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STATEMENT OF

ROSSLYN S. KLEEMAN
ASSOCIATE DIRECTOR
FEDERAL PERSONNEL AND COMPENSATION DIVISION

BEFORE THE

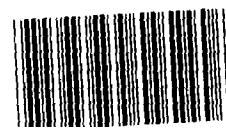
SUBCOMMITTEE ON CIVIL SERVICE, POST OFFICE, AND GENERAL
SERVICES, SENATE COMMITTEE ON GOVERNMENTAL AFFAIRS

ON

S. 46, A BILL TO PERMIT MILITARY SERVICE PERFORMED
AFTER 1956 TO BE CREDITED FOR BOTH CIVIL SERVICE
RETIREMENT AND SOCIAL SECURITY BENEFITS

Mr. Chairman and Members of the Subcommittee:

I am pleased to be here to discuss the General Accounting Office's views on S. 46, a bill to revise civil service retirement provisions regarding annuity credits for military service performed after 1956. My statement, Mr. Chairman, will generally summarize the Comptroller General's letter of August 22, 1980, to the former Chairman of the Committee on Governmental Affairs regarding S. 92, a bill identical to S. 46. The letter presents a detailed analysis of existing retirement provisions and the proposed legislation. If there is no objection, I would like to request that the letter be included in the record.



S. 46 would eliminate the current requirement whereby civil service retirees with military service after 1956 must have such service credited toward social security rather than civil service retirement if they become eligible for social security. Since eligibility for social security generally occurs at age 62, this provision is usually referred to as "Catch-62." We are not in favor of the bill because it would allow former military personnel to receive both social security and civil service retirement credits for the same period of service. It would also increase the cost of the civil service retirement system. However, we have suggested an alternative between the present law and the proposed legislation which would alleviate Catch-62 problems and still be equitable.

Under our alternative, a civil service retiree with military service, if eligible for social security, would have the choice of (1) receiving social security along with a recalculation of the civil service annuity, as is now done, or (2) waiving social security and continuing to receive the full civil service annuity.

The purpose of our alternative is to eliminate distressing situations where severe income reductions are forced on individuals during their retirement years. Under the alternative, the least that can happen is that a retiree's current income will be protected. And, if social security would be more than the reduction in the civil service annuity at age 62, that choice would also be available. At the same time, a period of military service would not earn benefits from both the civil service system and social security. The latter overcomes the principal objections we have had to proposals such as S. 46 to remedy Catch-62 situations.

At your request, Mr. Chairman, we estimated the cost of our alternative proposal. Based on data obtained from OPM and certain economic assumptions regarding future long-term rates of inflation and Federal employee pay increases, we estimated that our alternative would, over the next 25 years, increase civil service retirement costs by \$4 billion and reduce social security benefits by \$2.5 billion, resulting in a net cost of \$1.5 billion. In comparison, we estimated that over the same period of time S. 46 would cost about \$7.9 billion. (See attachment.)

We believe that the Government needs an overall, coherent, and coordinated policy to guide the development of its retirement programs. The many Federal retirement plans (as many as 38 separate plans, depending upon the definitions used) have not been viewed as parts of an overall retirement system. As a result, each has developed in a piecemeal fashion. The programs vary substantially in such areas as employee contribution rates, benefit formulas, creditable service, social security coverage, and retirement eligibility requirements. The Catch-62 situation is an example of the kind of problems that occur because there has been no coordinated policy and guidance.

Catch-62 and the current treatment of civil service employees would not have occurred if the retirement systems and social security were less independent and more compatible--for instance, if military personnel and civilian employees were both either covered or not covered by the social security system.

This concludes my remarks, Mr. Chairman. We would be pleased to answer any questions at this time.

CATCH-62
COST COMPARISON BETWEEN S. 46
AND GAO PROPOSAL (note a)

Year	Estimated additional civil service retire- ment costs under S. 46	GAO proposal		
		Estimated additional civil service retire- ment benefit payments	Estimated reduction in social security benefit payments	Estimated net additional c
----- (millions) -----				
1982	\$ 6.1	\$ 3.0	\$ 1.9	\$ 1.1
1983	7.6	3.8	2.4	1.4
1984	9.5	4.7	2.9	1.8
1985	11.6	5.7	3.6	2.1
1986	15.1	7.6	4.7	2.9
1987	17.2	8.6	5.4	3.2
1988	22.6	11.3	7.1	4.2
1989	27.1	13.5	8.4	5.1
1990	31.7	16.0	10.0	6.0
1991	46.0	23.2	14.5	8.7
1992	73.4	37.1	23.2	13.9
1993	108.8	54.9	34.3	20.6
1994	144.7	73.1	45.7	27.4
1995	192.0	97.9	61.1	36.7
1996	254.0	129.5	80.9	48.6
1997	337.2	171.9	107.4	64.5
1998	427.7	218.1	136.3	81.8
1999	536.4	273.6	171.0	102.6
2000	689.3	355.0	221.9	133.1
2001	721.0	371.3	232.1	139.2
2002	774.0	399.6	249.8	149.9
2003	816.2	420.3	262.7	157.6
2004	856.0	440.8	275.5	165.3
2005	891.3	459.0	286.9	172.1
2006	921.5	474.6	296.6	178.0
	<u>\$7,938.0</u>	<u>\$4,074.1</u>	<u>\$2,546.3</u>	<u>\$1,527.8</u>

a/Estimated costs are based on the assumptions that the future annual rate of inflation will be 5 percent and that future annual pay increases will average 5.5 percent.