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MEMORANDUM FOR THE RECORD

SUBJECT: Daniels Bill - H.R. 9825

1. This memorandum briefly analyzes the clean bill version of the Daniels bill, what it does, and its possible impact on the CIA Retirement Act.

2. What it does. The Daniels bill is concerned with two aspects of the civil service retirement system. First, to improve the financing and funding practices of the civil service retirement system; and second, to improve the benefit structure.

3. Benefits. The bill liberalizes benefits in four ways by:

a. Establishing average pay over high three rather than high five consecutive years.

b. Crediting unused sick leave to total actual service.

c. Adding a flat 1 percent increase to each future cost-of-living annuity adjustment.

d. Extending the provision for continuing survivor annuity following remarriage at age 60 or above to cases where spouse retired or died prior to 18 July 1966 when the basic provision became effective.

4. Average pay. The high five element in annuity computation tends to lead to postponement of retirement and shortening this period to three years will lead to higher annuities and may have a tendency of speeding up retirement. It had been estimated last year that this feature would increase "normal cost" by .07 percent.

5. Sick leave credit. There would be no payroll cost to either Government agencies or employees. The credit would be available to survivors in death in service cases. For disability retirements this provision would eliminate the need to carry the participant in sick leave status and on ceiling during sick leave (with resultant accumulation of annual and sick leave) prior to retirement. The provision also authorizes the annuity ceiling of 80 percent to be exceeded for this purpose. The credit is not counted in determining average pay or annuity eligibility.

6. Cost-of-living. The additional 1 percent increase authorized when annuities are adjusted for cost-of-living in the future is intended to offset the five-month lag between a 3 percent increase over the base period and the effective date of any increase. Cost-of-living adjustments have been averaging one a year.

7. Remarriage survivor-annuitant. The CIA Retirement Act presently does not contain a similar provision and, in fact, provides for termination of survivor annuity upon remarriage.

8. Financing and funding proposals.

a. H.R. 9825 in section 102 establishes a 7 percent deduction and contribution rate effective 1 January 1970. This feature tends to make the CIA Retirement Act, or any other retirement act having a 6 1/2 percent rate, more attractive in comparison. In the Agency, where conceivably both rates could apply, this situation would create an understandable impetus for movement between the civil service retirement system and the CIA retirement system and its lower contributory rate. There may be additional ramifications if Agency employees are divided by two different contribution rates for retirement.

b. Section 103 requires partial funding of existing "unfunded liability" (defined in section 101(3)) through sliding scale payments of interest and full funding in 30 annual installment of future unfunded liability resulting from new or liberalized benefits, extension of coverage, or general increase in pay structure.

9. Conclusion. It seems reasonable that any action on the Agency's part to seek the improved benefits of the Daniels bill will logically involve questions relating to the actuarial impact on the CIA Retirement and Disability Fund. Quite likely the minimum price for equivalent amendments to the CIA Retirement Act would be an increase in contribution rates. The

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adoption of some of the other financing and funding practices ultimately approved in the Daniels bill may also be involved. The passage of the Daniels bill still raises two inevitable questions:

a. the ramifications of different contribution rates for employees within the Agency (depending upon the retirement system which covers them), and

b. the continued viability of the CIA Retirement Act.

In 1964 the computation advantage of retirement under the CIA system was 3.75 percent and eligibility to retire at an earlier age without reduction in annuity. The relative annuity advantage, it is estimated, will be completely eroded and converted into an absolute disadvantage. Further, since 1964, the age requirements for retirement with full annuity under civil service have been reduced. In the case of involuntary separations there is no reduction in annuity for retirement at age 55 with 20 years of service. The average retiree under the CIA system is now 55 years of age and has 24 years of service. On balance then the CIA Retirement Act must keep pace with the improved benefits of the Daniels bill if the viability of the Agency's retirement program is to be maintained.

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