

LIST OF OPTIONS

A. CONGRESSIONAL, CIVIL, AND MILITARY RETIREMENT

1. Reduce congressional retirement benefits by as much as 40 percent (to match contribution and benefit levels of other Federal civilian employees under FERS)

CURRENT LAW

Executive and judicial branch personnel contribute 0.8 percent of pay for the Federal Employee Retirement System (FERS) basic retirement and disability benefits. They accrue pension benefits (a percentage of their average salary during their three highest paid years of service) at a rate of 1 percent per year. Congressional employees (including Members of Congress) and public safety personnel participating in FERS contribute 1.2 percent of pay and receive accrual rates of 1.7 percent per year for the first 20 years of service and 1 percent for more than 20 years of service. The rationale for the higher contribution and accrual rates was that Members and staff have less job security than Executive branch career personnel.

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OPTION

This option would reduce congressional accrual rates to 1 percent per year and contributions to 0.8 percent of pay to provide all Federal personnel (except certain public safety employees) with the same FERS employee contribution and benefits. The effective date would be for years of work after January 1, 1996. This option would apply to current Members of Congress and employees for remaining years of work and to new workers for all years of work.

EFFECT

The outlay effect of implementing this option is less than 0.02 percent of Gross Domestic Product (GDP) in any given year.

2. Reduce the FERS retirement benefits by as much as 10 percent and CSRS by as much as 5 percent for future years of service, and bring the congressional FERS system into parity with other Federal retirement programs

CURRENT LAW

The Civil Service Retirement and Disability program provides retirement and disability benefits for retired Federal civilian employees and their survivors. The program consists of two retirement systems — the Civil Service Retirement System (CSRS) and the Federal Employees Retirement System (FERS).

Congress designed the CSRS as a traditional defined benefit program in 1920. FERS was designed as a mixed defined benefit and defined contribution retirement program in 1986. Federal employees hired after December 31, 1983, are required to enroll in FERS. FERS was enacted in 1986 in response to the 1983 Social Security amendments, mandating Social Security coverage of new Federal employees.

Both CSRS and FERS benefits are determined by multiplying the employee's salary base, an accrual rate (the rate at which they accrue pension benefits), and the number of years of service. The salary base used to determine CSRS and FERS benefits is the average annual pay of the highest paid three consecutive years ("high-three pay").

The accrual rates used by CSRS and FERS determine the percentage of the salary base workers earn in pension benefits for each year of service. For example, an accrual rate of 1 percent of the salary base yields a benefit of 30 percent of the salary base for 30 years of service, and 10 percent for 10 years of service.

CSRS has a three-step accrual rate:

- 1.5 percent for the first five years of service,
- 1.75 percent for years six through 10, and
- 2 percent for years over 10.

Therefore, a CSRS employee with 30 years of service could retire at age 55 and receive a benefit equal to 56.25 percent of highest three-year average salary.

The FERS accrual rate for most Executive branch workers is 1 percent for all years of service for workers retiring before age 62, and 1.1 percent for workers retiring at age 62 or over with at least 20 years under FERS. Therefore, a FERS employee with 30 years of service could retire at age 62 with benefits equal to 33 percent of the highest three consecutive years of pay. This amount is in addition to Social Security benefits available to FERS employees.

The CSRS accrual rate for congressional employees (including Members) and certain Federal public safety personnel is 2.5 percent. The FERS accrual rate for congressional employees starts at 1.7 percent for the first 20 years and then declines to 1 percent for each year thereafter.

OPTION

This option would reduce the CSRS and FERS accrual rates by a 0.1 percentage point for each year of work after January 1, 2000. This would apply to current Federal workers for their remaining years of work and to new workers for all years of work. For CSRS, the new accrual rates would be —

- 1.4 percent for the first five years of service (compared with 1.5 percent under current law),
- 1.65 percent for years six through 10 (compared with 1.75 percent under current law), and
- 1.9 percent for years over 10 (compared with 2 percent under current law).

The FERS accrual rate would be 0.9 percent for all years of service for workers retiring before age 62, and 1 percent for workers retiring at age 62 or over with at least 20 years under FERS. The maximum benefit would be 30 percent of high-three pay for a worker with 30 years of service retiring at age 62. A FERS annuitant with 30 years of service retiring in 2030 would have a 10 percent reduction in the annuity under the proposal.

This change in the FERS basic benefit must be considered along with any potential changes made to Social Security benefits to assess the overall impact of reform on FERS employees.

The CSRS accrual rate for congressional employees (including Members) would be changed to 2.4 percent. The FERS accrual rate for congressional employees and Members would be reduced to parity with other Federal civil service employees. Congressional FERS contributions would also be reduced from 1.3 percent of pay to 0.8 percent.

EFFECT

Percentage of Gross Domestic Product

	2000	2010	2020	2030
Outlay savings	*	*	*	0.03%

3. Structural reforms in Federal civilian employee retirement programs

CURRENT LAW

The Civil Service Retirement and Disability program provides retirement and disability benefits for retired Federal civilian employees and their survivors. The program consists of two retirement systems — the Civil Service Retirement System (CSRS) and the Federal Employees Retirement System (FERS).

Congress designed the CSRS as a traditional defined benefit program in 1920. The CSRS covers only those Federal employees hired before January 1, 1984, who have not opted into FERS. As of 1993, CSRS had about 1.5 million active employees enrolled and more than 2.1 million annuitants. Of those annuitants, 73 percent were retired or disabled employees and 27 percent were survivors of deceased employees or retirees. The average annual retired or disabled annuitant benefit was \$17,616 in 1993. The average annual survivor benefit was \$9,120 in 1993.

FERS was enacted in 1986 in response to the 1983 Social Security amendments, mandating Social Security coverage of new Federal employees. It was designed as a mixed defined benefit and defined contribution retirement program in 1986. It is a three-tiered plan consisting of Social Security, the FERS basic benefit, and the Thrift Savings Plan. FERS covers employees hired after December 31, 1983, and employees originally covered by CSRS who elected into FERS in 1986. As of 1993, FERS covered about 1.3 million active employees and more than 31,000 annuitants. Of the annuitants, 94 percent were retired employees and 6 percent were survivors of deceased employees or retirees. The average annual FERS annuitant benefit was \$7,833 in 1993, excluding Social Security and Thrift Savings Plan benefits.

CSRS enrollees may retire and receive an immediate unreduced annuity at age 55 with 30 years of service; at age 60 with at least 20 years of service; or at age 62 with at least five years of service. The retirement age for FERS participants with 30 years of service increases from age 55 (for those over age 46) to age 57 (for those under age 25). Workers covered under FERS may also receive an unreduced benefit at age 60 with at least 20 years of service.

Both CSRS and FERS benefits are determined by multiplying the employee's salary base, an accrual rate (the rate at which they accrue pension benefits), and the number of years of service. The salary base is the average annual pay for the highest paid three consecutive years (high-three pay).

OPTIONS

(a) Retirement age to 57 and high-four pay. This option would make two adjustments to the structure of the Federal employee retirement system. First, the option would increase the CSRS retirement age for unreduced benefits from 55 to 57 for employees retiring after 30 years of service, matching the FERS retirement age. As a result, starting with persons currently age 35 and under, the retirement age for CSRS benefits would increase by two months each year. The option would continue to permit voluntary separation at age 55 with actuarially reduced benefits.

Second, the option would adjust the benefit formula for both CSRS and FERS by changing the salary base from the employee's highest three consecutive years of pay to his or her highest four years. This is closer to the highest five-year salary base typical in the private sector. The amount of the benefit will generally decline if pre-retirement pay is determined over a longer period. A FERS annuitant retiring with 30 years of service in 2030 would have a basic benefit reduction of roughly 2 percent. This change in the benefit formula would be effective beginning on January 1, 2000.

(b) Retirement age to 60 and high-five pay. For both the CSRS and the FERS, this option would make two adjustments to the structure of the Federal civil service retirement system. First, the option would gradually phase out eligibility for unreduced benefits for Federal workers completing 30 years of service before age 60. As a result, starting with persons currently age 32 and under, the retirement age for unreduced benefits would increase by four months each year until it reaches age 60. As under current law, workers with at least 20 years of service would be eligible for unreduced benefits at age 60, and workers with at least five but fewer than 20 years of service would be eligible for unreduced benefits at age 62. The option would permit voluntary retirement at age 55 (for those under CSRS) or 55/57 (for those under FERS, depending on year of birth) with an actuarially reduced benefit. Current law permitting FERS workers to retire with a reduced benefit at age 55/57 with at least 10 years of service would continue. Age 62 would continue to be the base age for reduced benefit calculations under FERS.

Second, the option would adjust the benefit formula for both CSRS and FERS by changing the salary base from the employee's highest three consecutive years of pay to his or her highest five years. The amount of the benefit will generally decline if pre-retirement pay is determined over a longer period. A FERS annuitant retiring with 30 years of service retiring in 2030 would have a roughly 4 percent reduction in the annuity under the proposal. This change in the benefit formula would be effective beginning on January 1, 2000.

Changes in the FERS basic benefit resulting from these options must be considered along with any potential changes made to Social Security benefits to assess the overall impact of reform on FERS employees.

EFFECT

Percentage of Gross Domestic Product

	2000	2010	2020	2030
a. Outlay savings	*	*	*	*
b. Outlay savings	0.02%	0.02%	0.02%	0.02%

4. Reduce the health benefits subsidy for Federal retirees with at least five and fewer than 20 years of service

CURRENT LAW

The Federal Employees Health Benefits Program (FEHBP) provides optional health insurance coverage for more than 9 million Federal employees, retirees, and survivors. FEHBP is financed by four sources: (1) withholding from active employees and annuitants; (2) agency contributions for active employees; (3) government contributions for annuitants; and (4) contributions made by the U.S. Postal Service.

The Federal government pays an average of 72 percent of the cost of health care coverage for employees and annuitants. The amount of the subsidy depends on the particular plan chosen by the employee. Qualified annuitants are eligible for the subsidy whether they became eligible for the retirement annuity by satisfying a minimum five-year service requirement or the full retirement benefit service requirement (usually 20 to 30 years) for retirement benefits.

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OPTION

This option would reduce the Federal employee health benefit subsidy for new Federal retirees with fewer than 20 years of service, effective January 1, 2000. A full subsidy (which depends on the cost of the plan chosen) would be provided for annuitants with at least 20 years of service. Annuitants with five years of service, would receive 25 percent of the value of the full subsidy. Annuitants with more than five years of service but less than 20 years would receive an additional 5 percent of the full subsidy for each additional year of service up to 15 additional years.

EFFECT

The outlay effect of implementing this option is less than 0.02 percent of Gross Domestic Product (GDP) in any given year.

5. Cap combined military retirement and Social Security payments at 80 percent of active duty pay

CURRENT LAW

The Military Retirement Reform Act of 1986 made substantial changes in the military retirement system. Under current law, after 20 years of service, the benefit is 40 percent of active duty pay. For each additional year of service up to 30 years, the benefit increases by 3.5 percent of active duty pay, reaching a maximum of 75 percent after 30 years. Military retirees are also eligible for Social Security benefits based on their employment in the military. As a result, they may receive combined benefits that exceed their rate of basic pay at retirement.

OPTION

This option would cap the combined level of benefits payable to a military retiree from the military retirement and Social Security systems, starting for military personnel retiring after January 1, 2000. The cap would be set at 80 percent of the “high three years of basic pay” used to compute military retirement benefits. If a retiree’s combined benefits exceed the cap, the military retirement benefit would be reduced, but by no more than one-half. In computing the combined benefits, only the Social Security benefits resulting from the period of military service would be counted.

Social Security benefits based on years of employment outside the military would not be affected.

The cap would be computed by the military retirement system at the time of entitlement to military retirement benefits. After the cap is initially computed, it would be indexed annually to reflect wage growth in the economy, until the retiree becomes eligible for Social Security benefits.

This option would ensure that a military retiree’s combined retirement benefits do not exceed the pre-retirement earnings upon which those benefits were based.

EFFECT

The outlay effect of implementing this option is less than 0.02 percent of Gross Domestic Product (GDP) in any given year.

6. Reduce the rate at which military retirement benefits accrue from 3.5 percent to 2 percent of basic pay for retirees with more than 20 years of service

CURRENT LAW

The Military Retirement Reform Act of 1986 made substantial changes in the military retirement system. For the first 20 years of service, benefits accrue at a ratio of 2 percent per year. Thus, for 20 years of service, the retirement benefit is 40 percent of active duty pay. For each additional year of service up to 30 years, the benefit increases by 3.5 percent of active duty pay, reaching a maximum of 75 percent after 30 years. Military retirement benefits are also subject to —

- A post-retirement annual cost-of-living adjustment (COLA) of the Consumer Price Index (CPI) minus 1 percentage point until age 62;
- A one-time increase in retirement pay at age 62 to adjust it to the level it would have been if a full COLA had been provided in retirement years before age 62; and
- A one-time increase in retirement pay at age 62 of 10 percent to adjust it to the level it would have been with a 2.5 percent multiplier for the first 20 years of active duty service.

OPTION

This option would reduce the addition to retirement pay for each year of service after 20 years from 3.5 percent to 2 percent per year for military personnel hired after August 1, 1986. In addition, this option would drop the one-time 10 percent increase in retirement pay at age 62. It would retain the CPI minus 1 percentage point COLA that applies until age 62 and the one-time COLA adjustment at age 62.

EFFECT

The outlay effect of implementing option is less than 0.02 percent of Gross Domestic Product (GDP) in any given year.