



CHAIRMAN

UNITED STATES CIVIL SERVICE COMMISSION
WASHINGTON, D.C. 20415

Honorable Carl Albert
Speaker of the House of Representatives

Dear Mr. Speaker:

The Commission submits for the consideration of the Congress, and recommends favorable action on, the attached legislative proposal which provides that the immediate (not deferred) Civil Service Retirement annuity of an employee or Member of Congress retiring after the effective date of a cost-of-living annuity increase shall not be less than his annuity would have been if he had retired and had been eligible for annuity on the effective date. Similarly, the proposal provides that the annuity of an employee's or Member's widow(er) commencing after the effective date of a cost-of-living annuity increase shall not be less than it would have been if it had commenced on the effective date.

Whether an employee's annuity will be greater computed on the basis of (1) service and salary up to the effective date of the most recent cost-of-living increase, plus that percentage increase or (2) all service and salary up to the date of actual separation, without a cost-of-living increase, depends on factors which vary with the individual. Assuming a normal pattern of past and future salary increases, and a 5 percent cost-of-living increase, an employee would need 3-10 additional months' service, depending on his total years of service, for his annuity without the cost-of-living increase to equal the amount he could get if he had retired on the effective date of the cost-of-living increase. Under the proposal, an employee would in all cases receive the larger annuity.

Not annuity plus lost CLT UNLESS annuity computed at later date would be less than annuity at date of last CLT.

The present cost-of-living adjustment provision, found in 5 U.S.C. 8340, provides that an employee must retire and his annuity must commence on or before the effective date of a cost-of-living annuity increase in order to have it applied in the computation of his annuity. The reasons for the proposed change are:

- (1) The present provision produces the anomaly of an employee who retires soon after the effective date of an increase receiving less annuity than

an employee, with the same service beginning date and high three-year average salary, who retires on or before the effective date, even though the employee who retires after the effective date has more service. A similar anomaly exists in computing a survivor's annuity because the survivor of an employee who dies on or before the effective date of a cost-of-living increase receives the increase, but the survivor of an employee who dies after the effective date does not receive it.

- (2) We are concerned about the way the large number of retirements triggered by cost-of-living adjustments affects the administration of the Civil Service Retirement System. The present cost-of-living adjustment provision "bunches" retirements immediately before the effective date of every cost-of-living annuity increase by accelerating the retirements of employees who had been planning to leave within six months or so after that date. The last such increase, effective August 1, 1970, for example, produced about 19,000 retirements in addition to the 5,000 or less that occur in a normal month. Despite the Commission's plans to cope with such a peak load, work is disrupted and annuity payments are seriously delayed when so many retirements that would otherwise have been evenly spaced over a period of several months occur at the same time.
- (3) Agencies throughout the Government are also adversely affected because an inordinate number of employees decide to retire immediately before a cost-of-living annuity increase. Many of these people, if they are willing, must be reemployed as annuitants to complete the projects on which they were working.

Enactment of the draft bill would (1) eliminate the anomaly between annuities that commence on or just before the effective date of a cost-of-living increase and those that commence shortly after that date; (2) moderate the peaking of retirements immediately before cost-of-living increases become effective, with an estimated savings of \$250,000 in administrative expenses now charged against the Civil

Service Retirement and Disability Fund for processing the peak workload that accompanies each cost-of-living adjustment; and, (3) reduce the disruption in the work of agencies throughout the Government caused by many employees suddenly retiring at the same time, with many leaving work projects incomplete.

To the extent that employees delayed retirement by a few months, they would (1) pay contributions to the Fund for a longer period, and (2) not receive any annuity for those months--a combination necessarily resulting in more money in the Fund. On the other hand, to the extent that employees who would have retired after the effective date of the cost-of-living increase anyway receive a higher annuity than they would have received if they had retired on the effective date, more money would be paid out of the Fund.

The additional annuity benefits which would be provided by the draft bill for each cost-of-living annuity increase authorized on or after its enactment would increase the unfunded liability of the Civil Service Retirement and Disability Fund. Assuming, for example, that the draft bill is enacted and that then a 5 percent cost-of-living annuity increase is effective June 1, 1971, the unfunded liability of the Fund would be increased by \$9.2 million. The annual interest on this \$9.2 million would be \$300,000.

Under 5 U.S.C. 8348(g), the Secretary of the Treasury, before closing the accounts each fiscal year, would have to credit to the Fund, as a Government contribution, out of any money in the Treasury of the United States not otherwise appropriated, the following percentages of all interest on the unfunded liability existing at the start of each fiscal year: 10 percent for 1971; 20 percent for 1972; 30 percent for 1973; 40 percent for 1974; 50 percent for 1975; 60 percent for 1976; 70 percent for 1977; 80 percent for 1978; 90 percent for 1979; and 100 percent for 1980 and for each fiscal year thereafter. No payment would be required for fiscal year 1971, since the liability would be incurred after the start of that year. The Secretary of the Treasury would, at the end of fiscal year 1972, have to pay into the Fund 20 percent of the \$300,000 annual interest resulting from the assumed June 1, 1971 cost-of-living increase, plus, at the end of each subsequent fiscal year through 1980, the above-mentioned graduated percentages of the annual interest, so that the full \$300,000 annual interest amount would be paid at the end of fiscal year 1980 and each fiscal year thereafter.

Each additional cost-of-living annuity increase authorized to fiscal year 1971 would have a cumulative effect on the retirement Fund's unfunded liability and the annual interest thereon. If, for example, there is one cost-of-living annuity increase, the annual interest on this \$9.2 million would be \$300,000. If, for example, there is two cost-of-living annuity increases, the annual interest on this \$18.4 million would be \$600,000. If, for example, there is three cost-of-living annuity increases, the annual interest on this \$27.6 million would be \$900,000. If, for example, there is four cost-of-living annuity increases, the annual interest on this \$36.8 million would be \$1,200,000. If, for example, there is five cost-of-living annuity increases, the annual interest on this \$46 million would be \$1,500,000. If, for example, there is six cost-of-living annuity increases, the annual interest on this \$55.2 million would be \$1,800,000. If, for example, there is seven cost-of-living annuity increases, the annual interest on this \$64.4 million would be \$2,100,000. If, for example, there is eight cost-of-living annuity increases, the annual interest on this \$73.6 million would be \$2,400,000. If, for example, there is nine cost-of-living annuity increases, the annual interest on this \$82.8 million would be \$2,700,000. If, for example, there is ten cost-of-living annuity increases, the annual interest on this \$92 million would be \$3,000,000. If, for example, there is eleven cost-of-living annuity increases, the annual interest on this \$101.2 million would be \$3,300,000. If, for example, there is twelve cost-of-living annuity increases, the annual interest on this \$110.4 million would be \$3,600,000. If, for example, there is thirteen cost-of-living annuity increases, the annual interest on this \$119.6 million would be \$3,900,000. If, for example, there is fourteen cost-of-living annuity increases, the annual interest on this \$128.8 million would be \$4,200,000. If, for example, there is fifteen cost-of-living annuity increases, the annual interest on this \$138 million would be \$4,500,000. If, for example, there is sixteen cost-of-living annuity increases, the annual interest on this \$147.2 million would be \$4,800,000. If, for example, there is seventeen cost-of-living annuity increases, the annual interest on this \$156.4 million would be \$5,100,000. If, for example, there is eighteen cost-of-living annuity increases, the annual interest on this \$165.6 million would be \$5,400,000. If, for example, there is nineteen cost-of-living annuity increases, the annual interest on this \$174.8 million would be \$5,700,000. If, for example, there is twenty cost-of-living annuity increases, the annual interest on this \$184 million would be \$6,000,000. If, for example, there is twenty-one cost-of-living annuity increases, the annual interest on this \$193.2 million would be \$6,300,000. If, for example, there is twenty-two cost-of-living annuity increases, the annual interest on this \$202.4 million would be \$6,600,000. If, for example, there is twenty-three cost-of-living annuity increases, the annual interest on this \$211.6 million would be \$6,900,000. If, for example, there is twenty-four cost-of-living annuity increases, the annual interest on this \$220.8 million would be \$7,200,000. If, for example, there is twenty-five cost-of-living annuity increases, the annual interest on this \$230 million would be \$7,500,000. If, for example, there is twenty-six cost-of-living annuity increases, the annual interest on this \$239.2 million would be \$7,800,000. If, for example, there is twenty-seven cost-of-living annuity increases, the annual interest on this \$248.4 million would be \$8,100,000. If, for example, there is twenty-eight cost-of-living annuity increases, the annual interest on this \$257.6 million would be \$8,400,000. If, for example, there is twenty-nine cost-of-living annuity increases, the annual interest on this \$266.8 million would be \$8,700,000. If, for example, there is thirty cost-of-living annuity increases, the annual interest on this \$276 million would be \$9,000,000. If, for example, there is thirty-one cost-of-living annuity increases, the annual interest on this \$285.2 million would be \$9,300,000. If, for example, there is thirty-two cost-of-living annuity increases, the annual interest on this \$294.4 million would be \$9,600,000. If, for example, there is thirty-three cost-of-living annuity increases, the annual interest on this \$303.6 million would be \$9,900,000. If, for example, there is thirty-four cost-of-living annuity increases, the annual interest on this \$312.8 million would be \$10,200,000. If, for example, there is thirty-five cost-of-living annuity increases, the annual interest on this \$322 million would be \$10,500,000. If, for example, there is thirty-six cost-of-living annuity increases, the annual interest on this \$331.2 million would be \$10,800,000. If, for example, there is thirty-seven cost-of-living annuity increases, the annual interest on this \$340.4 million would be \$11,100,000. If, for example, there is thirty-eight cost-of-living annuity increases, the annual interest on this \$349.6 million would be \$11,400,000. If, for example, there is thirty-nine cost-of-living annuity increases, the annual interest on this \$358.8 million would be \$11,700,000. If, for example, there is forty cost-of-living annuity increases, the annual interest on this \$368 million would be \$12,000,000. If, for example, there is forty-one cost-of-living annuity increases, the annual interest on this \$377.2 million would be \$12,300,000. If, for example, there is forty-two cost-of-living annuity increases, the annual interest on this \$386.4 million would be \$12,600,000. If, for example, there is forty-three cost-of-living annuity increases, the annual interest on this \$395.6 million would be \$12,900,000. If, for example, there is forty-four cost-of-living annuity increases, the annual interest on this \$404.8 million would be \$13,200,000. If, for example, there is forty-five cost-of-living annuity increases, the annual interest on this \$414 million would be \$13,500,000. If, for example, there is forty-six cost-of-living annuity increases, the annual interest on this \$423.2 million would be \$13,800,000. If, for example, there is forty-seven cost-of-living annuity increases, the annual interest on this \$432.4 million would be \$14,100,000. If, for example, there is forty-eight cost-of-living annuity increases, the annual interest on this \$441.6 million would be \$14,400,000. If, for example, there is forty-nine cost-of-living annuity increases, the annual interest on this \$450.8 million would be \$14,700,000. If, for example, there is fifty cost-of-living annuity increases, the annual interest on this \$460 million would be \$15,000,000. If, for example, there is fifty-one cost-of-living annuity increases, the annual interest on this \$469.2 million would be \$15,300,000. If, for example, there is fifty-two cost-of-living annuity increases, the annual interest on this \$478.4 million would be \$15,600,000. If, for example, there is fifty-three cost-of-living annuity increases, the annual interest on this \$487.6 million would be \$15,900,000. If, for example, there is fifty-four cost-of-living annuity increases, the annual interest on this \$496.8 million would be \$16,200,000. If, for example, there is fifty-five cost-of-living annuity increases, the annual interest on this \$506 million would be \$16,500,000. If, for example, there is fifty-six cost-of-living annuity increases, the annual interest on this \$515.2 million would be \$16,800,000. If, for example, there is fifty-seven cost-of-living annuity increases, the annual interest on this \$524.4 million would be \$17,100,000. If, for example, there is fifty-eight cost-of-living annuity increases, the annual interest on this \$533.6 million would be \$17,400,000. If, for example, there is fifty-nine cost-of-living annuity increases, the annual interest on this \$542.8 million would be \$17,700,000. If, for example, there is sixty cost-of-living annuity increases, the annual interest on this \$552 million would be \$18,000,000. If, for example, there is sixty-one cost-of-living annuity increases, the annual interest on this \$561.2 million would be \$18,300,000. If, for example, there is sixty-two cost-of-living annuity increases, the annual interest on this \$570.4 million would be \$18,600,000. If, for example, there is sixty-three cost-of-living annuity increases, the annual interest on this \$579.6 million would be \$18,900,000. If, for example, there is sixty-four cost-of-living annuity increases, the annual interest on this \$588.8 million would be \$19,200,000. If, for example, there is sixty-five cost-of-living annuity increases, the annual interest on this \$598 million would be \$19,500,000. If, for example, there is sixty-six cost-of-living annuity increases, the annual interest on this \$607.2 million would be \$19,800,000. If, for example, there is sixty-seven cost-of-living annuity increases, the annual interest on this \$616.4 million would be \$20,100,000. If, for example, there is sixty-eight cost-of-living annuity increases, the annual interest on this \$625.6 million would be \$20,400,000. If, for example, there is sixty-nine cost-of-living annuity increases, the annual interest on this \$634.8 million would be \$20,700,000. If, for example, there is seventy cost-of-living annuity increases, the annual interest on this \$644 million would be \$21,000,000. If, for example, there is seventy-one cost-of-living annuity increases, the annual interest on this \$653.2 million would be \$21,300,000. If, for example, there is seventy-two cost-of-living annuity increases, the annual interest on this \$662.4 million would be \$21,600,000. If, for example, there is seventy-three cost-of-living annuity increases, the annual interest on this \$671.6 million would be \$21,900,000. If, for example, there is seventy-four cost-of-living annuity increases, the annual interest on this \$680.8 million would be \$22,200,000. If, for example, there is seventy-five cost-of-living annuity increases, the annual interest on this \$690 million would be \$22,500,000. If, for example, there is seventy-six cost-of-living annuity increases, the annual interest on this \$699.2 million would be \$22,800,000. If, for example, there is seventy-seven cost-of-living annuity increases, the annual interest on this \$708.4 million would be \$23,100,000. If, for example, there is seventy-eight cost-of-living annuity increases, the annual interest on this \$717.6 million would be \$23,400,000. If, for example, there is seventy-nine cost-of-living annuity increases, the annual interest on this \$726.8 million would be \$23,700,000. If, for example, there is eighty cost-of-living annuity increases, the annual interest on this \$736 million would be \$24,000,000. If, for example, there is eighty-one cost-of-living annuity increases, the annual interest on this \$745.2 million would be \$24,300,000. If, for example, there is eighty-two cost-of-living annuity increases, the annual interest on this \$754.4 million would be \$24,600,000. If, for example, there is eighty-three cost-of-living annuity increases, the annual interest on this \$763.6 million would be \$24,900,000. If, for example, there is eighty-four cost-of-living annuity increases, the annual interest on this \$772.8 million would be \$25,200,000. If, for example, there is eighty-five cost-of-living annuity increases, the annual interest on this \$782 million would be \$25,500,000. If, for example, there is eighty-six cost-of-living annuity increases, the annual interest on this \$791.2 million would be \$25,800,000. If, for example, there is eighty-seven cost-of-living annuity increases, the annual interest on this \$800.4 million would be \$26,100,000. If, for example, there is eighty-eight cost-of-living annuity increases, the annual interest on this \$809.6 million would be \$26,400,000. If, for example, there is eighty-nine cost-of-living annuity increases, the annual interest on this \$818.8 million would be \$26,700,000. If, for example, there is ninety cost-of-living annuity increases, the annual interest on this \$828 million would be \$27,000,000. If, for example, there is ninety-one cost-of-living annuity increases, the annual interest on this \$837.2 million would be \$27,300,000. If, for example, there is ninety-two cost-of-living annuity increases, the annual interest on this \$846.4 million would be \$27,600,000. If, for example, there is ninety-three cost-of-living annuity increases, the annual interest on this \$855.6 million would be \$27,900,000. If, for example, there is ninety-four cost-of-living annuity increases, the annual interest on this \$864.8 million would be \$28,200,000. If, for example, there is ninety-five cost-of-living annuity increases, the annual interest on this \$874 million would be \$28,500,000. If, for example, there is ninety-six cost-of-living annuity increases, the annual interest on this \$883.2 million would be \$28,800,000. If, for example, there is ninety-seven cost-of-living annuity increases, the annual interest on this \$892.4 million would be \$29,100,000. If, for example, there is ninety-eight cost-of-living annuity increases, the annual interest on this \$901.6 million would be \$29,400,000. If, for example, there is ninety-nine cost-of-living annuity increases, the annual interest on this \$910.8 million would be \$29,700,000. If, for example, there is one hundred cost-of-living annuity increases, the annual interest on this \$920 million would be \$30,000,000.

in each fiscal year 1971 through 1980, the unfunded liability would be increased by a little over \$92 million, and the annual cumulative interest payment due the Fund from the Secretary of the Treasury at the end of fiscal year 1981 would be a little over \$3 million.

The Office of Management and Budget advises that there is no objection to the submission of this draft bill to Congress, and its enactment would be consistent with the Administration's objectives.

A similar letter is being sent to the President of the Senate.

By direction of the Commission:

Sincerely yours,

Chairman

Attachment