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

CHAIRMAN

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 <u>not be less than</u> 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 <u>or</u> (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 last CLI UNLESS annuity computed at later date would be less than annuity at date of last CLI.

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 [illegible] subsequent 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 [illegible] 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