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CIVIL SERVICE RETIREMENT ANNUITY INCREASES

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Mr. YARBOROUGH, from the Committee on Post Office and Civil Service, submitted the following

REPORT

[To accompany H.R. 8469]

The Committee on Post Office and Civil Service, to which was referred the bill (H.R. 8469) to provide certain increases in annuities payable from the civil service retirement and disability fund, and for other purposes, having considered the same, reports favorably thereon with amendments and recommends that the bill as amended do pass.

AMENDMENT

The committee has striken out section 2 of the bill as passed by the House of Representatives.

This provision would, after the effective date of this act, increase from 55 to 60 percent the amount of a survivor's annuity. It would have no effect on presently existing survivor annuities or upon future survivor annuities based on annuities which commenced prior to the effective date of this act.

Last February, President Johnson appointed the Cabinet Committee on Federal Staff Retirement Systems. This Committee will report to the President not later than December 1, 1965. In 1966, Congress will have the benefit of their research and opinions concerning the full scope of Federal retirement systems. Rather than make changes at this time—changes which would affect only future survivor annuitants—the committee prefers to defer action until a comprehensive study of the provisions of the Retirement Act can be made.

PURPOSE OF THE BILL

Section 1 of H.R. 8469 will accomplish three things:

(1) Increase all annuities having a commencing date prior to October 1, 1956, by 11 percent.

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(2) Increase all annuities having a commencing date after October 1, 1956, by 6 percent.
(3) Revise the method of determining cost-of-living increases.

PRE-1956 ANNUITIES

Congress in 1956 completely revised the Civil Service Retirement Act. Among other changes enacted was an upward revision of the formula used to compute annuities. This upward adjustment meant that all persons who retired after October 1, 1956, received a larger annuity than one who retired prior to that date even though both annuitants may have had the same high 5-year average salary and the same number of years of service. Adjustment in pre-1956 annuities were made in 1958, but the disparity between the two annuities has continued. To resolve this problem, at least in part, H.R. 8469 grants a greater increase to those who retired under the pre-1956 provisions of the law.

POST-1956 ANNUITIES

The increase in annuities for those who retired and received the benefits of the 1956 Retirement Act Amendments are increased by 6 percent. Section 1 also provides that survivor annuitants who receive an annuity based on the annuity of a deceased employee who died or retired prior to the enactment of the survivor annuity provisions of the 1948 Retirement Act Amendments shall receive an increase of 15 percent of the annuity or $10, whichever is the lesser. These survivor annuitants receive an average of $44 a month and are, in the opinion of the committee, deserving of special consideration. There are about 15,000 such survivor annuitants.

REVISION OF THE COST-OF-LIVING FORMULA

H.R. 8469 provides that instead of making an annual determination for adjusting civil service annuities in accordance with cost-of-living increases, the Commission shall make a monthly determination. Whenever the Consumer Price Index shows an increase of at least 3 percent for each of 3 consecutive months, all annuities shall be increased by the highest percentage (to the nearest tenth) shown in the 3-month period. This amendment will guarantee adjustments when prices go up and will eliminate the timelag now existing in the law.

PUBLIC HEARINGS

The Subcommittee on Retirement held public hearings August 12 and 13, 1965, on H.R. 8469. Representatives of Government agencies and many employee organizations testified in favor of enactment of this legislation. Evidence presented to the committee demonstrates the necessity for action to increase annuities for retired civilian employees of the Government. President Johnson has stated that a married couple living on less than $3,000 a year is living on a poverty level. The committee heard evidence indicating that 62 percent of all civil service annuitants and 97 percent of all survivor annuitants receive less than $200 a month.

COST

The annual cost of H.R. 8469 is $101.9 million. The increases authorized by this legislation will increase the unfunded liability of the civil service retirement and disability fund by $1,040 million.

SECTIONAL ANALYSIS

Section 1(a) redefines the Consumer Price Index to mean the monthly price average instead of the average over a full calendar year.

Section 1(a) also defines a new term, "base month" to mean the month referred to for determining an increase in annuities after the first increase granted by this act.

Section 1(b) would allow the Commission to use money in the retirement fund to pay the administrative expenses of increasing annuities instead of paying such expenses out of the Commission's budget.

This language is considered necessary because of the virtual impossibility of determining when a future increase will occur. Without adequate funds to pay the salaries and other expenses of administering an increase, delay in providing the increases could occur.

Section 1(c) increases the annuities of all persons who are entitled to receive a civil service annuity on the effective date of this act:

1. All annuities which commenced (or, if a survivor annuity, are based on annuities which commenced) on or before October 1, 1956 (the date of the major amendments to the retirement act), shall be increased by 6.5 percent of the annuity plus the increase in the cost of living as reflected in the Consumer Price Index from December 31, 1962, until the latest report of the Bureau of Labor Statistics. This will be an additional 4.5 percent, for a total increase of 11 percent.
2. All annuities which commenced after October 1, 1956, shall be increased by 1.5 percent plus the same increase in the cost of living noted immediately above. This will be a total increase of 6 percent.

Section 1(c) guarantees that any survivor whose annuity is based on the "free survivor annuity" language of the 1948 amendments or the "forgotten widow annuity" language of the 1958 amendment shall be increased by 15 percent of the annuity or $10, whichever is the lesser.

Section 1(c) provides that the new "base month" for determining future increases shall be the month which showed the highest percentage increase in the cost of living over 3 percent during a period of 3 consecutive months which showed an average increase of at least 3 percent.

Existing law on the cost-of-living increase in retirement annuities provides that the Commission shall determine annually whether the cost of living has increased at least 3 percent from the base year (now 1962) until the year of the determination. If the increase is not 3 percent, the Commission waits until the following January 1 for another determination.

If the average increase is 3 percent, all annuities which commenced before January 2 of the preceding year are increased on April 1 following the determination. Under present law, therefore, there is a built-in, 15-month lag.

Section 1(c) changes this by providing for a monthly determination instead of an annual determination. Whenever the cost-of-living index shows for 3 consecutive months a rise of at least 3 percent from the "base month," annuities payable on the first day of the third month thereafter shall be increased by the highest percentage (to the nearest tenth) shown in any one of the 3 months. That month then becomes the new base month.

Section 1(c)(1) clarifies present law on the eligibility for receiving an annuity increase, eliminates the 15-month lag in receiving increases, and guarantees that survivor annuitants shall receive the increases previously received by the annuitant himself under this act up to the time of his death.

Section 1(c)(2) provides that the children survivors of deceased Federal employees who in the future will receive an annuity shall have the annuity increased by the percentage of increase given to annuitants who retired after October 1, 1956. If this language were not included, children survivors whose annuities commence after the effective date of the act would not receive the proper percentage relationship of annuity to salary as those children survivors whose parent died before the effective date of the act.

Section 1(d) prohibits inclusion of annuity purchased by voluntary contributions from the annuity upon which the increases are calculated.

Section 1(e) provides for calculation to the nearest dollar and guarantees everyone at least 1 dollar.

Section 2 provides that the benefits authorized by this act shall be paid out of the civil service retirement and disability fund. This provision will avoid the problem which faced all of our civil service retirees in 1963 when their annuity increases were delayed by 6 months because of the necessity of an appropriation by the Congress before the increases could be paid.

AGENCY VIEWS

Following are letters from the Chairman of the U.S. Civil Service Commission and the Bureau of the Budget on H.R. 8469.

U.S. CIVIL SERVICE COMMISSION,
Washington, D.C., August 11, 1965.

Hon. A. S. MIKE MONRONEY,
Chairman, Committee on Post Office and Civil Service,
U.S. Senate.

DEAR MR. CHAIRMAN: This is in response to your request for the official views of the Commission on H.R. 8469, a bill to provide certain increases in annuities payable from the civil service retirement and disability fund, and for other purposes.

Effective the first day of the third month which begins after enactment, section 1 of H.R. 8469 would provide the following adjustments in existing annuities:

1. All annuities would be increased by the same percentage as the rise in the Consumer Price Index from the annual average of calendar year 1962 to the month latest published on date of enactment. Through June 1965, this rise has been 4½ percent.

2. Annuities which began, or survivor annuities deriving from annuities which began, on or before October 1, 1956, would be further increased by 6½ percent; annuities which began after

October 1, 1956, would be further increased by 1½ percent. When combined with the 4½ percent cost-of-living increase, the total increase to each of these annuitant groups would be 11 and 6 percent, respectively.

3. Annuities of widows and widowers of former employees who died or retired before the survivorship amendments of 1948, which annuities were later awarded as gifts limited to $50 or $63 a month, would be further increased by an amount sufficient to make the total increase equal the lesser of 15 percent or $10 a month.

For the future, annuities would be increased automatically to reflect changes in the cost of living. Such increases would occur whenever the monthly price index showed a rise of at least 3 percent for 3 consecutive months over the base month used for determining the most recent cost of living adjustment.

The bill would make the retirement fund available for the payment of benefits resulting from its enactment, and also for the payment of administrative expenses incurred by the Civil Service Commission in putting into effect the first and all subsequent annuity increases.

Section 2 of H.R. 8469 proposes that the annuities of eligible widows and widowers of employees who die in service or who retire and die after enactment will be 60 percent of the earned annuity or of the survivor base selected by the employee, instead of the 55 percent provided by existing law.

The initial annual cost of the annuity increases proposed by section 1 of H.R. 8469 is estimated to be $101.9 million, with an increase in the unfunded liability of about $1,040 million. Section 2 would increase the normal cost of the system by 0.18 percent of payroll. It would add $817 million to the unfunded liability, and would incur an annual cost of approximately $58 million on the normal cost plus interest basis. The total first-year cost of sections 1 and 2 would be $102.4 million, and the unfunded liability would be increased by a total of $1,857 million.

By memorandum dated February 1, 1965, the President created the Cabinet Committee on Federal Staff Retirement Systems under the chairmanship of the Director of the Bureau of the Budget. In that memorandum he directed a review of the whole structure of our retirement policies, including the pattern and amounts of benefit payments. He specifically requested examination of survivor benefits available under the various plans.

The Commission is of the opinion that it would be best to defer retirement legislation until it can be considered in the light of the findings and recommendations which will be included in the Committee report scheduled for completion by December 1, 1965. However, some justification can be found for immediate adjustment of existing annuities. In 1962 the Commission devised and submitted a plan for permanent adjustment of annuities to reflect changes in the cost of living, and that plan with minor revision was enacted as part of Public Law 87–793. Experience to date has shown that the mechanics for adjusting annuities to reflect living costs can be improved and the time element shortened by using the monthly price index instead of an annual average. Accordingly, the Commission will not object to enactment of H.R. 8469 insofar as it proposes adjustment of existing annuities to reflect changes in the cost of living.

We strongly recommend that section 2 be deleted from H.R. 8469. Section 2 is totally unrelated to the adjustment of existing annuities and proposes a major permanent liberalization in the retirement system. The proposal is made without regard to its relationship to other fringe benefits and without any demonstration of a need which would in any way justify its cost. It is the sort of piecemeal approach to retirement legislation which this administration seeks to check by the formulation of up-to-date policies in the light of the Cabinet Committee's study of the whole Federal retirement structure.

The Bureau of the Budget advises that enactment of H.R. 8469 would be inconsistent with the program of the President if it includes the provisions now in section 2 of the bill.

By direction of the Commission.

Sincerely yours,

JOHN W. MACY, Jr., *Chairman.*

EXECUTIVE OFFICE OF THE PRESIDENT,
BUREAU OF THE BUDGET,
Washington, D.C., August 11, 1965.

Hon. A. S. MIKE MONRONEY,
Chairman, Committee on Post Office and Civil Service,
New Senate Office Building, Washington, D.C.

DEAR MR. CHAIRMAN: Reference is made to the committee's request for the views of the Bureau of the Budget respecting H.R. 8469, to provide certain increases in annuities payable from the civil service retirement and disability fund, and for other purposes.

The bill would increase all annuities payable to employees or their survivors who have retired under the Civil Service Retirement Act before the first day of the third month beginning after date of enactment. The annuity increase would be composed of two portions; first, an increase equal to the percentage increase in the Consumer Price Index since 1962 (which was 4.5 percent as of June 1965) plus an increase of either 6½ percent for persons whose annuities commenced on or before October 1, 1956, or 1½ percent for those whose annuities commenced after that date. Another adjustment is provided for certain pre-1948 survivors who were specially provided coverage under previous amendments. The bill would also revise the 1962 formula for future automatic cost-of-living adjustments in annuities. The Civil Service Commission estimates the first-year cost of these annuity increase provisions to be $101.9 million, and the increase in the unfunded liability of the system to be about $1,040 million.

Section 2 of the bill would increase the ceiling on the survivor annuity payable on death of an employee or annuitant to 60 percent of the earned annuity, or of the base selected for annuity, instead of the present 55 percent. In a report which the Chairman of the Civil Service Commission is submitting to your committee on this bill, opposed to this provision, he estimates it would increase the normal cost of the system by 0.18 percent of payroll, adding approximately $85 million to the annual cost on the normal cost-plus-interest basis, and adding $817 million to the unfunded liability. The Chairman states that this provision is unrelated to the annuity adjustment problem, has not been demonstrated to meet a need which would justify its cost, and represents the piecemeal approach to retirement liberalization which the President's Cabinet Committee study is designed to prevent. The Bureau of the Budget concurs in the views expressed by the Civil Service Commission.

Accordingly there would be no objection to enactment of H.R. 8469 provided section 2 is deleted, as its enactment would not be consistent with the administration's program.

Sincerely yours,

PHILLIP S. HUGHES.
Assistant Director for Legislative Reference.

CHANGES IN EXISTING LAW

In compliance with subsection 4 of rule XXIX of the Standing Rules of the Senate, changes in existing law made by the bill, as reported, are shown as follows (existing law in which no change is proposed is shown in roman, existing law proposed to be omitted is enclosed in brackets, and new matter is printed in italic):

CIVIL SERVICE RETIREMENT ACT

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DEFINITIONS

SECTION 1. Wherever used in this Act—

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(t) The term "price index" shall mean the [annual average over a calendar year of the] Consumer Price Index (all items—United States city average) published monthly by the Bureau of Labor Statistics. *The term "base month" shall mean the month for which the price index showed a per centum rise forming the basis for a cost-of-living annuity increase.*

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SEC. 17. (a) The fund is hereby appropriated for the payment of benefits as provided in this Act, *and for payment of administrative expenses incurred by the Commission in placing in effect each annuity adjustment granted under section 18 of this Act.*

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COST-OF-LIVING ADJUSTMENT OF ANNUITIES

[SEC. 18. (a) After January 1, 1964, and after each succeeding January 1, the Commission shall determine the per centum change in the price index from the later of 1962 or the year preceding the most recent cost-of-living adjustment to the latest complete year. On the basis of such Commission determination, the following adjustments shall be made:

[(1) Effective April 1, 1964, if the change in the price index from 1962 to 1963 shall have equaled a rise of at least 3 per centum, each annuity payable from the fund which has a commencing date earlier than January 2, 1963, shall be increased by the per centum rise in the price index adjusted to the nearest one-tenth of 1 per centum.

[(2) Effective April 1 of any year other than 1964 after the price index change shall have equaled a rise of at least 3 per centum, each annuity payable from the fund which has a commencing date earlier than January 2 of the preceding year shall be increased by the per centum rise in the price index adjusted to the nearest one-tenth of 1 per centum.

[(b) Eligibility for an annuity increase under this section shall be governed by the commencing date of each annuity payable from the fund as of the effective date of an increase, except as follows:

[(1) Effective from the date of the first increase under this section, an annuity payable from the fund to an annuitant's survivor (other than a child entitled under section 10(d)), which annuity commenced the day after the annuitant's death, shall be increased as provided in subsection (a)(1) or (a)(2) if the commencing date of annuity to the annuitant was earlier than January 2 of the year preceding the first increase.

[(2) Effective from its commencing date, an annuity payable from the fund to an annuitant's survivor (other than a child entitled under section 10(d)), which annuity commences the day after the annuitant's death and after the effective date of the first increase under this section, shall be increased by the total per centum increase the annuitant was receiving under this section at death.

[(3) For purposes of computing an annuity which commences after the effective date of the first increase under this section to a child under section 10(d), the items $600, $720, $1,800, and $2,160 appearing in section 10(d) shall be increased by the total per centum increase allowed and in force under this section, and, in case of a deceased annuitant, the items 40 per centum and 50 per centum appearing in section 10(d) shall be increased by the total per centum increase allowed and in force under this section to the annuitant at death. Effective from the date of the first increase under this section, the provisions of this paragraph shall apply as if such first increase were in effect with respect to computation of a child's annuity under section 10(d) which commenced between January 2 of the year preceding the first increase and the effective date of the first increase.

[(c) No increase in annuity provided by this section shall be computed on any additional annuity purchased at retirement by voluntary contributions.

[(d) The monthly installment of annuity after adjustment under this section shall be fixed at the nearest dollar.]

Sec. 18. (a) Effective the first day of the third month which begins after the date of enactment of this amendment, each annuity payable from the fund which has a commencing date not later than such effective date shall be increased by (1) the per centum rise in the price index, adjusted to the nearest one-tenth of 1 per centum, determined by the Commission on the basis of the annual average price index for calendar year 1962 and the price index for the month latest published on date of enactment of this amendment, plus (2) 6½ per centum if the commencing date (or in the case of the survivor of a deceased annuitant the commencing date of the annuity of the retired employee) occurred on or before October 1, 1956, or 1½ per centum if the commencing date (or in the case of the survivor of a deceased annuitant the commencing date of the annuity of the retired employee) occurred after October 1, 1956. The month used in determining the increase based on the per centum rise in the price index under *this subsection shall be the base month for determining the per centum change in the price index until the next succeeding increase occurs. Each survivor annuity authorized (1) by section 8 of the Act of May 29, 1930, as amended to July 6, 1950, or (2) by section 2 of Public Law 85–465, shall be increased by any additional amount which may be required to make the total increase under this subsection equal to 15 per centum or $10 per month, whichever is the lesser.*

(b) Each month after the first increase under this section, the Commission shall determine the per centum change in the price index. Effective the first day of the third month which begins after the price index shall have equaled a rise of at least 3 per centum for three consecutive months over the price index for the base month, each annuity payable from the fund which has a commencing date not later than such effective date shall be increased by the per centum rise in the price index (calculated on the highest level of the price index during the three consecutive months) adjusted to the nearest one-tenth of 1 per centum.

(c) Eligibility for an annuity increase under this section shall be governed by the commencing date of each annuity payable from the fund as of the effective date of an increase, except as follows:

(1) Effective from its commencing date, an annuity payable from the fund to an annuitant's survivor (other than a child entitled under section 10(d)), which annuity commences the day after annuitant's death and after the effective date of the first increase under this section shall be increased by the total per centum increase the annuitant was receiving under this section at death, except that the increase in a survivor annuity authorized by section 8 of the Act of May 29, 1930, as amended to July 6, 1950, shall be computed as if the annuity commencing date had been the effective date of the first increase under this section.

(2) For purposes of computing an annuity which commences after the effective date of the first increase under this section to a child under section 10(d), the items $600, $720, $1,800, and $2,160 appearing in section 10(d) shall be increased by the total per centum increase allowed and in force under this section for employee annuities which commenced after October 1, 1956, and, in case of a deceased annuitant, the items 40 per centum and 50 per centum appearing in section 10(d) shall be increased by the total per centum increase allowed and in force under this section to the annuitant at death.

(d) No increase in annuity provided by this section shall be computed on any additional annuity purchased at retirement by voluntary contributions.

(e) The monthly installment of annuity after adjustment under this section shall be fixed at the nearest dollar, except that such installment shall after adjustment reflect an increase of a least $1.

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