Civil-Service Retirement Program, October 20, 1969

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MORE THAN 2½ MILLION civilian employees of the Federal Government and their dependents are protected by the civil-service retirement program against income loss resulting from the death of the employee or from his retirement because of age or disability. Congress established the program in 1920 when it passed the first Civil Service Retirement Act and has voted various amendments to the act. The most recent amendments (Public Law 91–93) were approved October 20, 1969.

The principal purpose of the amendments was to improve the financing of the system by (1) increasing the employee and matching agency contribution rate from 6½ percent to 7 percent, effective with the first full pay period in January 1970, (2) providing for annual payments of interest on the unfunded liability by the General Fund of the Treasury, (3) making annual transfers from the General Fund for the cost of crediting military service, and (4) providing that the unfunded liability of future liberalizations must be amortized by equal annual payments over the succeeding 30-year period.

The additional income that will result from the increased contribution rate is absorbed by the liberalizations (effective on enactment) that (1) reduce from 5 to 3 the number of years used to determine "average salary" as a basis for annuity, (2) add unused sick leave to years of service in computing the annuity, (3) add 1 percent to future cost-of-living increases, (4) provide increased survivor benefits for short-service employees, (5) reduce the minimum service requirement for survivor benefits from 5 years to 18 months, and (6) extend to all surviving spouses a previously restricted liberalization regarding termination of annuity on remarriage.

This article discusses the major provisions of the present system, which are outlined in the accompanying chart. Provisions applying only to certain special groups, such as legislative employees and Members of Congress, are mentioned briefly. Omitted entirely are provisions that are mainly administrative in nature and special provisions applying to Alaska Railroad and Canal Zone employees.

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RETIREMENT

Compulsory retirement for age.—An employee must retire at age 70 or as soon thereafter as he has completed 15 years of service. Even though retirement is compulsory under the given conditions, immediate or later reemployment is possible under the requirements for reemployment of annuitants.

Voluntary retirement.—Voluntary retirement on full annuity is permitted at age 62 or over with at least 5 years of service, at age 60 or over with at least 20 years of service, or at age 55 or over with at least 30 years of service.

Before the 1966 amendments[1] voluntary retirement at age 60, as well as at age 55, required 30 years of service, and the annuity was reduced 1/12 of 1 percent for each full month under age 60.

Involuntary separation.—If an employee is involuntarily separated for reasons other than misconduct or delinquency, he is eligible for an immediate annuity, provided he has had 25 years of service or has attained age 50 and has had 20 years of service. If the employee is under age 55, the basic annuity is reduced 1/6 of 1 percent for each full month under age 55.

Disability.—Disability retirement is permitted (after at least 5 years of service) upon a finding of disability by the Civil Service Commission. Under the minimum provision, the employee with as little as 5 years of creditable service may receive an annuity of 40 percent of the "average salary." This is the equivalent of a nondisability annuity based on about 21 years and 11 months of service with an "average salary" of at least $5,000 (as little as 20 years for a salary of $2,500). The older short-service employee may receive less

[1] Public Law 89–504, enacted July 18, 1966.

than 40 percent, since the minimum may not exceed the annuity to which the employee would have been entitled had he continued working to age 60 at the same "average salary." This minimum is computed by means of the regular annuity formula, on the basis of the employee's actual

Principal provisions of the Civil Service Retirement Act, October 20, 1969

Description of Benefits

Age and service retirement:
  Compulsory—age 70 with 15 years.
  Voluntary—age 62 with 5 years *or* age 60 with 20 years *or* age 55 with 30 years.
  Involuntary—Any age with 25 years *or* age 50 with 20 years (reduced if under age 55).

Disability retirement: Any age with 5 years.

Deferred retirement: Age 62 with 5 years (refund not elected).

Survivor benefit: Death in active service with 18 months *or* death after retirement with 5 years.

Lump-sum refund: Upon withdrawal—with less than 5 years *or* with 5 years in lieu of deferred annuity (if not eligible for immediate annuity).

Lump-sum benefit: Upon death in active service—with less than 18 months *or* with 18 months and no surviving eligible spouse or child.

Lump-sum guarantee: Upon death after retirement—with no survivor eligible for further benefits, refund of accumulated contributions less all annuity payments.

Computation of Benefit Amounts

"Average salary": Highest average annual basic salary for any 3 consecutive years (for total service if less than 3 years).

"Total service": Number of years plus full months expressed as fraction of year, including sick leave.

Basic annuity: 1½% of average salary times first 5 years of service *plus* 1¾% of average salary times next 5 years of service *plus* 2% of average salary times service in excess of 10 years. (Alternatively, 1% of average salary plus $25 may be substituted for these percentages if average salary is less than $5,000).

Minimum annuity (for disability retirement and death before retirement only): Lesser of 40% of average salary or basic annuity computed using actual service plus assumed service to age 60.

Maximum annuity: 80% of average salary plus annuity attributable to sick leave.

Reduction in annual annuity: 10% of unpaid deposits due for noncontributory service.

Survivor child benefit: With surviving parent, benefit per child is the smallest of $900,[1] *or* $2,700[1] divided by number of children, or 60%[2] of employee's average salary divided by number of children. With no surviving parent, benefit per child is the smallest of $1,080,[1] *or* $3,240[1] divided by number of children, *or* 75%[2] of employee's average salary divided by number of children.

Survivor spouse benefit (for death before retirement): 55% of employee annuity (minimum generally 22% of average salary).

Optional survivor benefits (for death after retirement): For married annuitant, payable to spouse—55% of annuity (or lesser amount designated by employee). For unmarried annuitant (other than disability retirement), payable to designated person—55% of *reduced* annuity.

Reduction for optional survivor benefits: Married annuitant—2½% of first $3,600 of annuity plus 10% of remainder. Unmarried annuitant (other than disability retirement)—10% of annuity plus 5% for each full 5 years designated beneficiary is younger than annuitant (maximum reduction 40%).

Cost-of-living increases: Become effective first day of third month after the Consumer Price Index reaches, for 3 consecutive months, a level at least 3% higher than index for month last used as base for increase. Amount is 1% plus percentage rise in index in highest of the 3 consecutive months over index for last base month, rounded to nearest 1/10 of 1%. Apply to annuities beginning before effective date. Increases for employee annuitants extend to subsequent survivor annuities.

Financing

Employee and matching agency contributions are each 7% of basic salary.

Annual transfer of interest on unfunded liability and cost of annuity payments resulting from military service credit, beginning with 10% of such amounts in fiscal year 1971 and increasing by 10% a year until total is transferred annually.

Amortization of unfunded liability of future liberalizations in equal annual payments over 30-year period.

Retirement fund investments: Principally special issues with interest on current investments at a rate equal to average market yield on all outstanding U.S. Government marketable obligations not due or callable for 4 years after date of such issuance. Current rate on new investments is higher than 7%; current earnings rate is about 4.7%.

[1] Cost-of-living increases after October 1969 apply to these amounts.

[2] Cost-of-living increases effective for parent's annuity apply in case of death after retirement.

"average salary" and "total service," which includes assumed service to age 60. The minimum has no effect on disability retirement at ages 60 and over.

To prove continuing eligibility, a disability annuitant may be required to take an annual physical examination, unless his disability is permanent in character. No examination is required after he reaches age 60. Restoration of earning capacity is presumed if, in each of 2 successive calendar years, his wages and self-employment income are at least 80 percent of the current salary of the position from which he retired. If he recovers or is restored to earning capacity and he is not reemployed in a position covered by the civil-service system, a disability annuitant is considered to be involuntarily separated as of the date his annuity is terminated. He may then become entitled to an annuity under currently applicable provisions for involuntary separation, based on service to the date of his original disability retirement. Optional survivor benefits are offered only to married disability retirants.

Deferred retirement.—Any employee separated after 5 or more years of service has two alternatives. On application (or upon death) at any time between separation and attainment of age 62, his accumulated contributions may be refunded. At age 62, if he is alive and has not previously applied for a refund, he is entitled to a full annuity computed on the basis of total service up to the date of separation. If he is married, he will receive a reduced annuity providing a survivor annuity for his spouse, unless he waives this option. Before he attains age 62, the separated employee has no survivor protection except the lump-sum refund. After age 62, death benefits for surviving children are payable in addition to the optional survivor benefits.

The deferred annuity is an actuarial "bargain" for the average separated employee, compared with the refund alternative, since the annuity may be considered to be worth the employee's own contributions plus the Government contributions on his behalf, which more than double the value of his contributions. Generally, for employees separating at the middle or older ages, the deferred annuity has a value from three to four times the lump-sum refund available.

LUMP-SUM WITHDRAWAL AND DEATH BENEFITS

For employees separated with at least 5 years of service, refunds do not include interest for any period after 1956; compound interest (during periods of employment only) is credited at 4 percent to 1948 and at 3 percent from 1948 to the end of 1956. When an employee dies after at least 5 years of service but leaves no survivor (widow, child, or disabled dependent widower) entitled to an annuity, a refund is payable with interest to the end of 1956, computed in the same way.

The employee separated with more than 1 year of service but less than 5 years receives a refund of contributions with 3-percent compound interest to the date of separation. No alternative is available. If an employee dies with more than 1 year of service but less than 5 years (or if he dies leaving no entitled survivors after 1½ years of service) a refund of contributions is payable, with 3-percent compound interest to the date of death. Employees separating with 1 year of service or less receive refunds without interest.

SURVIVOR BENEFITS

Death in active service.—Death of an employee after at least 18 months of service may entitle certain survivors to annuity rights. The 1969 amendments reduced the service requirement from 5 years to 18 months and at the same time extended the minimum annuity provision of 40 percent of "average salary" (not to exceed the annuity based on assumed continued service to age 60) as a basis for the widow's annuity for death in service. Under this minimum provision, the widow will generally receive 22 percent of the "average salary" (55 percent of 40 percent) except where assumed service to age 60 would produce a smaller amount.

Annuities are payable to surviving widows, to unmarried children under age 18 (under age 22 if they are full-time students), and to widowers who are incapable of self-support because of a disability and who received more than half their support from the deceased employee. The amounts of the benefits are shown in the chart. Children's annuities, which are computed origi-

nally on the basis of the number of eligible children and the existence of a surviving parent, are recomputed if any of these elements change. If remarriage terminates the benefit of the surviving parent, there is no increase in the children's benefit. Restoration of earning capacity of a disabled widower (with termination of his annuity rights) is defined in terms of his becoming capable of self-support.

Death after retirement.—The retiring married employee will receive a reduced annuity during his or her lifetime to provide an annuity for his surviving spouse of 55 percent of his full annuity, unless he specifically waives this option or designates a smaller part of the basic annuity as a base for the survivor annuity. The widower need not be dependent, as required in the event of death of the employee before retirement. The surviving spouse will receive an annuity equal to 55 percent of the full annuity (or the smaller amount so designated). The reduction in the employee annuity is 2½ percent of the amount designated up to $3,600 per year, plus 10 percent of any amount above $3,600. Once the option is effective (at retirement), the annuity reduction is for life, with no recomputation if the prospective survivor predeceases the employee annuitant.

Unmarried annuitants may elect survivor options under less liberal conditions than those for married annuitants. No election is available for unmarried disability annuitants. The annuitant must be in good health (determined by the Civil Service Commission), and the designated beneficiary must have an insurable interest in the life of the employee. There is no option with respect to amount. The full basic annuity is reduced by 10 percent, plus 5 percent for each full 5 years that the designated beneficiary is younger than the annuitant, with a maximum reduction of 40 percent. When the employee annuitant dies, the beneficiary receives a life annuity equal to 55 percent of the *reduced* amount.

Payment of children's benefits upon death after retirement is automatic, and no reduction in the employee annuity is made therefor; the eligibility conditions and amounts paid are the same as those following death before retirement. Generally, eligible children of annuitants retired for any reason are covered. A separated employee eligible only for a deferred annuity at age 62, however, is not considered "retired" until annuity payments begin. If he dies before then, the only benefit is a refund of contributions.

Termination of annuities for the surviving spouse upon remarriage after age 60 was eliminated in the 1966 amendments with respect to death or retirement of the employee after July 17, 1966. The 1969 amendments broadened this provision so that such remarriage after July 17, 1966, does not terminate a surviving spouse's annuity regardless of the date of death or retirement of the employee.

Survivor benefits for children were extended in the 1962 amendments to include children aged 18–21 who are in full-time attendance at a recognized educational institution, with benefits continued through June of the normal school year for students who attained age 21 after the preceding August 31. Under the 1966 amendments, benefits continue to attainment of age 22, with an extension to the end of the normal school term in which the twenty-second birthday occurs. Benefits may continue for as long as 5 months between school terms if the student intends to return to school.

The amount of a survivor child's annual annuity was raised in the 1969 amendments, as follows:

Alternative bases	With surviving parent		No surviving parent	
	1969 amendments	Former law	1969 amendments	Former law
Total for all children, lesser of—				
Percent of "average salary"	60	40	75	50
Flat amount	$2,700	$1,800	$3,240	$2,160
Each child, not more than	$900	$600	$1,080	$720

The increase appears to be 50 percent but is actually about half that amount. Children's annuities are rarely paid under the percentage formula, because the "flat amounts" are smaller unless the "average salary" is under $4,500, and even then they may be smaller if there are less than three children.

The increase in a child's monthly annuity, effective November 1, 1969, was not from $50 to $75, because the monthly annuity actually payable (to a child with surviving parent) under previous law was $60 for October. It would have increased

to $62 for November because, beginning with the 1962 amendments, all cost-of-living increases were applied to the flat-amount limitations. The 1969 amendments increased this amount to $75, subject to cost-of-living increases after October 1969, so that the actual amount payable beginning in November is $79, reflecting a 5.0 percent cost-of-living increase effective November 1.

Thus, the apparent increase from $60 to $75 was 25 percent. However, the effective increase over the amount that would have been paid under former law was 27 percent (from $62 to $79), including the 1-percent addition to the cost-of-living increase already scheduled for November 1. Annuities for children already on the rolls were converted to the higher amounts on November 1.

The changes in survivor benefits under the 1969 amendments are estimated to cost $46 million a year, or 0.21 percent of payroll—with coverage of short-service employees and the minimum guarantee for survivors representing 0.17 percent, and the remainder attributable to the children's increased annuities.

CONTRIBUTION GUARANTEE

The civil-service employee's contributions are certain to be repaid in full—in benefits or by refund. If all annuity rights (including survivor annuity rights) are exhausted before the total payments equal the accumulated employee contributions, the difference is payable to the family or estate. Employee contributions earn interest during periods of employment only but no interest is earned after 1956. For separation with more than 1 year of service but less than 5 years, contributions, plus interest to the date of separation, are refunded, however.

ANNUITY FORMULA

As shown in the accompanying chart, the basic annuity depends on the employee's length of service and on his "high-3 average salary." In computing service, any one period of service is expressed in years, months, and days. Under the 1969 amendments, unused sick leave to the credit of the employee at death or retirement is added. The total is then expressed as years plus a fraction representing full months, with odd days less than 30 dropped. The annuity formula is weighted in favor of the long-service employee, with each year of service above 10 worth one and one-third times as much as each of the first 5 years (when "average salary" is at least $5,000).

The formula is also weighted in favor of the low-salaried employee. Only one "average salary" is used throughout the three steps in the basic computation, but for each step the higher benefit-formula alternative is chosen. Therefore, if the "average salary" is less than $2,500, the alternative benefit-factor of 1 percent plus $25 is used in all three steps; if it is $2,500—$3,333, this alternative is used in the first two steps only; if it is $3,334—$4,999, it is used in the first step only; and if it is at least $5,000 the alternative is not used at all.

Relatively few employees retiring currently have average salaries below $5,000, and this breaking point has not been changed for years. The higher benefit formula alternative is therefore becoming obsolete. For the majority of career employees—with at least 10 years' service and an "average salary" of at least $5,000—the formula may be expressed as the product of (1) the average salary and (2) the years of service times 2 percent, minus 3¾ percent.

The maximum annuity of 80 percent of average salary is equivalent to maximum creditable service of about 41 years and 11 months if the average salary is at least $5,000. For smaller average salaries, the maximum creditable service is less, under the alternative annuity formula. When the employee has earned the maximum annuity, future contributions plus 3 percent interest are applied at retirement toward deposits due for refunded or noncontributory service, or they are treated as voluntary contributions for purchase of an additional annuity.

The reduction for involuntary retirement at ages under 55 is applied before any reduction for unpaid deposits or optional survivor benefits. Monthly payments are computed as one-twelfth of annual amounts, rounded to the nearest dollar.

Before the 1969 amendments, the "average salary" was the average computed for the highest 5 consecutive years. The liberalization to the "high-3," coupled with recent increases in pay

scales, will increase the average annuity of employees retiring in the near future from 5 percent to 7½ percent. This change is estimated to cost 0.07 percent of payroll (or $15 million annually), representing a relative increase in cost of only about ¼ of 1 percent. The great difference between this figure and the percentage increase for current retirants results from deriving the estimated cost from salary scales that assume a static general earnings and thus rise slowly from age to age at the older ages. In contrast, actual salaries have been rising sharply as a result of frequent general salary increases. For deceased employees with at least 18 months of service but less than 3 years, the average salary is computed for the total amount of service.

COST OF LIVING INCREASES

The 1962 amendments introduced cost-of-living increases for annuitants, based on the annual average of the Consumer Price Index of the Bureau of Labor Statistics. Such increases were to be first effective April 1 of the year following an increase of at least 3 percent in the annual average over that for 1962. The price index failed to show a 3 percent increase over 1962 in either 1963 or 1964, so that no cost-of-living increase was effective under these provisions.

The 1965 amendments changed the basis of future cost-of-living increases, as well as providing for an immediate increase in 1965.[2] The annual base was changed to a monthly base to reduce the time lag in such increases. The first increase under the 1965 amendments was effective December 1, 1965. It reflected the increase in the price index for July 1965 from that for the calendar year 1962. Future increases were to be based on the highest rise in the price index for any 3 consecutive months in each of which such increase was at least 3 percent above the index for the base month last used to determine a cost-of-living increase (initially July 1965); they were to be effective the first day of the third month after the 3-month period. Annuities were again raised under these amendments in 1967, 1968, and 1969.

[2] Public Law 89-205, enacted September 27, 1965.

The 1969 amendments retained the same procedure but provided that the cost-of-living increase should be 1 percent plus the increase determined from the Consumer Price Index. The additional 1 percent is partially to compensate for the time lag in adjusting annuities but primarily as an allowance toward recognizing the rising standard of living (as evidenced by the fact that the general level of earnings rises more rapidly than the price level). The first increase under this provision was effective November 1, 1969.

The cost-of-living increases apply to annuitants whose annuities began not later than the effective date of the increase. The 1965 increase, effective December 1, was further extended to all annuities beginning in December.[3] Any increases in the annuity of a retired employee are extended to annuities for his surviving spouse and children, so that the 55-percent benefit factor for the surviving spouse applies to his increased annuity. For survivor children of deceased annuitants, the percentages of "average salary" (60 percent or 75 percent) are also raised the cost-of-living increases that were effective for the retired employee after October 1969.

The flat amounts specified for all child survivors are raised by cost-of-living increases effective after October 1969. The first increase was effective November 1, 1969.

The cost-of-living increases that have become effective are as follows:

Effective date	Percentage increase in annuities	Rise in price index	
		Month	Percentage increase
December 1, 1965	[1] 6.1	July 1965	4.6
January 1, 1967	3.9	October 1966	3.9
May 1, 1968	3.9	February 1968	3.9
March 1, 1969	3.9	December 1968	3.9
November 1, 1969	5.0	August 1969	4.0

[1] Increase applied to annuities commencing after October 1, 1956, and before January 1, 1966. For annuities commencing on or before October 1, 1956, the increase was 11.1 percent (6.5 percent plus the cost-of-living increase).

It will be noted that an additional increase of at least 1½ percent was granted in December 1965 and that 1 percent more than the price index increase was effective in November 1969 and will continue to be added under the 1969 amendments.

Under the 1962 amendments, annuities begin-

[3] Public Law 89-314, enacted November 1, 1965.

ning on or before January 1, 1963, were raised 5 percent, and those beginning in each of the next 4 years were raised 4, 3, 2, and 1 percent, respectively. These increases were in addition to the cost-of-living increases just noted. Widows whose annuities were based on 50 percent of the employee annuity, instead of the 55 percent provided under the 1962 amendments, also received a 10-percent increase under the 1966 amendments, which in effect gave them 55 percent of the employee annuity.

Thus, the amendments between 1962 and 1969 have generally brought annuities into line with rising prices and they will continue to be raised with further advances of at least 3 percent in the Consumer Price Index.

FINANCING

The sources of income for the civil-service retirement fund are employee contributions, agency or departmental contributions, congressional appropriations, and interest on investments. The balance in the fund as of June 30, 1969, was approximately $20 billion. The 1969 amendments raised employee contributions from 6½ percent to 7 percent of base salaries beginning in 1970 and correspondingly increased matching contributions from the agency salary appropriation.

The normal cost of the program before the amendments was estimated at 13.86 percent of payroll; the liberalizations added 0.34 percent. Employee and matching agency contributions were increased from 13 percent to 14 percent, and the deficiency in entry-age normal cost was thus reduced from 0.86 percent to 0.20 percent. Entry-age normal cost is the level percentage of aggregate basic pay, computed in accordance with accepted actuarial principles, that must be contributed each year from entry to separation in order to accumulate sufficient funds to pay benefits under the program.

The unfunded liability on June 30, 1969, was $58 billion. This amount was increased to $61 billion upon implementation of a salary increase in July. Under the 1969 amendments, interest on the unfunded liability (at the interest rate used in the most recent valuation) will be credited annually beginning with 10 percent of such interest in fiscal year 1971 and increasing 10 percent a year until 100 percent of the interest is credited in 1980 and after. The unfunded liability will then be stabilized at an estimated $77 billion. Interest payments are estimated to increase from $200 million annually to $2.7 billion, beginning in 1980.

Annual transfers will also be made at an increasing rate, starting at 10 percent, to cover the cost of crediting military service. These payments will increase from $10 million to a maximum of $300 million and decline thereafter. This provision reduces the normal cost by 0.22 percent of payroll to 13.98 percent, leaving a "surplus" of 0.02 percent of the combined agency and employee contributions.

The Civil Service Commission will notify the Secretary of the Treasury at the end of each fiscal year of the amount of interest on the unfunded liability and the annuity payments attributable to military service credit, and the appropriate percentage of this total will be transferred to the civil-service retirement and disability fund.

The 1969 amendments repealed the requirement that increases in annuities could not be paid unless funds to cover the cost were appropriated. A provision was substituted that authorizes appropriations to cover, in 30 equal annual installments, the cost of any increase in the unfunded liability resulting from future liberalizations in benefits or increases in pay, with the first appropriation due at the end of the fiscal year in which the change is effective. The provision does not apply to cost-of-living increases, for which no financing is provided.

The fund is principally invested in United States special issues, which currently earn an average of about 4.7 percent interest. The interest rate on special issues is equal to the current average market yield on all outstanding United States public marketable interest-bearing obligations for which the date of first call or maturity is at least 4 years after such issuance. This is the same basis as that used for the special issues of the social security trust funds. Current investments are at a rate higher than 7 percent.

MILITARY SERVICE

Military service is creditable without employee contributions. Military pay is not used in com-

puting the highest 3-year average salary. Active service in the Army, Navy, Air Force, or Coast Guard is creditable for employee or survivor benefits with certain exceptions.

1. Service performed after the date of separation on which title to the civil-service annuity is based is not creditable. An employee leaving his position for military service during a national emergency is not, however, considered separated until after 5 years of such service.

2. Service for which the employee is awarded military retired pay is not creditable unless it has been awarded for service-connected disability or unless the employee elects to forfeit military retired pay in order to receive such credit.

3. Service after 1956 (the beginning of contributory coverage under the social security program for military personnel) is not creditable if the employee or his widow or child is eligible for benefits, based on such service, under the Social Security Act. The employee or survivor may not elect to forfeit the social security credits in order to receive civil-service credit.

4. Service between September 15, 1940, and 1957 (when military personnel were credited with earnings of $160 a month under the social security program) is not creditable toward a survivor annuity if the survivor is eligible for social security monthly benefits based on such service, unless the survivor elects to forfeit the social security credit.

GENERAL SERVICE REQUIREMENTS

For any retirement annuity entitlement, the employee must have had at least 5 years of creditable civilian service; 18 months of such service are required for survivor benefits. Once this requirement has been met, all creditable military service counts in the computation of benefits (except as noted earlier) and in the determination of length of service for annuity eligibility (including the 15-year service requirement at age 70).

In addition, the employee separated for reasons other than death or disability retirement must have completed at least 1 year of creditable civilian service within the 2-year period preceding the date of separation in order to become entitled to an annuity based on that separation date. Thus, a person returning to covered employment after a separation of 2 or more years must work at least 1 additional year before the later service can be credited toward his regular annuity. If he were to retire before serving the time required, the earlier period of service would be creditable for annuity purposes (under provisions in effect at the time of the earlier separation) and contributions made during the later period would be refunded.

All leave of absence for military service or leave while receiving benefits under the Federal Employees' Compensation Act is considered as creditable service. Other leaves of absence without pay can be credited as service for no more than 6 months in any 1 calendar year.

REEMPLOYMENT OF ANNUITANTS

It is possible for an annuitant to be reemployed in any position for which he is qualified. In general, annuitants continue to receive their annuities during reemployment, but their salary is reduced by the full amount of the annuity. The lump-sum credit that may be payable upon death of the annuitant is not reduced by the amount of the annuity received during reemployment. The reemployed annuitant receives credit toward a "supplemental" annuity, provided the period of reemployment includes at least 1 year of full-time service.

The supplemental annuity is computed on the basis of reemployment service only, but the earlier period of employment is used to determine the appropriate section of the annuity formula for the computation. If the former period of employment was 10 years or more, for example, the reemployment service would be credited in the 2-percent range of the annuity formula. The "average salary" used is the average annual salary (before reduction for annuity payments) for the full period of reemployment, whatever its length.

The reemployed annuitant does not make any contributions during his period of reemployment. To receive full service credit, however, he must on final separation deposit the amount such contributions would have totaled, with interest at 3

percent. Otherwise, his supplemental annuity (on an annual basis) will be reduced by 10 percent of the unpaid amount. Survivor options are not available.

If the reemployment continues for at least 5 years, the annuitant may deposit an amount covering contributions with interest and have a complete recomputation of his annuity based on his latest separation date, recomputed "average salary," and total service.

The special supplemental annuity computation is not used if the reemployed annuitant's original separation was for involuntary retirement or if he is a former disability annuitant whose annuity was terminated by recovery or restoration of earning capacity before age 60. In these cases, the annuitant is rehired and treated like all other employees. No annuity checks are paid, and the regular 7-percent deductions are taken from his full salary. Upon final separation, there is a complete recomputation of the annuity, with all creditable service used and with a redetermination of the "average salary."

PURCHASE OF SERVICE CREDIT

To receive full service credit, employees may deposit amounts owed to the fund because of either earlier refunds or creditable service for which retirement deductions were not made. Compound interest must be paid, at 4 percent to 1948 and at 3 percent thereafter; no interest is required for any period of separation that began before October 1956. In the case of service for which retirement deductions were not made, the deposit consists of the regular deductions (percentages of base pay in effect at the time of service) plus interest. Interest is computed from the midpoint of the period of noncontributory service, or the date of refund, to the date of deposit or the beginning date of the annuity, whichever is earlier.

No credit is allowed for a period of service covered by a refund until the full repayment, plus the interest, is made. Accordingly, it is almost always to the advantage of the employee to redeposit the refund. Service for which retirement deductions were not made is creditable without deposit, but the annuity (on an annual basis) is reduced by 10 percent of any unpaid deposit. Since in most instances the reduction is larger than that determined on a strictly actuarial basis and since the annuities are subject to cost-of-living increases, it is usually to the employee's advantage to make the deposit. Because of the low interest rate charged on such deposits, it is financially advantageous to the employee to make the deposit just before retirement.

For employees who died after February 1958, a survivor may make the deposit. The deposit must be made before the survivor annuity begins.

VOLUNTARY CONTRIBUTION

In addition to the mandatory 7-percent deductions from salary, voluntary contributions may be made by the employee. Deposits must be in multiples of $25, and the total may not exceed 10 percent of all salary to date. These contributions earn compound interest at 3 percent.

Upon an employee's separation for an immediate annuity, each $100 in the accrued account will purchase an annual annuity of $7 plus 20 cents for each full year the employee is over age 55 at the time he retires. If, for example, he retires at age 70, the increase in the regular annuity would be $10 for each $100 of deposit. Generally, this formula results in an actuarial "bargain" for the employee.

One elective survivor option, with reduced annuity, is available. Under this option, the survivor (any person designated in writing by the employee annuitant) receives half the amount of the reduced annuity. The reduction is 10 percent, plus 5 percent for each full 5 years the designated person is younger than the retiring employee, but the total reduction may not exceed 40 percent. There is no cost-of-living adjustment in the employee or survivor annuity.

The accrued voluntary contribution account will be paid as a lump-sum refund if the employee applies at any time before annuity payments begin. It must be repaid in a lump sum if the employee is separated from service before he becomes eligible for an immediate or deferred annuity. The separated employee who is entitled to a deferred annuity may leave the account, on which interest earnings continue, until he reaches

age 62. At that age his basic additional annuity payments can begin, computed at $8.40 a year for every $100.00 in his accrued account.

SPECIAL EMPLOYEES

Certain provisions of the Civil Service Retirement Act apply only to special groups of employees. Any employee whose duties consist primarily of investigation, apprehension, or detention of suspected criminals may retire at age 50 or over if he has had 20 or more years of such special service. The annuity equals 2 percent of the average salary times the total number of years of service, with a maximum of 80 percent of the average salary.

Another special formula is used for congressional employees, who are covered on an individual elective basis and contribute at a rate of 7½ percent. If they have at least 5 years of such service, the annuity is equal to 2½ percent of the average salary for each year of congressional employment, and for not more than 5 years of military service. To this amount is added, for any military service over 5 years or for any service as a general employee, the annuity computed in the same way as for general employees except that congressional employee service is used to determine the appropriate section of the annuity formula. Thus, if such service was at least 10 years, the added service is credited in the 2-percent range of the formula. The maximum annuity is 80 percent of average salary.

The Vice President of the United States and Members of both Houses of Congress may contribute to the fund at the special rate of 8 percent of salary if they elect to be covered. Conditions for retirement are about the same as those for general employees, except that both voluntary and involuntary annuities are reduced for retirement before age 60. There is an additional provision for voluntary retirement at age 60 or over after 10 or more years of service as a Member of Congress. There is no compulsory retirement. If there are at least 5 years of Member and congressional employee service, the annuity formula is 2½ percent of the average salary (defined, with a minor exception, as for other covered persons) for each year of such service in Congress. Service as a congressional or general employee and military service may be credited in the same manner as for congressional employees.

The 1969 amendments removed a limitation applicable to Members of Congress and congressional employees that restricted the use of the 2½ percent formula to a total of not more than 15 years of service as a congressional employee and military service combined. A limit of 5 years for military service was substituted. Contribution rates were increased for congressional employee and Member service. Comparison with employee rates is made in table 1.

TABLE 1.—Percentage of basic pay for retirement contributions, by type

Period of service	Members of Congress [1]	Congressional employees [2]	General employees
Aug. 1920–June 1926	2.5	2.5	2.5
July 1926–June 1942	3.5	3.5	3.5
July 1942–July 1946	5.0	5.0	5.0
Aug. 1946–June 1948	6.0	5.0	5.0
July 1948–Sept. 1956	6.0	6.0	6.0
Oct. 1956–Dec. 1969	7.5	6.5	6.5
Jan. 1970 and thereafter	8.0	7.5	7.0

[1] Elective contributory coverage first available in 1946. Rates for earlier years determine deposits due for noncovered service.
[2] Elective contributory coverage first available in 1937. Rates for earlier years determine deposits due for noncovered service.

FORMER EMPLOYEES

The effective date of the 1969 amendments to the Civil Service Retirement Act was October 20, 1969. As a general rule, employees separated on or after that date receive benefits according to the current provisions, applied to all past service, and benefits for employees separated before that date and for their survivors (except children) continue to be based on provisions of the act as it was before amendment.

ILLUSTRATIVE BENEFITS

Table 2 shows monthly annuities under the present act for retiring employees based on various salary and service combinations, together with the minimum annuity for disability retirement and the maximum based on creditable service. In illustrating the application of the minimum, the table shows that an employee disabled after 15 years of service with an average salary of $10,000 (who would otherwise receive

an annuity of $219 a month) receives $333, unless this amount is more than the regular annuity to which he would have been entitled at age 60. If, for example, the employee is aged 55 and thus would have 20 years service at age 60 he receives $302 instead of the "40 percent of average salary" minimum.

Also shown are the reduced annuities payable to the retiring married employee unless he specifically waives the survivor option or designates an amount less than the full annuity as a base for the spouse's annuity. The 1969 amendments made this survivor option fully available for disability retirement. Under former law, the survivor annuity could be based only on the part of the disability annuity computed on actual service and not on any increase resulting from the minimum provision.

TABLE 2.—Illustrative monthly annuities for retired employees

Average salary	Minimum for disability retirement [1]	Age and service retirement, by number of years of service						Maximum
		5	10	15	20	25	30	
	Without reduction for survivor option							
$5,000	$167	$31	$68	$109	$151	$193	$234	$333
10,000	333	63	135	219	302	385	469	667
15,000	500	94	203	328	453	578	703	1,000
20,000	667	125	271	438	604	771	938	1,333
25,000	833	156	339	547	755	964	1,172	1,667
30,000	1,000	188	406	656	906	1,156	1,406	2,000
	After reduction for maximum annuity for spouse							
$5,000	$163	$30	$66	$107	$147	$188	$229	$323
10,000	323	61	132	213	294	369	444	623
15,000	473	91	198	318	430	543	655	923
20,000	623	122	264	416	566	716	866	1,223
25,000	773	152	327	515	702	890	1,077	1,523
30,000	923	183	388	613	838	1,063	1,288	1,823

[1] Unless it exceeds annuity based on assumed service to age 60.

Monthly amounts for surviving widows or disabled dependent widowers of deceased employees, and for widows or widowers of deceased annuitants not electing less than the full annuity as a base are shown in table 3. The minimum annuity for the spouse of a deceased employee or a deceased disability annuitant was introduced in the 1969 amendments. It is based on the employee annuity determined under the minimum provision, formerly limited in application to disability annuitants. This provision, together with the reduction in the length-of-service requirement from 5 years to 18 months and the increase in children's annuities, has substantially increased the protection afforded survivors of short-service employees. The widow of an employee with 5 years of service and an average salary of $5,000 would receive $92 a month instead of $17 under former law. The widow of an employee with 18 months' service would also receive $92, but under former law she would have received only a refund.

TABLE 3.—Illustrative monthly annuities for surviving spouse[1]

Average salary of employee	Minimum for death in active service [2]	Amount based on employee's years of service						Maximum
		5	10	15	20	25	30	
$5,000	$92	$17	$37	$60	$83	$106	$129	$183
10,000	183	34	74	120	166	212	258	367
15,000	275	52	112	180	249	318	387	550
20,000	367	69	149	241	332	424	516	733
25,000	458	86	186	301	415	530	645	917
30,000	550	103	223	361	498	636	773	1,100

[1] For death before retirement, or for death after retirement unless a base smaller than full annuity was designated by employee at retirement.
[2] Also for death after retirement on disability only, unless it exceeds amount based on employee's assumed service to age 60.

The survivor benefits are generally less than those provided under the social security program for an average salary below $7,800—the maximum covered under that program. With a $5,000 average, for example, monthly benefits under the two programs would be as follows:

Family type	Social security program	Civil service retirement program
Widow without children	(1)	$92
Widow and 1 child	$271	171
Widow and 2 children	334	250
Widow and 3 or more children	334	329

[1] Amounts ranging from $90 to $129 at ages 50–59 only if disabled, and from $129 to $149 beginning at ages 60–62.

Under the civil-service retirement program, the widow's annuity, based on the full amount of the average salary, is paid whether or not there are children and regardless of age. Under the social security program, however, the monthly maximum payable to a widow is $207 beginning at age 62, or $188 at any age if she is caring for eligible children.

SUMMARY

An idea of the extent to which civil-service retirement and survivor benefits have been liber-

(*Continued on page 33*)

TABLE M-2.—Public income-maintenance programs: Hospital and medical care payments, 1940–69

[In millions]

Period	Total	OASDHI (health insurance for the aged) [1]				Other programs		
		Total	Hospital insurance [2]	Medical insurance	Veterans	Temporary disability [3]	Workmen's compensation [4]	Public assistance [5]
1940	$165				$70		$95	
1945	222				97		125	
1950	780				573	$7	200	
1955	1,265				688	20	325	$232
1960	1,846				848	41	435	522
1961	2,093				899	46	460	688
1962	2,406				940	46	495	925
1963	2,611				971	50	525	1,065
1964	2,890				1,019	51	565	1,255
1965	3,199				1,072	52	595	1,480
1966	4,883	$1,019	$891	$128	1,137	54	665	2,008
1967	9,529	4,549	3,353	1,197	1,328	53	725	2,873
1968	12,082	5,697	4,179	1,518	1,429	55	805	4,096
1968								
October		515	383	132	126			370
November		489	359	130	117			376
December		515	384	131	122			356
1969								
January		554	414	141	129			379
February		516	385	131	155			384
March		556	416	140	121			374
April		599	439	160	126			395
May		568	424	144	129			387
June		538	398	140	126			380
July		555	409	146	143			391
August		546	400	146	132			368
September		498	360	138	137			387
October		602	330	272	146			431

[1] Benefit expenditures from the Federal hospital insurance and supplementary medical insurance trust funds as reported by the U.S. Treasury.

[2] Represents payments in behalf of all persons aged 65 and over, including those not insured for cash benefits under OASDHI and railroad retirement. Excludes payments by Railroad Retirement Board for beneficiaries in Canadian hospitals.

[3] Benefits in California and New York (from 1950), including payments under private plans. Monthly data not available.

[4] Benefits under Federal workmen's compensation laws and under State laws paid by private insurance carriers, State funds, and self-insurers. Beginning 1959, includes data for Alaska and Hawaii. Monthly data not available.

[5] Federal matching for medical vendor payments under public assistance began October 1950.

Source: U.S. Treasury and unpublished data from administrative agencies.

CIVIL SERVICE RETIREMENT ACT

(Continued from page 25)

alized in the past half-century may be obtained by comparing the present system with the system under the original act of May 22, 1920. That act provided for a general retirement age of 70, with earlier retirement only for certain occupations and for disability. (Involuntary retirement at age 55 with 15 years of service was provided retroactively in 1922.) For service of 30 years or more, the annuity was 60 percent of the final 10-year average salary, with a minimum annual benefit of $360 and a maximum of $720. No survivor annuities were payable.

The principal purpose of the 1969 amendments was to improve the financing of the system, which has not kept pace with the liberalizations. The employee contributions have been increased a number of times, but matching agency appropriations were not in effect before July 1957. The principle of normal cost financing through equal employee-agency contributions is retained, with the increased rate of 7 percent each for employee and agency just sufficient to cover the total normal cost after enactment of the amended law. Growth of the unfunded liability will be slowed in fiscal year 1971 and halted in fiscal year 1980, under permanent authority for transfers from the General Fund. Any future deficiencies created by benefit liberalizations and general salary increases are to be fully financed over a 30-year period.

The act thus provides in full for the permanent financing of the system, in line with recommendations of the Civil Service Commission and the General Accounting Office. Although annual appropriations will rise to nearly $3 billion by 1980, they should not reach the level of $5 billion annually that would be necessary if action had been deferred until the civil-service retirement fund was exhausted in 1987.