85- 1154

House of Representatives
Committee on Post Office
and Civil Service
Washington, D.C. 20515

TELEPHONE (202) 225-4054

March 19, 1985

The Honorable William J. Casey
Director
Central Intelligence Agency
Washington, D.C. 20505

Dear Mr. Casey:

The Committee on Post Office and Civil Service is continuing its hearings on the development of a supplemental retirement system for those Federal employees who are covered by social security. Hearings on April 2, 3, and 23 will focus on specific design issues (see enclosure). A hearing planned for April 25 will consider how the supplemental plan should treat unique employment categories such as law enforcement officers, fire fighters, air traffic controllers, Central Intelligence Agency officers, and the Foreign Service. The Agency's views at the April 25 hearing would be helpful.

Under existing law, employees in these unique categories generally may retire without penalty at earlier ages than other civil service employees. Usually, these employees may retire with unreduced benefits at age 50 if they have served 20 years. Other civil service employees may not retire without penalty prior to age 55, and then only if they have served 30 years. Employees in these unique categories are also generally subject to mandatory retirement provisions.

In designing the supplemental system, the Committee must consider whether special treatment for these unique categories should be continued and, if it should, in what form. Should the current age and service requirements be continued? Is there still a need for mandatory retirement provisions? If early retirement is continued, should we somehow compensate early retirees for the fact that social security benefits will not begin until age 62? These are questions which must be addressed.

Legislative jurisdiction over the Central Intelligence Agency Retirement and Disability System (CIARDS) resides in the Select Committee on Intelligence. Regardless, however, of whether changes in the CIARDS are specifically legislated, changes in this System may be required administratively as a result of section 292 of the Central Intelligence Agency Retirement Act which provides for compatibility between the civil service and Foreign Service retirement systems. Thus legislative changes limited solely to the civil service system may have ramifications for the Foreign Service, and it is important that we have the Agency's views.

The hearing will begin at 10 a.m. and will be held in room 311 of the Cannon House Office Building. One hundred copies of your prepared testimony should be delivered to room 309 Cannon no later than Friday, April 19. Questions may be directed to Pierce Myers of the Committee staff at 225-4054.

With kind regards,

Sincerely,

WILLIAM D. FORD
Chairman

Enclosures

cc: The Honorable Lee H. Hamilton
Chairman
Select Committee on Intelligence

The Honorable Bob Stump
Ranking Minority Member
Select Committee on Intelligence

WDF:pmp

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March 8, 1985

Issues to be Considered in April 1985 Retirement Hearings

Committee on Post Office and Civil Service

Cost

The Congressional Research Service (CRS) estimates the employer cost of the Civil Service Retirement System (CSRS) is 24.7 percent of pay, and the Government's cost for Federal employees covered by social security is 6.1 percent of pay. (See, enclosed CRS report, pp. 73-75, 285-297). What should the normal cost of the new supplemental system be? (Note: normal cost estimates are extremely sensitive to changes in economic and demographic assumptions, and different actuaries will develop different estimates of normal cost. During its deliberations, the Committee intends to use the computer model developed by CRS to measure and compare the normal cost of various options under consideration. Use of the CRS computer model is the only method available by which timely estimates of normal cost and replacement rates can be produced to permit the Committee to determine the relative cost and generosity of various retirement proposals.)

Social security "tilt"

"The current CSRS replaces the same percentage of preretirement dollars for workers at all income levels who retire with the same number of years of service. Social security replaces a higher proportion of earnings for persons with lower career average wages. This tilt must be taken into consideration when designing a Federal pension for workers who will be covered by social security." (CRS report, p. 123). How much, if any, of the social security tilt should be offset by the new supplemental plan? (See, CSR report, pp. 20-23, 111-117, 123-133).

Employee contributions

Under the CSRS, employees pay 7 percent of pay into the retirement fund. Under social security, employees now pay a 5.7 percent contribution. The social security contribution will increase to 6.2 percent by 1990. Under both systems, employees pay an additional 1.35 percent to medicare. The social security and medicare contributions are based on earnings only up to a certain level -- now $39,600, estimated to increase to $50,700 by 1990. The CSRS contributions, on the other hand, are based on entire salary. Should employees under the new supplemental plan be required to pay retirement contributions, and, if so, what level of contribution should be required?

Funding and financing

Under the CSRS, employees contribute 7 percent of pay to the fund, and this contribution is matched by employing agencies. The system is further funded through payments from off-budget agencies, such as the United States Postal Service, and interest earned. A substantial portion of the funding, however, comes directly from the United States Treasury. (See, CRS report, pp. 269-273; see also "Civil Service Retirement: Financing and Costs", Congressional Budget Office, May 1981). Should the new supplemental system be fully funded? If it is fully funded, should the funding come from agency appropriations or from the Treasury?

Vesting

"It has been argued that different work force management goals are served by vesting periods of different lengths, with long vesting periods tending to discourage turnover (and reduce employer costs) and to provide an incentive for employees to remain with one employer for long periods of time. An example of a long vesting requirement is the military, which requires 20 years of service before any retirement benefits are payable. However, employees may then retire and draw an immediate pension. Most private employers adopted the ERISA 10-year vesting schedule. In the Federal civil service, employees are vested after five years." (CRS report, p. 251). What should be the vesting requirement under the new supplemental plan?

Unique employment categories

Existing law contains retirement provisions for certain groups which are more advantageous than those normally applicable. Such groups include law enforcement officers, fire fighters, air traffic controllers, and the foreign service. How should employees in these unique categories be treated under the new supplemental plan?

Enclosure

UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

GENERAL GOVERNMENT DIVISION

B-217196

JANUARY 7, 1985

The Honorable Charles McC. Mathias, Jr.
Chairman, Subcommittee on Governmental Efficiency
and the District of Columbia
Committee on Governmental Affairs
United States Senate

The Honorable Ted Stevens
Chairman, Subcommittee on Civil Service,
Post Office, and General Services
Committee on Governmental Affairs
United States Senate

The Honorable Thomas F. Eagleton
Ranking Minority Member
Subcommittee on Governmental Efficiency
and the District of Columbia
Committee on Governmental Affairs
United States Senate

The Honorable Jeff Bingaman
Ranking Minority Member
Subcommittee on Civil Service,
Post Office, and General Services
Committee on Governmental Affairs
United States Senate

Subject: Options to Consider for Certain Employee Groups in Designing the New Civil Service Retirement Program (GAO/GGD-85-22)

This report responds to your June 25, 1984, letter about the issues associated with District of Columbia employees in designing the new federal civil service retirement system to supplement social security benefits. The majority of District employees now participate in the current federal civil service system; however, the Social Security Amendments of 1983, which require all new federal employees to be covered by social security, did not apply to District employees. Thus, you asked us to develop options for addressing this situation in the design of the new retirement program.

(966195)

You also requested us to develop options for addressing the future status of certain federal law enforcement personnel who are now covered by a District retirement program in the design of the new civil service retirement program. New employees in this group are covered by social security but must retire before the age when social security benefits will be available to them. As later agreed with your offices, we expanded the scope of our study to (1) include all federal civilian employee groups who are eligible for retirement benefits without penalty at ages earlier than general civil service employees[1] and (2) provide information about employees, like those in the District, who are covered by the civil service retirement system but are not federal employees.

In January 1978, we reported on our review of issues associated with District employees participating in the civil service retirement system and some federal personnel covered by the District retirement system.[2] We concluded at that time that the District should establish a separate retirement system for its employees and that new federal employees in positions covered by the District's program should be placed in a federal retirement system. Moreover, in an earlier report we questioned the need for special early retirement provisions for federal law enforcement and firefighter personnel and recommended that the Congress reevaluate the need for such benefits.[3] The Congress took no action on these reports.

In conducting this study, we obtained information on retirement provisions and retiree demographics from the Office of Personnel Management (OPM), Department of State, Department of the Interior, Federal Aviation Administration, Central Intelligence Agency, Secret Service, and the District of Columbia. Except for OPM, certain employees of each of these organizations may retire without penalty at earlier ages than can general civil service employees. OPM has overall responsibility for managing the civil service retirement system. We considered the views of officials of each of these organizations in developing the options we are presenting.

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[1]General employees are all employees not covered by special provisions of the retirement system.

[2]Federal and District of Columbia Employees Need to be in Separate Pay and Benefit Systems (FPCD-77-71, Jan. 12, 1978).

[3]Special Retirement Policy for Federal Law Enforcement and Firefighter Personnel Needs Reevaluation (FPCD-76-97, Feb. 24, 1977).

B-217196

EMPLOYEES PARTICIPATING IN THE CIVIL SERVICE RETIREMENT SYSTEM WITHOUT SOCIAL SECURITY COVERAGE

We identified two employee groups who are continuing to participate in the civil service system but are not federal employees and do not have social security coverage. These groups are employees of the District of Columbia and employees of the Washington Metropolitan Area Transit Commission.

In contrast, another employee group which did not have social security coverage stopped entering the civil service system on January 1, 1984. State Department officials recognized that a new civil service retirement system which supplements social security would be inappropriate for its foreign national employees who are not covered by social security and, in January 1984, discontinued entering new foreign employees in the civil service system. These employees are being placed in programs in their respective countries.

Options we identified which the Congress may want to consider for those employee groups not covered by social security are:

1. Allow the employees to continue entering the current civil service system. If this option is taken, these nonfederal employees will eventually be the only participants in the current system. In this case, the employees' or employers' contributions could be increased to cover the full accruing costs of retirement benefits. OPM estimates these to be an additional 22.5 percent of pay.

2. Close the current system to all new entrants, in which case, civil service retirement coverage for such employees could be terminated and replaced with a new program established by their employers.

We did not consider the option of social security coverage for District employees because the Congress has not required any state or local government employees to participate in the social security program and the District has not elected such coverage for its employees.

SPECIAL RETIREMENT ELIGIBILITY PROVISIONS

Certain groups of federal employees are covered by special provisions which permit them to retire without penalty at earlier ages than employees covered by the general civil service retirement provisions. These employees, if they have 20 years of service, are eligible for full benefits at age 50 or younger. By contrast, the earliest point at which most federal employees can opt to retire without penalty is age 55 with 30 years of service.

The table below identifies groups of employees with special provisions, their retirement eligibility provisions, and the retirement system which covers them.

Employee group	Retirement eligibility provisions	Retirement system
Law enforcement officers/ firefighters	Age 50 and 20 years' service as law enforcement officer or firefighter. With some exceptions, mandatory retirement is at age 55 or 20 years' service whichever is later.	Civil service
Air traffic controllers	Age 50 with 20 years' service as an air traffic controller, or any age and 25 years' service as an air traffic controller. With some exceptions, mandatory retirement is at age 56.	Civil service
Foreign Service officers	Age 50 and 20 years' service. With some exceptions, mandatory retirement is at age 65.	Foreign Service
Central intelligence officers	Same as Foreign Service system except mandatory retirement is at age 60.	Central Intelligence Agency
Park Police	Any age and 20 years' service. Mandatory retirement is at age 60.	District of Columbia
Uniformed Division of the Secret Service	Same as Park Police.	District of Columbia
Secret Service agents[a]	Same as Park Police.	District of Columbia

[a]Special agents assigned to protect the president and other government officials.

The special eligibility provisions are reflected in the actual retirement experiences of the various employee groups. The federal employees in the District's retirement system have retired the earliest--years before social security benefits would be available at age 62. The table below shows the experiences of the employee groups for fiscal year 1983 which agency officials considered typical of recent historical experience. Data on general civil service employees is shown for comparison purposes.

Employee group	Average age at retirement	Average years of service
Secret Service Uniformed Division	46	25
Secret Service agents	not available	not available
Park Police	48[a]	23.4[a]
Air traffic controllers	51.7	30.7
Central intelligence officers	52.8	29.3
Law enforcement officers/ firefighters	54.1	26.4
Foreign Service officers	55.7	27.0
General civil service employees	60.9	28.6

[a]Average of last 10 years.

Options for employees covered by special early retirement provisions

In designing the new retirement system to supplement social security benefits, the Congress may decide to treat new employees currently covered by special early retirement provisions like general civil service employees, in which case no special provisions would be needed. On the other hand, if the Congress wishes to continue early retirement eligibility for these new employees, a means of providing higher benefit levels at earlier ages than allowed for other employees must be incorporated into the new system. Alternative benefit formula designs for these special provisions are:

1. Provide the same benefit accrual rate as for general civil service employees but with no reduction for early retirement age. In our report on the features of

nonfederal retirement programs,[4] we reported that most pension plans permit employees to retire at reduced benefits before they fulfill the requirements necessary for the payment of full benefits. The Congress could provide benefits without reductions at earlier ages for the employees covered by special provisions.

2. Provide a higher benefit accrual rate than that provided general employees. Under this alternative, the benefit formula for these employees would have a higher accrual rate for each year of service than the rate used to compute benefits for regular civil service employees. This would provide greater benefits at earlier ages for the covered employees.

3. Provide supplemental benefit payments in addition to civil service benefits until age 62 when social security benefits are available. In our report on the features of nonfederal retirement programs, we reported this is provided for in many nonfederal pension plans.

4. Provide a more generous thrift (savings) plan than the plan available to general civil service employees. This alternative assumes that the design of the new retirement program will include a thrift plan. A capital accumulation plan, such as a thrift plan, is a typical part of nonfederal retirement programs. Under thrift plans, employers help employees save for retirement or other needs by matching some portion of the employees' contributions. A majority of employers with thrift plans match at least 50 percent of employee contributions up to a specified level. For employees covered by special retirement provisions, the thrift plan could provide a higher rate of employer matching than the rate for regular civil service employees thereby enabling them to accumulate a sufficient amount to afford earlier retirement. If the thrift plan is authorized under section 401(k) of the Internal Revenue Code, the burden of employee contributions would be reduced by deferring taxes on them.

We did not consider the alternative of withdrawing these employees from social security in view of the Congress' decision in enacting the 1983 Social Security Amendments that all new federal employees would be covered.

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[4]Features of Nonfederal Retirement Programs (GAO/OCG-84-2, June 26, 1984).

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As requested by your offices, we did not obtain agency comments on this report. We are sending copies of this report to the Directors of OPM, the Central Intelligence Agency, and the Secret Service; the Secretaries of the Interior, Treasury, and Transportation; the Administrator of the Federal Aviation Administration; and the Mayor, District of Columbia. We will also send copies to other interested parties and make copies available to others upon request.

W. J. Anderson

William J. Anderson
Director

98th Congress
2d Session

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DESIGNING A RETIREMENT SYSTEM FOR FEDERAL WORKERS COVERED BY SOCIAL SECURITY

(PREPARED BY THE CONGRESSIONAL RESEARCH SERVICE)

COMMITTEE ON
POST OFFICE AND CIVIL SERVICE
HOUSE OF REPRESENTATIVES

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