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FEDERAL RETIREMENT ISSUES

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Summary of Statement by
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In this statement, GAO discusses its ongoing work which addresses two issues related to federal employee retirement programs. First, GAO compares the retirement provisions for Members of Congress and congressional staff in the Civil Service Retirement System (CSRS) and the Federal Employees Retirement System (FERS) with the provisions applicable to other employees covered by the systems. Second, GAO discusses its analyses of retirement programs in the private sector and state governments.

GAO is finding that the retirement provisions for Members of Congress in the CSRS 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. Members' benefits may also be calculated on a higher salary base than other employees. The CSRS provisions for law enforcement officers, firefighters, and air traffic controllers generally fall between the congressional and general employee provisions.

The relative advantages over general employees afforded to Members and congressional staff in CSRS were generally continued under FERS. However, Member provisions in FERS are very similar to the FERS provisions for law enforcement officers, firefighters, and air traffic controllers.

In analyses of private and state retirement programs completed in the mid-1980s, GAO found that the relative benefits provided by CSRS and typical nonfederal plans depended heavily on when employees retired and how much service they had. When employees retired at age 55 with 30 years of service, CSRS gave greater benefits. However, nonfederal benefits were superior for employees retiring at age 62 when Social Security benefits were available to nonfederal employees. GAO is in the process of updating its analyses of nonfederal plans and comparisons with CSRS and will also compare the benefit levels in FERS with those in nonfederal programs. GAO's initial inquiries indicate that no significant changes in the design of nonfederal retirement programs or the level of benefits they provide have occurred since the earlier analyses were completed.

Mr. Chairman and Members of the Subcommittee:

We are pleased to be here today to discuss our work on federal retirement matters. Specifically, we were asked to address the question of how the retirement benefits afforded to Members of Congress and congressional staff compare with the benefits available to other federal employees and to provide any insights we might have on retirement programs in private companies and state governments.

At your request and a similar request by the Chairman of the Subcommittee on Post Office and Civil Service of the Senate Governmental Affairs Committee, we are in the process of examining both these issues. Our work is not yet complete, but we can share some preliminary observations as well as information from earlier reports that relate to the areas of interest.

CONGRESSIONAL RETIREMENT

Depending on when they were elected, Members of Congress may be covered by either the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS). These systems cover most federal civilian employees. However, unlike other employees, Members had the option of not participating in either system. We have no information on how many Members, if any, have opted not to participate.

In general, FERS applies to individuals who first entered federal service after December 31, 1983. It was instituted in response to the Social Security Amendments of 1983 that extended Social Security coverage to federal civilian employees hired after that date. (The amendments required all Members of Congress to be covered by Social Security on January 1, 1984, regardless of when they entered Congress.) FERS includes a defined benefit pension plan, a Thrift Savings Plan to which the government contributes, and Social Security as a three-part retirement package. CSRS was established in 1920, and is a stand-alone pension system with no Social Security coverage or government contributions to the Thrift Savings Plan or any other capital accumulation plan. CSRS was closed to new entrants on December 31, 1983. Currently, CSRS and FERS each cover about half of all federal employees who are not in one of the government's other retirement systems for civilian employees, such as the Foreign Service, Central Intelligence Agency, and Federal Reserve Board retirement systems.

Civil Service Retirement System

The CSRS has separate provisions for the various groups it covers. Differing provisions apply to Members of Congress, congressional staff, law enforcement officers and firefighters, air traffic controllers, and all other employees (which we call "general employees" in this statement).

As a rule, the retirement provisions for Members of Congress in the CSRS are more beneficial than the provisions for other employee groups, particularly general employees. While there are a number of differences between congressional and general employee provisions, the major differences are found in the eligibility requirements for retirement and the formulas used to calculate benefit amounts.

Members 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.

The formula for determining Members' benefit amounts gives greater benefits than the formula applicable to general employees. The Member formula also applies to congressional staff. Congressional staff and all other employees' benefits are calculated on the average of the salaries they earned during their 3 consecutive highest-paid years (known as the "high 3"), while Members' benefits are calculated on their high 3 or their final salary as a Member or in a subsequent appointive office, whichever is higher. Thus, for example, a Member who retires at age 60 after 30 years of service receives 75 percent of a salary base as high or higher than his or her high 3, and congressional staff receive 75 percent of their high 3. General employees with 30 years of service receive 56.25 percent of their high 3.

We noted only one instance where Member provisions were not better than those for congressional staff and general employees. When Members retire before age 60, their accrued benefits are reduced. 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. There is no reduction for congressional staff and general employees who take optional retirement before age 60. Thus, a Member who retires at age 55 after 30 years of service receives a benefit equal to 71.25 percent of his or her salary base rather than the 75 percent he or she would receive without the age reduction. Since the reduction does not apply to congressional staff, they would receive 75 percent of high 3 at age 55 with 30 years of service, and general employees would receive 56.25 percent.

In recognition of the greater retirement benefits available to Members of Congress, the CSRS law requires them to contribute 8 percent of salary to the retirement fund compared with 7.5

percent for congressional staff and 7 percent for general employees. Thus, at their current salary rate of $133,600, Members contribute each year $668 and $1,336, respectively, more than congressional staff and general employees would contribute at the same salary rate.

The CSRS provisions for law enforcement officers, firefighters, and air traffic controllers generally fall between the congressional and general employee provisions. Law enforcement officers and firefighters may retire at age 50 with 20 years of service. Their benefit formula is the same as the congressional formula for the first 20 years of service and reverts to the general employee formula for each year of service longer than 20 years. Air traffic controllers may retire at age 50 with 20 years of service or at any age after 25 years of service. Their benefit formula is the same as the general employee formula, but they are guaranteed to receive no less than 50 percent of their high 3 at retirement.

Law enforcement officers and firefighters contribute 7.5 percent of their salaries to the retirement fund, and air traffic controllers contribute 7 percent.

Federal Employees Retirement System

The relative advantages afforded to Members of Congress and congressional staff over general employees in CSRS were continued under the pension plan part of FERS. However, Member provisions are very similar to the provisions for law enforcement officers, firefighters, and air traffic controllers under the new system. (Unlike CSRS, the FERS provisions for air traffic controllers are the same as those for law enforcement officers and firefighters.)

FERS raised the retirement age for most covered employees under the system. It adopted a Minimum Retirement Age (MRA) concept that gradually increases, from age 55 to age 57, the earliest age at which congressional staff and general employees will be eligible for optional retirement. FERS allows these employees 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, like law enforcement officers, firefighters, and air traffic controllers, they may also retire at age 50 with 20 years of service or at any age with 25 years with no reduction in their accrued benefits.

Members, congressional staff, and general employees are also allowed to retire at the MRA with 10 years of service. However, the accrued benefits for persons who retire under this provision are reduced by 5 percent for each year they are younger than age 62.

The benefit formulas for Members, congressional staff, law enforcement officers, firefighters, and air traffic controllers are all the same under FERS. 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 greater than 20.

In contrast, benefits for general employees who are at least age 62 and have completed at least 20 years of service are calculated at 1.1 percent of high 3 for all years of service. For general employees who retire before age 62 with 20 years of service or do not have 20 years of service at age 62 or older, the formula is 1 percent of high 3 for all years of service. To illustrate the effect of the different benefit formulas under FERS, 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, while general employees would receive 33 percent if they were age 62 or older and 30 percent if they were younger than 62.

The FERS law requires employee contributions to the pension plan and Social Security that are generally comparable to the employee contributions required under CSRS. The law set general employee contributions at 7 percent of salary less the Social Security taxes they are required to pay. Members of Congress, congressional staff, law enforcement officers, firefighters, and air traffic controllers contribute 0.5 percent of salary more than general employees.

Anyone covered by the FERS pension plan is also covered by Social Security and can participate in the Thrift Savings Plan, to which the government contributes 1 percent of his or her salary regardless of whether the employee contributes to the plan. The government also matches, dollar-for-dollar, the employee contribution to the thrift plan up to 3 percent of pay and 50 percent of the employee contribution of the next 2 percent of pay. Employees may contribute another 5 percent of their pay, but with no government matching. Depending on the extent to which employees participate in the thrift plan (and the investment experience of the thrift plan), their benefits from the FERS pension plan, Social Security, and the thrift plan can be comparable to the benefits available to employees covered by CSRS.

PRIVATE SECTOR AND STATE GOVERNMENT RETIREMENT PROGRAMS

When FERS was being developed, the congressional committees of jurisdiction asked us to assist by identifying the features and benefit levels typically found in nonfederal retirement programs. We issued two reports in response to this request.[1]

[1] Features of Nonfederal Retirement Programs (GAO/OCG-84-2, June 26, 1984) and Benefit Levels of Nonfederal Retirement Programs (GAO/GGD-85-30, Feb. 26, 1985).

At your and the Senate Subcommittee's request, we are updating these analyses. We do not expect to complete this work for some time. However, we believe our earlier findings are informative and, based on our preliminary inquiries, we have seen nothing to indicate that significant changes have occurred in the design of nonfederal retirement programs or the level of benefits they provide.

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. All the states had pension plans, and most states also covered their employees under Social Security. At the time of our work, the states often had capital accumulation plans as well, but the plans generally did not provide for employer matching of employee contributions.

In general, we found the major features of nonfederal pension plans to be as follows:

-- The majority of private plans based benefit amounts on employees' average salaries earned during their 5 highest paid years. Some private plans and a majority of the state plans used a high 3-year average.

-- Very few private pension plans required employee contributions. In contrast, state pension plans generally required employee contributions. Most states with Social Security coverage required employees to contribute 6 percent of pay or less to the pension plan.

-- Employees in the majority of private plans could receive unreduced benefits at age 62 or younger. In state plans, unreduced benefits were typically available by age 60. From 11 to 24 percent of private plans (depending on the plans included in each of our various data sources) and 44 percent of state plans allowed employees to retire without benefit reductions at any age or by age 55. These plans generally required employees to have 30 years of service to qualify for retirement under these circumstances.

-- Retirement by age 55 with as few as 10 years of service was typically available in both private sector and state plans. In most cases, accrued benefits were reduced by about 4 percent for each year a retiree was younger than age 62.

-- The majority of plans provided periodic adjustments to retirees' pensions in addition to the full inflation indexing of their Social Security benefits. The overall average adjustments granted by private plans amounted to about 40 percent of the increase in the Consumer Price Index (CPI). Companies with more than 10,000 employees granted adjustments averaging close to 60 percent of the increase in the CPI.

Our analyses disclosed that benefit formulas in the nonfederal pension plans varied considerably. 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, the average benefit levels provided by the plans could be determined. 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 income 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.

Table 1: Benefits as a Percentage of Final Salary

Age	Years of service	Private sector retiree[a]	State retiree
55	10	12.2 to 14.0%	9.6%
55	30	38.8 to 45.5	35.9
62	20	45.6 to 48.7	40.5
62	30	65.1 to 70.3	57.8
65	20	53.9 to 56.5	48.5
65	30	74.2 to 77.3	64.5

[a]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.

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.

Although our reports did not compare nonfederal benefit levels with those in federal plans, it was apparent that the relative benefits of CSRS and nonfederal 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 nonfederal program. However, nonfederal benefits were superior for employees retiring at age 62 when Social Security benefits were available to the nonfederal employees. On average, federal employees retire at about age 61. Also, even though the benefit amounts available to nonfederal 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, nonfederal employers would have had to make major changes to their retirement programs in the 10 or so years since we did our earlier work if appreciable differences in comparisons with the CSRS are to be found. Our initial follow-up efforts are indicating that such changes have not occurred. It also appears that the basic structure of nonfederal programs has not changed. As one 1994 study[2] of nonfederal 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]." Nonfederal employees, of course, continue to be covered by Social Security. We have not yet made any comparisons of the benefit levels in FERS with nonfederal programs.

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This concludes my prepared statement. I will be pleased to answer any questions you or the Members of the Subcommittee may have.

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