

TAB

A BILL

To amend the Central Intelligence Agency Retirement Act of 1964
for Certain Employees, and for other purposes.

EXPLANATION AND JUSTIFICATION

The purpose of the proposed bill is to update the Central Intelligence Agency Retirement Act to bring it in line with legislation approved for Civil Service and Foreign Service employees. Authority is also provided for exemption for the Agency from the Federal Employees Pay Act. The specific provisions of the proposed bill together with related Central Intelligence Agency statutory provisions, if any, are set forth in the Appendix, "Sectional Analysis and Explanation".

Additional cost of providing the authority set forth in this bill are estimated not to exceed \$46,300 for the first full year.

Sections 1 through 8 amend the Central Intelligence Agency Retirement Act of 1964 for Certain Employees, (78 Stat. 1043, 50 U.S.C. 403, note.) It should be understood that the Central Intelligence Agency has two retirement systems: the regular civil service retirement for the vast majority of its employees and its own CIA retirement system for a relatively small number of employees.

The following statements are cited to the appropriate section of the proposed bill.

Definition "Child"

Section 1

Section 1 does three things: First, it eliminates the requirement that a child be dependent upon a parent retiree in order to receive a survivor annuity. The present definition of a child requires that the child receive more than half his support from the participant to be eligible. This requirement could defeat a survivor annuity based on the service of a working mother. This support requirement was eliminated from the Civil Service Retirement Act

by the 89th Congress.

Second, it raises from 21 to 22 the maximum age for receiving survivor annuity payments as a student and increases from four to five months the maximum absence from school which may be permitted without terminating the survivor annuity. This will aid survivor children enrolled in trimester programs to secure employment and earn money without losing their annuity.

This same action was taken by the 89th Congress for student beneficiaries under the Civil Service Retirement Act.

Lastly, it permits a natural child to share in the distribution of any money in the CIA retirement and disability fund. The act today clearly permits a natural child to receive an annuity but it is not entirely clear with respect to lump-sum benefits. This would correct this deficiency.

A similar provision amending the Civil Service Retirement Act was approved by the 89th Congress.

Computation of Annuities

Section 2

This section increases the number of years service that may be included in computing the annuity of an individual from 35 to 40 years. This will permit the same annuity ceiling (80 percent) for Agency annuities as applies to Civil Service retirement annuities. A similar amendment to the Foreign Service Act was approved by the Senate in June and is now pending before the House.

Widow's Annuity

Section 3

This section permits the annuity of a widow or a dependent widower to continue in the event of remarriage. This is similar to the law applicable to survivor annuitants under the Foreign Service Act and is in keeping with the plan approved by the 89th Congress for survivor annuitants under the Civil Service Retirement Act.

Child's Annuity

Section 4

This section provides for the commencement and termination date for a child survivor annuity and assures that the survivor annuity of a student may be resumed even though it had previously been terminated, as for example, because of military service.

30 JUN 1966

MEMORANDUM FOR THE RECORD

SUBJECT : Conversation with Mr. Ruddock - Transfer of Contributions

1. On 30 June 1966 I called Mr. Andrew E. Ruddock, Director, Bureau of Retirement and Insurance, Civil Service Commission. I reminded Mr. Ruddock of our conversation in January 1966 concerning the transfer of the Government contribution to the CIA Retirement fund for those CIA employees coming into the CIA Retirement program.

2. I then read the attached statement under the heading Transfer of Contributions. Mr. Ruddock's only comment was that the past cases, i. e., transfer of the Government contributions for employees already transferred into the CIA Retirement System, would be a nuisance but he was sure that this could be worked out. I raised the question specifically, and he answered affirmatively, that the language as read to him in fact covered the transfer of the Government contribution on all cases, be they past, in process, or future.

3. Mr. Ruddock thought that the two paragraphs I read to him covered the transfer question into the CIA Retirement fund and from our fund to other retirement funds.


Chief, Benefits and Services Division

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Today once an annuity has been terminated because of an absence between school terms in excess of the maximum absence authorized, the annuity cannot be resumed.

A similar amendment to the Civil Service Retirement Act was approved by the 89th Congress.

Annuity Commencement Date

Section 5

This section makes a technical change in the law which will authorize the commencement of an annuity as soon as the individual enters a nonpay status. Under existing law, an annuitant must wait until the beginning of the month following his date of separation.

This will conform the CIA retirement system to the civil service retirement system in this respect.

Transfer of Contributions

Section 6

Under existing law, an individual who transfers into the CIA retirement fund from some other Government retirement system can transfer his contributions from the other fund to the CIA fund, but there is no provision for transfer of the Government contribution to such fund.

Also, when an individual transfers from the CIA retirement fund to some other Government retirement fund, there is no provision for the transfer of either the Government's contribution or his own contribution to the non-CIA retirement fund. This section would correct the inequities of this situation.

The Civil Service Commission is wholly in accord with this change.

Reemployment of Annuitants

Section 7

The small group of employees who are under the CIA Retirement Act retire, on the whole, some 10 years earlier than employees under the Civil Service Retirement Act. These retirees therefore, with few exceptions, will need to seek a second career. They do not acquire status in the competitive service and much of the experience and competence cannot be readily related to normal Government positions. It is probable, therefore, that they would have to accept a Government position, at least initially, several grades

below their position in the CIA at the time of retirement. This section would authorize an annuitant who is retired from the Agency to be reemployed in the Government and to retain the salary of the new position, plus so much of his annuity, which when added to the new salary, would not exceed his salary at the time of retirement.

For example, if a CIA GS-13 (salary of \$12,873) retires with an annuity of \$6,000 and then enters other Federal employment at the GS-11 level (salary, \$9,221), he would actually receive only \$3,221 for his services. This section would permit the retiree to receive his earned salary of \$9,221 plus \$3,652 of his \$6,000 annuity bringing him up to his previous salary level of \$12,873.

It is pointed out that this relates to very few people. It is pointed out, also, that a retired military reservist can retain both his civilian salary and his entire annuity and that a retired Regular officer can retain his salary plus the first \$2,000 of his annuity and 50 percent of the balance of it.

Cost-of-Living Adjustments

Section 8

This section will bring the cost of living provision of the Agency's Retirement Act into line with provisions which currently apply to civil service and military retirees. During the first session of the 89th Congress, the cost-of-living provision for military retirees was amended to gear increases to quarterly rather than average calendar year Consumer Price Indexes. Later in that session similar legislation for the benefit of the entire civil service system was approved.

Federal Employees Pay Act

Section 9

The Central Intelligence Agency is now excluded from the Federal Employees Pay Act of 1945, as amended, by regulation of the Civil Service Commission, but not by law. This section would exclude the CIA by law.

The Agency has developed a salary administration program which adheres closely to the principles and standards of the Classification Act regarding the classification of positions, establishment of entry salary rates, and the grant of merit and quality step increases and conforms generally to the principles and standards of the Pay Act regarding premium pay and hours of work. However, it has been necessary for the Agency to deviate somewhat from the specific practices required by the act to accommodate peculiar problems inherent in its mission and functions.

EXISTING LAW

THE BILL AS REPORTED

(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.

"(c) Any annuity increased under this section shall be decreased by the amount of increase in force and effect with respect to that annuity under section 291 prior to the date of enactment of this Act.

"(d) The term 'price index' shall mean 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 of October 1966 for the first increase under section 291(a)(2) and thereafter the month for which the price index showed a percentum rise forming the basis for a cost-of-living annuity increase.

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

"(f) 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 at least one dollar."

Federal Employees Pay Act of 1945,
as amended, (5 U.S.C. 5541(2))

Approved For Release 2002/02/11 : CIA-RDP78-03721A000600020012-9

EXISTING LAW

THE BILL AS REPORTED

Sec. 9. Section 5541(2) of Title 5, United States Code, is amended by (1) striking out "or" at the end of paragraph (xii); (2) deleting the period at the end of paragraph (xiii) and inserting "; or"; and (3) adding the following new paragraph: "(xiv) an officer or employee of the Central Intelligence Agency."

COST ESTIMATES

The total additional cost for the first full year is estimated not to exceed \$ 46,300 . Many of the provisions of the bill engender either no additional, or no measurable costs.

The costs of authorities set forth in the bill are indicated below.

a. Definition "Child"

No additional first-year costs are involved since we currently have no "child" survivors who would be affected.

b. Computation of Annuities

No measurable additional first-year costs are ascertainable in the increase of this maximum number of years of service.

c. Widow's Annuity

No additional first-year costs are anticipated in continuing a widow's annuity in the event of remarriage.

d. Child's Annuity

No additional first-year costs are involved since we currently have no "child" survivors affected.

e. Annuity Commencement Date

No additional costs are involved -- in fact, to the extent that this change permits retirements during the month rather than at the end of the month, minor salary savings will be realized.

f. Transfer of Contributions

No costs are involved. It is estimated, however, that the initial transfer will augment the Central Intelligence Agency Retirement and Disability Fund by \$21.5 million.

g. Reemployment of Annuitants

No costs are involved, but there will be decreased payouts from the CIA retirement fund.

h. Cost-of-Living Adjustment

Based on our current and projected annuity rolls, the first-year cost of this provision is estimated to be \$46,300. .

i. Federal Employees Pay Act

No costs are involved.

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SECRET

18 SEP 1967

MEMORANDUM FOR: Legislative Counsel

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ATTENTION : [REDACTED]

SUBJECT : Cost Estimates for Our Proposed Legislation

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[REDACTED] has told me that you and Mr. Warner are meeting with Admiral Taylor this afternoon concerning our proposed legislation and that you needed, for this purpose, revised cost estimates.

The only two items that I believe require change are the estimates on the increase in consultant pay and the savings to be realized if the proposed transfer of Government contributions from the Civil Service Fund to the CIA Retirement Fund are approved.

a. Concerning consultant pay, the estimate we provided last year was based on our actual experience in FY 1965, our planned use of consultants in FY 1966, with the latter figure projected into FY 1967. We have up dated these figures based on more recent experience and we now estimate (subject to correction) that the cost of paid consultations during FY 1967 would be \$23,775 and that there were some 200 unpaid consultations for FY 1968. It appears that there will be a substantial increase in consultations which, at the \$50 rate, would cost some \$36,250. If we assume an average rate of \$75 per consultation, the cost of these consultations would be some \$54,375. Thus, the net estimated cost for the first year, beginning 1 July 1967, would be something a little less than \$18,125.

b. Concerning the "savings" to be realized on transfer of Government contributions from the Civil Service Retirement Fund to the CIA Retirement Fund, the best guesstimate that I now have from the Office of Finance is \$21.5 million. This is a first-year saving only. For the most part, we have completed action for the transfer of employees with substantial service under the Civil Service Retirement System to the CIA Retirement System. In later years, when we are dealing with current transfers only, the accumulated Government contributions will not be so substantial.

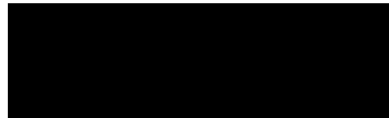
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I hope this provides enough information for your meeting this afternoon. I will be glad to try to refine the estimates and elaborate on the bases for them at your request.



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**Executive Officer
Office of Personnel**

Distribution:

O & 1 - Addressee
1 - D/Pers Subject
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OD/Pers/ [redacted] :sac (18 Sept 67)

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Cost-of-Living Adjustment

The first year cost of this provision is estimated to be \$49,848.00. This estimate is based on the assumption that the provision would be enacted during the month of October 1966. This in turn would extend the first adjustment ^{to} annuities with a commencement date no later than 1 January 1967.

It is estimated that by 1 January 1967 there will be 107 annuitants under the CIA Retirement System (89 retirees and 18 survivors). Further, it is estimated that the average retiree annuity will be \$6,000 per annum and the average survivor annuity will be \$3,700 per annum. These annuities would be increased by an estimated 8.3 per centum (\$498 per annum increase in the average retiree annuity and a \$307 per annum increase in the average survivor annuity.)

The index used in computing the percentage rise in cost-of-living is the Consumer Price Index (all items - U. S. city average) published monthly by the Bureau of Labor Statistics. The estimated 8.3 per centum increase is derived from the change in the Consumer Price Index from 1962 to May 1966 plus the 1.5 percentage additional increase authorized by P. L. 89-205 for civil service annuities which commenced after 1 October 1956 and no later than 1 January 1966.

The Price Index for calendar year 1962 was 105.4 and for May 1966 112.6. May 1966 was arbitrarily selected for this comparison. Under subsection 291 (a)(1) of the proposed amendment, ~~The~~ first adjustment would actually be based on the Price Index for the month latest published on the date of enactment. The Price Index for ~~that~~ month could be either higher or lower ^{than} for the Price Index for May 1966.

There appears to be no feasible basis for estimating the additional costs which might result from further annuity adjustments based on the revised formula for getting future cost-of-living increases.

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Approved For Release 2002/02/11 : CIA-RDP78-03721A000600020012-9

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Approved For Release 2002/02/11 : CIA-RDP78-03721A000600020012-9

CIVIL SERVICE RETIREMENT ACT

ANALYSIS OF INCREASES GRANTED UNDER P. L. 87-793 and P. L. 89-205
(Participants in the CIA retirement system were first designated in
April 1965. Thus this analysis deals with increases accruing to
contemporary retirees and survivors under CSRA.)

I. Existing and Survivor Annuities

Section 1101 of P. L. 87-793 provides as follows:

"...

"(b) The annuity of each person who receives or is entitled to receive
an annuity from the civil service retirement and disability fund com-
mencing during the period which begins on the day following the
effective date of this section and ends five years after such date,
shall be increased in accordance with the following table:

"If the annuity commences between--		The annuity shall be increased by--
...		...
...		...
January 1, 1965, and December 31, 1965	--	2 per centum
January 1, 1966, and December 31, 1966	--	1 per centum

"(c) In lieu of any other increase provided by this section, the annuity
of a survivor of a retired employee or Member of Congress who received
an increase under this section shall be increased by a percentage equal
to the percentage by which the annuity of such employee or Member was
so increased."

II. Summary

- (a) Annuities Commencing on or between 1 January 1965 and 31 December 1965. Annuities commencing on or between 1 January 1965 and 31 December 1965 were increased by 2 percent under P.L. 87-793. However, such annuities have also been subjected to two further increases under P.L. 89-205 of 6.1 percent and 3.9 percent. Consequently, the effective increase in force for such annuities is 12.4 percent. $\sqrt{(2 \times 6.1) + (8.1 \times 3.9) + 2 + 6.1 + 3.9}$
- (b) Annuities Commencing Between 1 January 1966 and 31 December 1966. Annuities commencing between 1 January 1966 and 31 December 1966 were increased by 1 percent under P.L. 87-793. However, such annuities have also been increased by 3.9 percent under P.L. 89-205. Consequently, the effective increase in force for such annuities is 4.9 percent. $\sqrt{(1 \times 3.9) + 1 + 3.9}$
- (c) Under P.L. 87-793 and P.L. 89-205 survivors annuities are increased by the percentage increase afforded the retiree annuity from which it was derived.