concurrent Budget Resolution for FY 1996 reported by the House/Senate conference committee called for, among other things, increasing the salary base for CSRS and FERS pension benefit calculations from the current high-3 year average to a high-4 average for employees retiring during calendar year 1997 and a high-5 average for employees retiring in January 1998 and thereafter.

The following examples illustrate the effects of the change on employees eligible to retire on December 31, 1996, after 30 years of service under CSRS. The first example is a GS-15 who is at the top of the salary grade. This employee would receive only the general salary increases that all federal employees receive through continued employment. The second is a GS-12 also at the top of the salary grade. The third is a GS-5 who was newly promoted to that grade as of January 1, 1996, and, thus, would receive within-grade increases through continued employment, in addition to general salary increases. The general increase assumptions are based on the estimated pay raise percentages for 1996, 1997, and 1998 appearing in the President's FY 1996 budget proposal (2.4 percent in January 1996; 3.2 percent in January 1997; and 3.1 percent in January 1998).

GS-15

If this employee retired on December 31, 1996, before the high-4 salary base became effective, the annuity amount would be \$52,279. If the employee waited 1 month to retire, the annuity amount would be \$51,677, or \$602 a year less, because of application of the high-4 average. The employee would have to work until the end of March 1997 to receive a benefit amount approximating the amount that would have been payable in December 1996 under the high-3 salary average.

Tables 1 and 2 show the annuity reductions attributable to the high-4 and high-5 averages for each month the employee delays retirement through the end of 1998. Table 2 shows, for example, that the employee's annuity would be \$1,626, or 2.7 percent, a year less under the high-5 average in December 1998 than if the high-3 average were continued.

Table 1: 1997 Annuity Amounts Using High-3 and High-4 Salary Averages (GS 15, step 10)\*

	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
High 3	52,562	52,846	53,131	53,417	53,704	53,991	54,279	54,568	54,857	55,147	55,438	55,730
High 4	51,677	51,970	52,263	52,557	52,852	53,148	53,445	53,742	54,041	54,340	54,640	54,941
Reduction amount/ (high 3 minus high 4)	885	876	868	860	852	843	834	826	816	807	798	789

\*For employees with 30 years service as of December 31, 1996.

Table 2: 1998 Annuity Amounts Using High-3 and High-5 Salary Averages (GS-15, step 10)\*

	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
High 3	56,025	56,321	56,617	56,914	57,212	57,511	57,810	58,110	58,411	58,713	59,016	59,319
High 5	54,340	54,641	54,942	55,245	55,548	55,852	56,157	56,462	56,769	57,076	57,384	57,693
Reduction amount/ (high 3 minus high 5)	1,685	1,680	1,675	1,669	1,664	1,659	1,653	1,648	1,642	1,637	1,632	1,626

\*For employees with 30 years service as of December 31, 1996.

GS-12

This employee could retire on December 31, 1996, under the high 3, at an annual annuity of \$31,627, but would receive an annuity of \$31,263, or \$364 a year less, by waiting 1 month to retire. The employee would have to work through March 1997 to receive as much under the high 4 as could have been received in December 1996 under the high 3.

The following two tables show the comparative amounts the employee would receive at retirement in each month through the end of 1998. In December 1998, the employee's annuity would be \$984, or 2.7 percent, a year less under the high-5 average than if the high 3 were continued.

Table 3: 1997 Annuity Amounts Using High-3 and High-4 Salary Averages (GS 12, step 10)\*

	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
High 3	31,799	31,970	32,143	32,316	32,489	32,663	32,837	33,012	33,187	33,362	33,538	33,715
High 4	31,263	31,440	31,618	31,796	31,974	32,153	32,333	32,513	32,693	32,874	33,055	33,237
Reduction amount/ (high 3 minus high 4)	536	530	525	520	515	510	504	499	494	488	483	478

\*For employees with 30 years service as of December 31, 1996.

Table 4: 1998 Annuity Amounts Using High-3 and High-5 Salary Averages (GS 12, step 10)\*

	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
High 3	33,893	34,072	34,251	34,431	34,611	34,792	34,973	35,155	35,337	35,519	35,702	35,886
High 5	32,874	33,056	33,238	33,421	33,605	33,789	33,973	34,158	34,343	34,529	34,716	34,902
Reduction amount/ (high 3 minus high 5)	1,019	1,016	1,013	1,010	1,006	1,003	1,000	997	994	990	986	984

\*For employees with 30 years service as of December 31, 1996.

#### GS-5

Because this employee is receiving pay increases in addition to the general increases, the change to the high-4 and high-5 salary averages has a greater proportionate effect on the employee's annuity amounts than in the GS-15 and GS-12 examples. The employee could retire on December 31, 1996, under the high 3, at an annual annuity of \$10,753. If the retirement date were delayed to January 31, 1997, the annuity would be \$10,469, or \$284 less, because of application of the high 4. The employee would have to work through April 1997 to receive as much under the high 4 as could have been received in December 1996 under the high 3.

Tables 5 and 6 show the comparative amounts the employee would receive at retirement in each month through the end of 1998. In December 1998, the employee's annuity would be \$969, or 7.2 percent, less under the high-5 average than if the high 3 were continued.

Table 5: 1997 Annuity Amounts Using High-3 and High-4 Salary Averages (Recently promoted GS 5)\*

	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
High 3	10,856	10,961	11,065	11,170	11,276	11,382	11,488	11,595	11,702	11,809	11,917	12,026
High 4	10,469	10,569	10,669	10,770	10,871	10,973	11,075	11,177	11,280	11,383	11,487	11,590
Reduction amount/ (high 3 minus high 4)	387	392	396	400	405	409	413	418	422	426	430	436

\*For employees with 30 year service as of December 31, 1996.



Table 6 1998 Annuity Amounts Using High-3 and High-5 Salary Averages (Recently promoted GS 5)\*

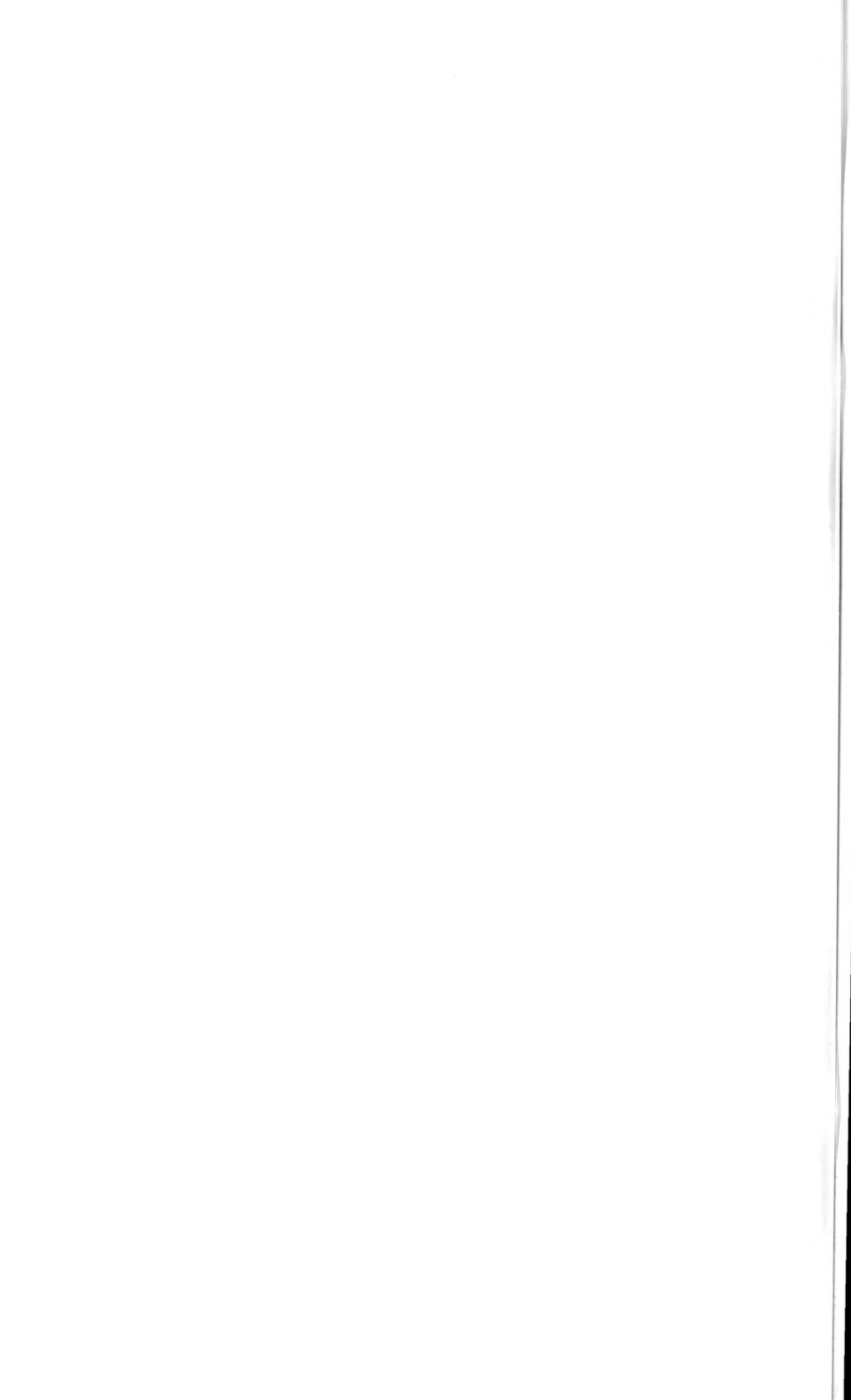
	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
High 3	12,139	12,252	12,366	12,480	12,595	12,710	12,826	12,942	13,058	13,175	13,293	13,410
High 5	11,285	11,388	11,491	11,595	11,699	11,804	11,909	12,015	12,121	12,227	12,334	12,441
Reduction amount/ (high 3 minus high 5)	854	864	875	885	896	906	917	927	937	948	959	969

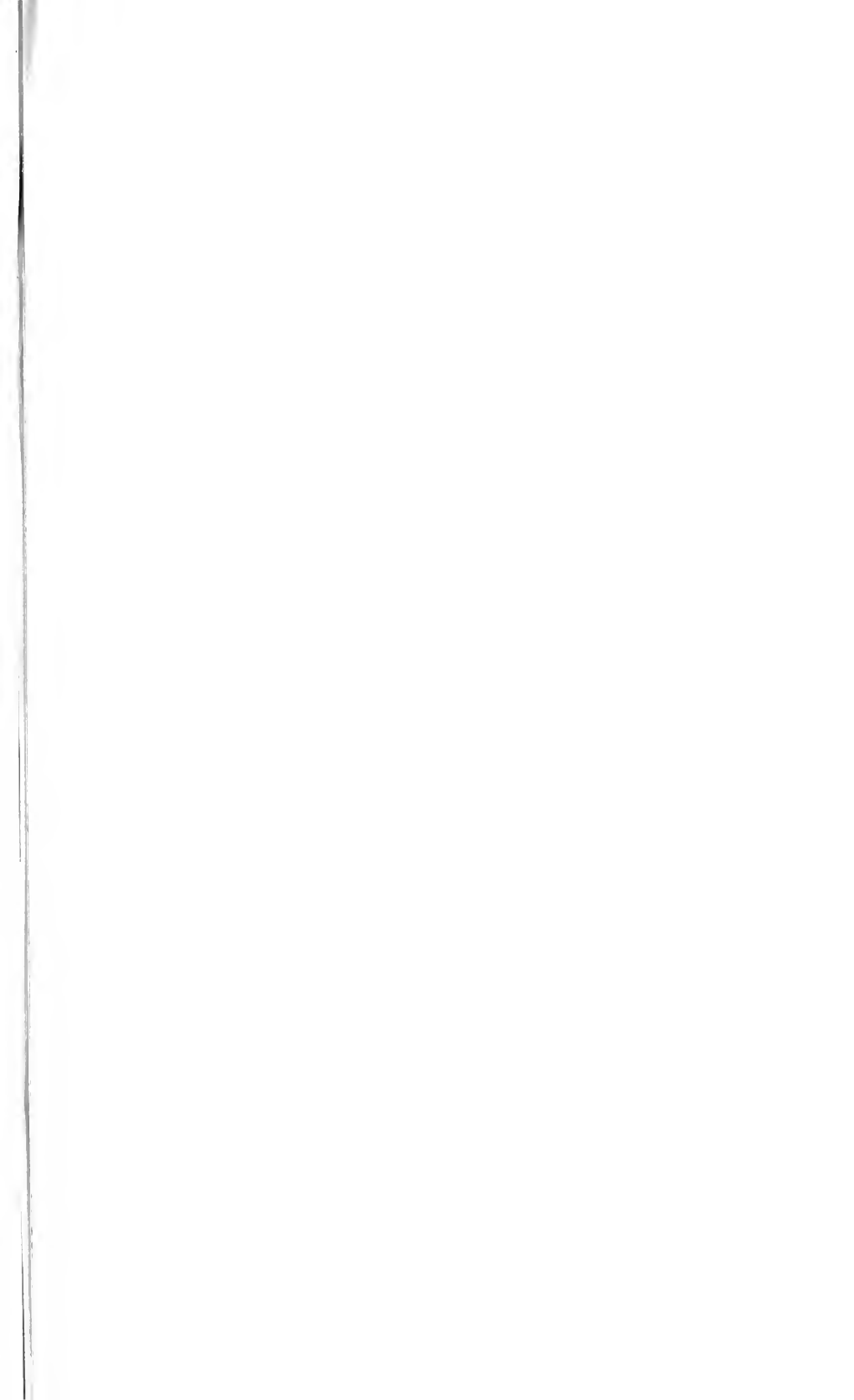
\*For employees with 30 years service as of December 31, 1996.

As is apparent, changing the salary base from a high-3 average to high-4 and high-5 averages will cause benefit reductions for the employees in each of the examples. The amount of the effects vary by salary level, and are proportionately larger for employees who have not reached the top of their salary grades.

Calculations of the effects of the high-4 and high-5 averages on FERS pension plan annuities are not yet available. However, the same principles would apply, and adopting lower salary averages would reduce benefit amounts in FERS as well.



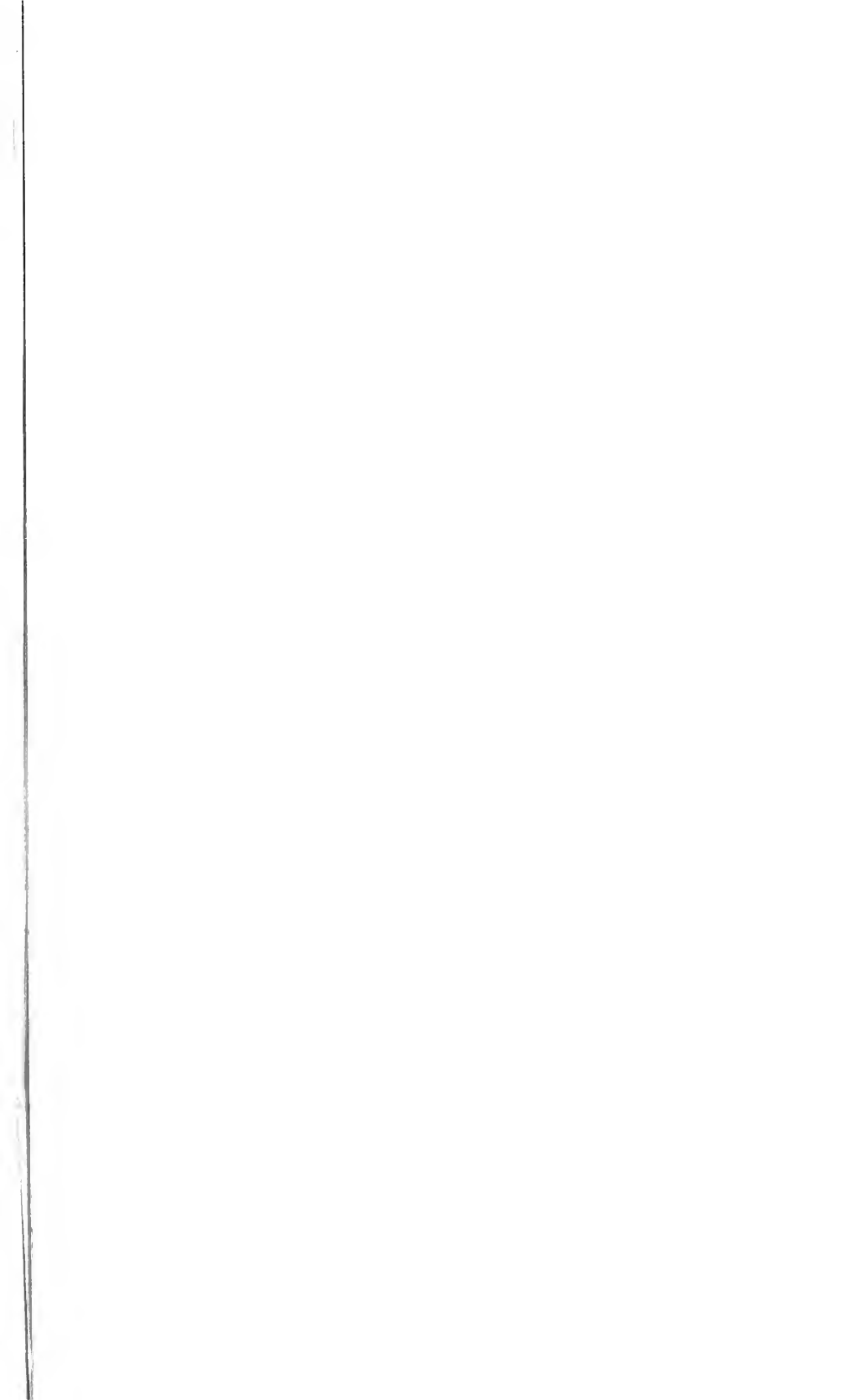




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