House of Representatives
Committee on Post Office and Civil Service
Washington, DC 20515

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Set up file on the hearing

COMMITTEE ON POST OFFICE AND CIVIL SERVICE

CONTINUATION OF HEARINGS ON SUPPLEMENTAL RETIREMENT PLAN

Tuesday, April 23, 1985

WITNESS LIST

Panel 1:

Moe Biller, President, American Postal Workers Union, AFL-CIO;

George B. Gould, Legislative and Political Assistant to the President, National Association of Letter Carriers, AFL-CIO; and

Tom W. Griffith, President, National Rural Letter Carriers Association.

Panel 2:

Kenneth T. Blaylock, National President, American Federation of Government Employees, AFL-CIO;

Ed Murphy, Legislative Director, National Association of Government Employees;

James Peirce, President, National Federation of Federal Employees; and

Robert M. Tobias, National President, National Treasury Employees Union.

Panel 3:

Thomas P. Costin, Jr., President, National Association of Postmasters of the U.S.; and

Rubin Handelman, Executive Vice President, National Association of Postal Supervisors.

Panel 4:

Marie Argana, President, Federally Employed Women;

Michael E. Minahan, President, Federal Managers Association;

Michael J. Riselli, General Counsel, Professional Managers Association; and

G. Jerry Shaw, Jr., General Counsel, Senior Executives Association.

TESTIMONY

OF

TOM W. GRIFFITH, PRESIDENT

NATIONAL RURAL LETTER CARRIERS' ASSOCIATION

BEFORE THE

COMMITTEE ON POST OFFICE AND CIVIL SERVICE

U. S. HOUSE OF REPRESENTATIVES

ON

THE DEVELOPMENT OF A NEW RETIREMENT SYSTEM

FOR POSTAL/FEDERAL EMPLOYEES COVERED BY SOCIAL SECURITY

APRIL 23, 1985

Mr. Chairman and Members of the Committee:

My name is Tom W. Griffith and I am the President of the 66,000-member National Rural Letter Carriers' Association. We are honored to appear before the Committee on Post Office and Civil Service, and to offer continuing testimony as you develop a new retirement system for Federal employees hired after January 1, 1984.

Members of the National Rural Letter Carriers' Association serve fifteen million American families by daily traveling 2,387,951 miles over 38,925 rural routes throughout the country. We wish to compliment the Committee at its thoughtful approach to developing a sound legislative proposal on an issue of vital importance to present and future Federal and Postal employees. Retirement is one of the critical factors in a total compensation package for employees. For the sake of our discussion today, we will presume and recommend this Committee adopt a three-tiered approach to the supplemental retirement system.

The first tier would be Social Security. The second tier would be a defined benefit plan, and the third tier would be a before-tax individual savings account with a match by the government.

You have asked us to address six specific areas and we will begin with the area of COST. We feel the cost of the new system should be close to the cost of the existing Civil Service Retirement system. This is because the Federal Government is an employment leader. And, we feel they should continue to set an example for other employers. The Hay Study, commissioned by this Committee, shows that in the area of salary alone, Federal workers lag behind the private sector. If we look at the total compensation package, then some balance is restored, by the current fair and adequate retirement plan.

I think it is important to remember that the Federal Government, as an employer, is unique. Many of the recent studies which Hay - - - and others have presented, have averaged all employers together. We would question the inclusion of many small firms in these studies. Would it not be more accurate to simply look at the Fortune 200 or the largest private employers in the land? I think this would substantially change your cost comparisons.

Retirement is one part of a total compensation package. It's goals are, as part of a compensation package, to attract and retain qualified, dedicated individuals to be, in our case, rural letter carriers. Therefore, a system which costs approximately the same as the existing system is justified if it will continue to attract and retain that type of people.

We do not want two classes of employees. We cannot accept substantially different benefits for the same work in any given work place. Postal salaries are negotiated, and the amount of a salary increase during negotiations is highly influenced by the Postal Budget, the Federal Budget and the Economy. A good retirement system should assure a constant, positive value and create some stability in the workers' mind. A system which achieves that will not be cheap.

The Social Security Tilt - we favor an add-on approach. The tilt favoring lower salaried employees can be offset by a voluntary supplemental capital accumulation plan. A voluntary plan that is a before-tax contribution defers tax on the contribution, and is linked to individual initiative. A complete offset concentrates benefits on the higher paid workers in a system to the detriment of the lower paid workers. By a simple add-on plan, the Federal Government would be in compliance with Employment Retirement Income Security Act (ERISA), even though the Federal Government may not be bound by the law. The Federal Government should be a moral force in the work place and set a prime example. Therefore, when it conforms to the Internal Revenue Code, it sets a strong example for other employers.

Finally, higher paid employee categories have much greater current disposable income and, therefore, the discretion to compensate for the Social Security tilt by individual initiative.

Employee Contribution - Employee contribution level should roughly equal current contributions. Current employees pay 7% of their salary, plus 1.35% Medicare. The new employees will pay, by 1990, 6.2% Social Security, plus 1.35% Medicare.

Presuming this will be a three-tiered plan, the middle tier being a defined benefit program, we recommend that employees should contribute to the defined benefit program. There is historical precedence for public employees' participation in contributory staff retirement systems. We realize that private sector retirement systems are largely non-contributory. However, those corporations have an entirely different mission than government. They are organized for, and have a responsibility to their share-holders, to make money. That is not the government's function. They also receive a tax deduction for their contributions to a retirement plan. The government obviously cannot. We think employee contributions give a certain amount of budgetary flexibility to the rest of the Federal Budget and may prevent the temptation to alter the plan after you adopt it, by future Congresses. Simply stated, a plan in which the employee has a direct stake in funding will discourage legislative tampering.

Social Security and Medicare may be altered by future Congresses. Therefore, this Committee should design some type of automatic trigger to keep the contribution rates in the current

Civil Service Retirement system and the new supplemental retirement system substantially the same.

Finally, we would propose that employees covered by the new plan have an optional program in which they may choose to participate. This program would be a portion of the defined benefit plan, and essentially, it would allow the employee the continued ability to retire at 55 years of age with 30 years of service without any penalties. However, to do that, the employee would have to opt, early in their service career, to pay an additional contribution with a government match to the defined benefit plan to have the ability for early retirement. In effect, the employee would have the option to purchase the right for retirement at age 55 with 30 years of service.

Funding - We believe in the adequacy of the current system. We would hope that the Funding mechanism of a future system would protect it from political manipulations. We would endorse the system as proposed by Senator Stevens, in the Bill he introduced earlier in the year, in which all funds from the defined benefit plan would flow into the existing Civil Service Retirement system. Since government is here to stay, there is no need for ERISA guaranteed protections; i.e., there is no need for absolute, 100% funding of the system in any given year.

While we are on funding, we feel compelled to talk about the United States Postal Service Retirement funding. The Postal Reorganization Act of 1970 states very clearly that the Postal Service is a branch of the Executive Department of the Federal Government. In 1970, the U. S. Postal Service was created to grant to them a certain degree of financial flexibility. However, the U. S. Postal Service wasn't designed to be a private enterprise in business to make money for the stockholders. We feel strongly that the funding of the retirement plan for Postal employees be treated the same as all other agencies of the Federal Government.

Earlier, we advocated the creation of some type of a savings plan. For that savings plan, we think employees should be allowed a choice of investments and the government's matching contribution should be funded immediately. However, there should be created by this or accompanying legislation, a Federal Insurance Savings Corporation (FISC) to act as the FDIC does for employees' investment savings in their individual savings accounts. Firms offering investment potential to the employees should be scrutinized by the new FISC, so the investment of these people's retirement monies could be, after it is funded, guaranteed and secure.

When should an employee become vested in the new system? The new system will be a three-part program. Social Security, a defined benefit plan and some type of individual savings. The first part is Social Security and that is totally portable. So, vesting is not really the issue. Social Security is a society-wide program. The ~~third~~ second part of the package is a savings or thrift program. We assume that this part will have a relatively short vesting time of under five years, maybe as short as one year, because that plan is strictly related to individual behavior and individual initiative.

The third part is a more traditional retirement plan. Under such plans, the longer an employee is required to work to be eligible, the lower cost to the employer. It obviously promotes employment longevity by dedicated, qualified personnel and creates a bond between the employer and the employee, which we think is a necessary goal. ERISA requires 10 years, the current law requires 5 years. We think something in between there is very acceptable and desirable.

Again, Mr. Chairman and Members of the Committee, we are appreciative that you are willing to hold these hearings on this complicated issue, and appreciate your interest in and concern about an adequate retirement program for new employees.

STATEMENT BY

THE NATIONAL FEDERATION OF FEDERAL EMPLOYEES

BEFORE

THE HOUSE COMMITTEE ON POST OFFICE AND CIVIL SERVICE

ON

A SUPPLEMENTAL RETIREMENT PROGRAM FOR FEDERAL EMPLOYEES

HIRED AFTER 1983

APRIL 23, 1985

Mr. Chairman and Committee Members: My name is Jim Peirce and I am the President of The National Federation of Federal Employees (NFFE). I want to thank you for the opportunity to testify today on the design of a new retirement program for employees hired by the Federal Government after 1983. The issue is extremely important to our membership and we welcome the chance to discuss our position.

Civil service employees hired on or after January 1, 1984 are fully covered by social security and civil service retirement. The required payroll contribution for this dual coverage would normally be 14 percent (7 percent for social security and 7 percent for civil service retirement). But Congress recognized the serious financial hardship this would place on employees and approved Public Law 98-168, which reduces the total salary deduction to 8.3 percent while still maintaining full coverage under the two systems. The law expires January 1, 1986, at which point the 14 percent salary deduction goes into effect. In the meantime, Congress gave itself two years to design a new civil service retirement system which, when combined with social security, would meet the financial needs of Federal workers upon retirement.

Unlike the current system, which is intended to be the major source of income for civil service annuitants, the new system would be a supplemental plan that would use social security as a base. Hence, it would be more modest than the current program, and require a smaller payroll contribution from employees.

There are now less than eight months remaining before P.L. 98-168 expires. But, this amount of time still affords Congress the opportunity to exercise caution in developing the supplemental civil service retirement program. Caution, we believe, which is essential for designing a program that will eventually provide for the financial security of millions of Federal employees and their families. This is a complex, sensitive area where potent_al disasters lurk at every turn, and I hope that the Subcommittee can prevent an endless, and possibly futile process of trying to patch together a decent program.

A retirement annuity is the most important job benefit for both workers and management. With average life expectancy and length of retirement increasing, it gives employees peace of mind during their careers and financial security following them. For the employer, pension benefits help to manage the workforce, defer compensation obligations, and enhance labor-management relations.

This fact is especially true in the Federal Government. Retirement is probably the only major benefit earned by civil servants which compares favorably with similar programs in the private sector. In fact, with pay rates and total compensation so low in comparison to the private sector, retirement is one of the few remaining incentives to stay in the Federal workforce. According to the Bureau of Labor Statistics, Federal pay rates are far below industry standards, and our health and life insurance plans are poor imitations of those in the private sector. Annual and sick leave benefits may be about the same, but Federal workers do not receive stock options, generous bonuses, and other perquisites offered by large corporations to attract and retain talented employees. The sorry state of civil service compensation has also been confirmed by a recent study by the Hay-Huggins Company (commissioned by the Committee) showing Federal pay and benefits lagging 7.2 percent below that of private industry. Civil service retirement, therefore, is the cornerstone of the Federal compensation system. It is the primary incentive for individuals to enter Government service and to pursue Government careers.

In order to fully consider a new supplemental plan, it is important to look first to the current system as a reference point. And this is why I believe OPM Director Donald Devine and the Administration have initiated a campaign to discredit the current Civil Service Retirement System. Despite its importance to individual employees and to the overall quality of the Federal workforce, the CSRS is a constant target of benefit reductions. Opponents of the system, including the present Administration, claim the system is too generous as well as too costly to the Government.

With respect to the system being "too generous," our opponents almost always forget to compare CSRS benefits with the total package of social security and private pension benefits earned by most workers in the private sector. A Federal employee retiring at age

55 with 30 years of service will receive an initial pension equal to 56.25 percent of his High-3 salary years. Studies show that private sector employees receive approximately the same size annuity from the combination of social security and a private pension plan. Studies also show that Federal workers retire at almost exactly the same age as employees in the private sector. Finally, social security, the annuity base for virtually all employees in the private industry, is fully indexed against inflation, just like CSRS.

With respect to the charge that CSRS is "too costly," we refer to two recent studies of the system, one by the actuarial firm of Hay-Huggins, which was mentioned earlier, and the other by the Congressional Research Service. The groups produced almost identical results in comparing the cost of the CSRS to typical private sector plans. As a percentage of pay, the current civil service retirement system costs the Government approximately 6.4 percent more than the average pension plan in private industry. While the difference is measurable, it disappears when other elements of the Federal compensation package are factored in. In short, Federal compensation would be completely ineffective as a recruitment and retention tool if it were not for the fact the CSRS is a solid pension program.

The debate over civil service retirement is riddled with erroneous facts and absurd myths. Indeed, there are so many mistaken ideas that last year Congressman Michael Barnes (D-MD) thought it was about time to put an end to many of them. He put together a report entitled, "The Ten Most Common Myths About Federal Retirement." The report's highlights are summarized below.

* Many companies provide better pensions, and most private plans require no employee contribution, while Federal workers must contribute 7 percent of their salaries to the pension fund. Further, private sector employees can benefit from thrift and stock- incentive plans, as well as other benefits such as profit-sharing, while Federal workers cannot.

* Federal pensions are fully taxed.

* Both private and Federal workers retire, on average, at age 61. Virtually all private pensions permit retirement at age 55 with 10 years of service.

* The solvency of a retirement system is based upon its ability to meet all obligations when they become due. The Civil Service Retirement System (CSRS) currently has five times the reserves it needs to pay Federal annuities as they become due. Reserves continue to grow at a healthy rate and now exceed $100 billion.

* The CSRS's unfunded liability is not a budgetary obligation. It is simply an estimate, based upon abstract assumptions. It answers the question, "What would happen if the value of all Federal employee pension benefits had to be paid at once on some future date?" The Federal Government would never find itself in such a situation.

* More than half of all Federal annuitants receive less than $1000 per month. The average Federal annuity in fiscal year 1982 was only $12,500 a year.

The arguments about generosity and cost have been used repeatedly by the system's detractors in pushing benefit cutbacks. Since 1976, numerous reductions have been made to CSRS annuities, including: the elimination of the so-called 1 percent add-on and semi-annual COLAs; an increase in taxes on disability pensions; a reduction in benefits for Federal retirees eligible for a social security spouse's benefits; the elimination of the "lookback" formula; a cutback in initial COLAs for new retirees; COLA delays; and more restrictive rules for redepositing contribution withdrawals. How much more does the system have to be weakened before these arguments are recognized for what they really are - merely excuses for trying to balance the Federal budget on the backs of civil service retirees.

In the past, the Committee has demonstrated an excellent record of fighting these cutbacks. I hope you will continue to defend the system as you develop a new retirement plan.

For these reasons, the new supplemental civil service retirement system, when combined with social security, must provide benefit levels comparable to those of the current system. You simply cannot ignore the fact that other aspects of Federal compensation are worth less than their counterparts in private industry. Should civil service retirement also fall below private sector standards, the Government would find it virtually impossible to recruit and retain talented employees.

By comparable benefits, we refer to age and service requirements, including those that apply to Section 8335 (mandatory separation) employees of Title 5 U.S.C. As you know, most Federal employees may currently retire at age 55 with 30 years of service; at age 60 with 20 years of service, and at age 62 with 5 years of service. These requirements are often attacked as being too liberal, particularly by those who do not know or who choose to disregard their real impact. The current age and service requirements are responsible for an average Federal employee retirement age that is almost exactly the same as the average in private industry. According to the General Accounting Office, Federal workers retire at an average age of 61.1; private sector employees retire on the average age of 61.8.

Now, if I may, I would like to address some of the specific questions which the Committee intends to consider in its evaluation of a new supplemental retirement system.

I firmly believe that the funding of the new supplemental plan should not endanger benefits to either current or future employees. The new system should provide a level of benefits comparable to the current program. We also strongly advocate a flexible retirement age policy that encourages and rewards long term service. It would be a disaster to create a new retirement program that did not protect the Government's expertise and institutional knowledge. In other words, cost savings should not be the primary factor in establishing a new system - the last thing we want is a cheap retirement system.

Equity between present employees and those hired after this year should also be achieved in the area of payroll contributions. Current civil service workers pay 7 percent of salary toward Federal retirement and 1.3 percent toward Medicare, for a total payroll deduction of 8.3 percent. In order to avoid dissension between present and new employees, and to ensure a certain degree of fairness between the two groups, the new system should not require civil servants hired after 1983 to contribute more than this amount.

Inflation protection should also be a part of the retirement system. It is neither wise nor fair to design a program which provides a certain level of benefits upon retirement but does not regularly adjust the value of these benefits in relation to the cost-of-living. The reduction in purchasing power which would inevitably ensue would place a burden not just on the retirees, but on all of society.

We recognize that retirement plans in private industry do not, as a rule, provide full yearly COLAs, although most plans are integrated with social security which is adjusted annually for increases in cost-of-living. Instead of eliminating regular COLAs in the new supplemental retirement system, private industry should move to provide full inflation protection in their annuity programs. In other words, private industry plans in this specific area should be improved; we should not weaken the existing civil service provisions. This would be in the best interests of society as well as Federal and private sector workers.

This concludes my statement. I will be happy to answer any questions.

Finally in conclusion we would like to thank the Chair, and the Committee for it's continued leadership on this important issue. We thank the Committee for the opportunity to express our views on this topic. We look forward toward working with the Committee in developing a fair supplemental plan.

April 23, 1985

STATEMENT OF

THOMAS P. COSTIN, JR., PRESIDENT

NATIONAL ASSOCIATION OF POSTMASTERS OF THE UNITED STATES

Mr. Chairman, members of the the Committee -- my name is Thomas P. Costin. I am President of the National Association of Postmasters of the United States.

We greatly appreciate this opportunity to testify on behalf of the nation's 29,700 Postmasters on the critically important issue of developing a new retirement system for Postal employees and other Federal employees covered by Social Security. We are especially grateful to the Chairman for his leadership in framing the relevant issues and assuring the performance of the background and analytical work necessary for the Committee's deliberations. In this connection, we acknowledge the Congressional Research Service's (CRS) expert report on designing a retirement system for Federal workers. We agree with the Chairman that this study clearly meets the objective of providing, for all interested parties, the conceptual and analytical tools necessary to analyze the numerous issues involved in the development of a supplemental retirement plan.

Even a casual reading of the CRS report reveals how complicated and detailed the matter of pension plan design can be. It is very easy to become engrossed in the technical details of the CRS analysis and lose sight of our main purpose here today, which is to communicate the Postmasters' view on the major features of the new complementary pension plan. To this end, we shall be guided in my testimony by the specific questions raised in the Chairman's correspondence of March 18, 1985.

Appropriate Cost of the New Program:

When Congress debated and enacted Social Security coverage for Federal workers hired after 1983, almost everyone recognized that it would be necessary to establish a new Federal pension program designed to complement Social Security benefit levels. It is apparent, from our perspective, that most of the individual members of this Committee favor the development of a new retirement plan which, when added to Social Security, would provide benefits comparable to those under the current Civil Service Retirement System.

This approach, of course, assumes that the present CSRS is adequate. We do not believe this to be the case and have consistently advocated improvements in the system which would enable postal workers to keep abreast of the progressive change which has characterized private sector pension plan development over the past decade. The CSRS, once a model for non-Federal employment practice, has had no improvement in over 16 years. While the CSRS is a good basic plan, it fails to provide income after retirement sufficient to enable employees to maintain their pre-retirement standard of living -- in our view, the central objective of any retirement system.

Nevertheless, we understand full well that the status of incumbent Postal Workers is beyond the scope of these proceedings, which are confined to the terms of the retirement system applicable to post-1983 hirees. Under these circumstances, it is appropriate to start with the objective of equalizing pension compensation for all Postmasters and other Postal Workers. This is accomplished by designing a pension for Social Security covered employees equal to the value of CSRS, less the value of Social Security. In determining the "equal value," we endorse the employer normal cost approach developed by the CRS. Accordingly, the new supplemental plan (exclusive of Social Security) should carry a normal cost to the employer of approximately 18.64 percent of payroll. Under the CRS actuarial cost model, this equals the employer's normal cost of CSRS, net of administrative expenses (.05%) and the cost of unique provisions for special groups (.45%), less the employer's normal cost for Social Security (6.06%).

We wish to emphasize that this figure is intended only to preserve that portion of total compensation presently devoted to retirement income. It simply reaffirms the principle of equal-pay-for-equal-work among all postmasters, regardless of their date of appointment. It goes without saying that we are unalterably opposed to the Administration's proposal, or any other, which seeks to cut pension compensation for new employess through the establishment of a supplemental plan which, when added to Social Security, falls below the present Civil Service standard. There are no grounds, in fact or equity, for further gutting the benefit compensation of Federal workers who have already borne a disproportionate share of the Administration's austerity measures.

Benefit Distribution:

We know that under the present CSRS the relationship between pension income and preretirement earnings is the same across all income levels. Social Security, on the other hand, replaces a higher proportion of preretirement earnings for those at the lower end of the income scale. This poses a major design question for pension planners, that is, "How much of this Social Security 'tilt' should be eliminated by the supplemental plan?"

This is a particularly vexing problem for NAPUS. Our organization represents Postmasters with an average annual salary of approximately $30,000. Salaries range, however, from under $4,500 to over $60,000. We represent part-time Postmasters in the rural areas whose salaries are predicated on 2 to 6 hours of work per day, together with some of the highest paid postal managers, responsible for the entire operaton of the largest postal installations in New York, Washington, Chicago and other major metropolitan areas.

This sprawling range of salaries leads me to conclude that the costs and benefits of the new retirement system should be distributed equally across the salary scale. We are convinced that the fairest and most equitable treatment of all Federal workers, respecting the distribution of benefits, requires the duplication of the current CSRS structure to the maximum possible degree.

This, of course, dictates a new supplemental plan which incorporates an offset of 100 percent of the primary Social Security benefit. The objective is to design a program which replaces the same percentage of preretirement earnings, regardless of job classification and rate of pay.

<u>The Level of Employee Contributions</u>:

From our viewpoint, the issue in these proceedings concerns the <u>employer's</u> obligation to finance retirement income. If the employees, individually or through their organization, wished to purchase greater retirement security by deferring personal income through insurance annuities, Individual Retirement Accounts or other forms of retirement income outside the employment relationship, the employer does not have an interest. For example, NAPUS sponsors an Individual Retirement Account program for its membership. Similarly, employee contributions to the pension fund, while having a direct impact on the size of the pension, do not influence total compensation or employment costs in one direction or the other. Retirement income attributable to employee contributions, therefore, should not be included in an evaluation of pension adequacy any more than savings accounts, life insurance, stocks, or other personal assets which affect retirement security.

Whether employees should contribute to the new plan, thereby enabling them to reach higher pension levels than are obtainable under a noncontributory plan, will be a basic policy matter for the respective employee organizations to decide. Some unions encourage employee-financed additions because they have little confidence in the employee's ability to manage money in a way which permits voluntary savings outside of payroll deductions. On the other hand, we know that the vast majority of private sector plans are noncontributory. This practice reflects the reality that it is cheaper for the employer to finance pensions than for the employees. First of all, employee contributions are loaded for the cost of returning employee contributions at resignation or discharge, while employer contributions are nonrefundable. So, for example, if pension planners wished to add a pension increment worth 1.0% of payroll, it would require approximately 1.25% of pay if the obligation was to be financed by employee contributions. The extra contribution is necessary to cover the cost of refunded contributions.

Secondly, employee contributions are paid with after-tax wages and are thus subject to income taxes and payroll taxes in the nature of Social Security and pension contributions. Employer contributions are completely tax sheltered. Under these circumstances, the only economically sensible approach is to design the new retirement system in a fashion which does not require direct employee contributions beyond those required under social security.

We are aware of the prospect of sheltering employee contributions from Federal income tax by establishing a capital accumulation plan. By design, such a program would enable employees to capture additional employer matching contributions (i.e., extra compensation) by making voluntary contributions of their own. While we are not dogmatically opposed to these programs, we regard them as a third and separate tier of pension development which should be secured only after a solid core of employer-paid benefits is obtained.

In summary, the capital accumulation plan approach should be considered the next generation of pension plan provisions -- the kind which might, for instance, eventually supplement the CSRS benefits of incumbent Federal workers. At this stage, however, we oppose the capital accumulation approach as a substitute for cost-equivalent basic pension benefits. Assessing the value of the pension compensation represented by a capital accumulation program requires speculation over employee participation rates. On this, we have no firm judgment. It is likely, however, that participation rates will increase with salary, thus allocating a disproportionate share of the value to the highest paid classifications. For the same employer contribution, we prefer to allocate more pension compensation to basic benefits which are evenly distributed among all income levels and which are not contingent on the employees' ability to generate additional savings.

The Proper Level of Funding:

As the Committee knows, pensions for postal employees are financed through the Civil Service Retirement and Disability Fund, which is part of the Unified Budget of the Federal government. The Fund serves as an accounting mechanism into which various payments are deposited as income and from which benefits and administrative expenses are paid. As a practical matter, the trust fund exists mainly for bookkeeping purposes -- to identify and allocate cost within the Federal budget.

Civil Service Retirement System income, collected on behalf of postal employees, comes from four main sources:

1. Employees contribute 7.0 percent of basic pay which excludes COLA, overtime, bonuses, premium pay and other allowances.

2. The Postal Service makes two separate contributions to the CSRS Fund.

   a. An amount matching the amount contributed by postal employees.

   b. An annual amount representing the estimated increase in the unfunded liability attributable to increases in pay on which benefits are computed. The estimated increase in the unfunded liability as determined by the Office of Personnel Management is paid in 30 equal annual installments with interest (computed at the rate used in the most recent valuation of the CSRS -- currently 5%), with the first payment due at the end of the fiscal year in which an increase in basic pay becomes effective.

3. The U.S. Treasury makes two separate transfers from the General Fund to the CSRS Fund:

   a. Annual payments equal to:

      1) interest on the total amount of obligation in excess of current assets, as if that amount represented revenue actually appropriated and invested, and

      2) those portions of annuities paid during the year attributable to credit allowed for military service.

   b. Appropriations in 30 equal annual installments to finance any increased liability resulting from legislation which authorizes new or liberalized benefits except cost-of-living adjustments.

4. The Fund earns interest by investing revenue received from the first three sources. Money in the Fund can, by law, only be invested in interest-bearing U.S. Government securities.

In these proceedings, we are concerned with determining the appropriate level of funding for the new supplemental plan.

Some observers are advocating the "full funding" of pension obligations. We assume that this means the regular annual payment of normal cost contributions which, under the CRS actuarial model, will equal 24.7 percent, including Social Security (but excluding administrative expenses and the cost of unique provisions for special groups), if the new plan equals the cost of the present CSRS. This rate of contribution is over twice the actual rate presently being paid by the Postal Service on behalf of Postmasters, under the formula described earlier. We estimate this contribution rate to be 11.0 percent of gross pay.

We are reminded by the CRS and other independent analysts that the CSRS Fund is a part of the Unified Federal Budget of the Federal government. Consequently, all payments to the Fund from the Treasury, and all money invested by the Fund in Treasury-held securities, are merely intergovernmental transfers. If Congress appropriated additional revenue from the Treasury to the Fund for the purpose of establishing credit against accruing future liabilities, this additional revenue would immediately return to the Treasury in the form of bonds. The transactions would cancel each other, although the Fund, as a government account, would show an improved financial condition. This credit would, however, be reflected in a corresponding increase in the national debt. Therefore, there would be no effect on CSRS participants, nor on taxpayers, if amounts were credited to the Fund beyond revenue needed for operating expenses, i.e., benefit payments, refunds, and other administrative expenses. In other words, there is no practical advantage to "fully-funding" or "advance-funding," to any degree, over paying the pension on a current disbursement or "pay-as-you-go" basis.

Under the circumstances, we see no real purpose in adopting a funding standard which would require off-budget agencies such as the Postal Service to double their current per capita outlay and aggravate an already strained financial position. We support a level of funding which would require current cash outlays by the Postal Service equal to the per capita contributions for the pre-1984 workforce. Certainly, this position would be different if we were dealing in an industry where bankruptcy and plan termination rates were high. But, we are satisfied that pensions backed by the Federal government taxing authority will be financially secure without full advance funding.

Vested Benefits:

The vesting period should not emerge as a major issue in developing the new retirement plan. The present 5-year rule, applicable to voluntary and disability benefits, is a reasonable compromise between those who seek to reduce employee turnover by encouraging longer service and those who wish to provide some mobility between the Federal and non-Federal sectors. We endorse the inclusion of a 5-year "cliff" vesting provision which would operate under the same rules as the present CSRS. If an employee works beyond the 5-year period, then the accrued benefit at the time of resignation is payable at age 62. However, in lieu of deferred benefits, the employees may divest themselves of the employer contribution by accepting a return of their own contribution without interest.

Although the 5-year rule appears to be more liberal than the 10-year ERISA standard typical of the private sector, the actual cost differences are marginal. ERISA does not permit the forfeiture of vested benefits based upon the employer's contributions, even if the employee withdraws his own contributions. Moreover, all employee contributions must be returned with interest under ERISA standards.

Summary:

We have commented briefly on the five specific issues on which the Committee intended to focus today. There are, of course, several other important provisions of the new retirement system which have not been specifically discussed, such as the postretirement escalator clause and eligibility requirements for early retirement. The Postmasters' position on these, and the issues treated hereinabove, is expressed in the following outline which sets forth the details of the supplemental retirement plan which we are willing to support:

• Pension Benefit Formula	1.78 percent of high-3 x years of service.
• Social Security Coordination	Less 100 percent of Social Security.
• Post-retirement Adjustments	100 percent of the CPI increase.
• Eligibility Requirements for Unreduced Benefits	Age 55 with 30 years, or Age 60 with 20 years, or Age 62 with 5 years.
• Social Security Supplement	Payable between ages 55 and 62; equal to the Social Security benefit payable at age 62.
• Vesting	5 years, payable beginning at age 62.
• Disability	Applicable to any person who is unable to perform in position during first 24 months; after 24 months, payable if totally and permanently disabled for any occupation; benefit equal to 60 percent of predisability pay less Social Security, or accrued retirement benefit, whichever is greater.
• Survivor Benefits	For preretirement death, 55 percent of accrued retirement benefits. For postretirement death, if elected, a reduction in the retirement annuity of 2.5 percent of first $3,600 annually, plus 10 percent on amounts over $3,600. Survivor benefit is calculated at 55 percent of annuity before reduction.

• Employee Contributions	None.
• Capital Accumulation Plan	None.

A pension program containing these central ingredients does not exceed the costs of the current CSRS and accomplishes several objectives critical to our organization:

(1) It sets pension compensation for Social Security-covered employees at the same level as non-Social Security-covered employees by equalizing employer pension costs between the two groups.

(2) It distributes the costs and benefits uniformly across job classifications and salary levels, thereby duplicating the structure of the present CSRS.

(3) It places the weight of costs and benefits on the basic benefit formula without the use of contingent benefits associated with a voluntary capital accumulation plan.

(4) It preserves the main features of the present CSRS in the areas of postretirement adjustments, vesting, and early retirement.

We urge the Committee to give full and careful consideration to these essential objectives. A retirement program designed in conformance with these principles, while failing to correct for the deficiencies in the current pension system, provides the fairest and most equitable adjustment of taxpayers' and employees' interests at this point in time. Moreover, the preservation of pension compensation is critically important to the Postal Service if it is to continue to attract and retain qualified and capable managerial personnel.

Thank you, Mr. Chairman, and members of the Committee, for having provided this opportunity to express the views of the National Association of Postmasters of the United States.

federally employed women • an organization for opportunity & equality for women in government
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TESTIMONY

OF

FEDERALLY EMPLOYED WOMEN

BEFORE

THE COMMITTEE ON POST OFFICE AND CIVIL SERVICE

ON

THE DEVELOPMENT OF A SUPPLEMENTAL CIVIL SERVICE

RETIREMENT SYSTEM

APRIL 23, 1985

TESTIMONY ON THE DEVELOPMENT OF A SUPPLEMENTAL CIVIL SERVICE RETIREMENT SYSTEM FOR EMPLOYEES HIRED AFTER 1983 AND UNDER THE SOCIAL SECURITY SYSTEM BEFORE THE COMMITTEE ON POST OFFICE AND CIVIL SERVICE, APRIL 23, 1985.

CHAIRPERSON FORD, THANK YOU FOR ASKING FEDERALLY EMPLOYED WOMEN TO TESTIFY HERE TODAY. FEDERALLY EMPLOYED WOMEN (FEW) IS AN INTERNATIONAL MEMBERSHIP ORGANIZATION REPRESENTING WOMEN IN THE FEDERAL GOVERNMENT THROUGHOUT THE UNITED STATES AND FOREIGN NATIONS. FEW IS A PRIVATE, NON-PROFIT, NON-PARTISAN ORGANIZATION AND WAS FOUNDED IN 1968 TO ADVOCATE EQUAL OPPORTUNITY AND FOSTER FULL POTENTIAL FOR WORKING WOMEN IN THE FEDERAL SECTOR.

THE DEVELOPMENT OF A NEW CIVIL SERVICE RETIREMENT SYSTEM FOR FEDERAL WORKERS HIRED AFTER 1983 AND UNDER THE SOCIAL SECURITY SYSTEM IS AN ISSUE OF PRIME IMPORTANCE. WE APPLAUD THIS COMMITTEE FOR CONTINUING TO PURSUE THE DEVELOPMENT OF A NEW SUPPLEMENTAL RETIREMENT SYSTEM THAT WILL MEET EVERYONE'S NEEDS.

WOMEN EMPLOYED BY THE FEDERAL GOVERNMENT HAVE A VITAL INTEREST IN THE DEVELOPMENT OF THE SUPPLEMENTAL CIVIL SERVICE RETIREMENT SYSTEM. IN 1984, THERE WERE OVER 800,000 FEDERAL WOMEN WORKERS. WOMEN COMPRISED NEARLY HALF OF THE TOTAL FEDERAL WORKFORCE. MANY OF THESE WOMEN ARE DEPENDENT UPON THEIR RETIREMENT ANNUITY AS THEIR MAIN SOURCE OF INCOME DURING THEIR RETIREMENT YEARS. IN 1980, THIRTY-SIX PERCENT OF ALL SINGLE ELDERLY WOMEN RETIRED FROM THE FEDERAL SERVICE DEPENDED UPON THEIR GOVERNMENT PENSION FOR OVER 50 PERCENT OF THEIR TOTAL INCOME. THE RETIREMENT INCOME THAT WOMEN FEDERAL RETIREES DEPEND UPON IS USUALLY INADEQUATE TO LIVE ON COMFORTABLY. IN 1984, THE MEDIAN MONTHLY ANNUITY FOR RETIRED FEDERAL WOMEN

WAS $740 AS COMPARED TO $1,081 FOR MEN. WOMEN RETIRED FROM THE GOVERNMENT RECEIVE LOWER ANNUAL ANNUITIES THAN THEIR MALE COUNTERPARTS IN LARGE PART BECAUSE FEMALE FEDERAL WORKERS ARE CONCENTRATED IN THE LOWEST PAYING GRADE LEVELS. SEVENTY-FIVE PERCENT OF ALL WOMEN WHO WORK FOR THE FEDERAL GOVERNMENT ARE IN GENERAL SCHEDULE (GS) GRADES ONE THROUGH EIGHT. THE MEDIAN WAGES FOR FEDERALLY EMPLOYED WOMEN IN THE GENERAL SCHEDULE CLASSIFICATION SYSTEM TOTALED $18,864 PER YEAR IN 1984. UNDER THE CURRENT RETIREMENT SYSTEM, WOMEN REPLACE, ON THE AVERAGE, 46.5 PERCENT OF THEIR FINAL PAY AS COMPARED TO 57.2 PERCENT FOR MEN. WHEN EXAMINING THE MEDIAN YEARS OF SERVICE FOR FEDERAL EMPLOYEES, HOWEVER, IT IS SHOWN THAT WOMEN'S COMMITMENT TO THE FEDERAL GOVERNMENT IS SIMILAR TO MEN EMPLOYED BY THE FEDERAL GOVERNMENT. THE MEDIAN YEARS OF SERVICE IN THE CIVILIAN FEDERAL WORKFORCE TOTALS 25.2 FOR WOMEN AS COMPARED TO 26.7 FOR MEN. FEDERAL WOMEN ALSO TEND TO RETIRE AT A LATER AGE THAN MEN IN ORDER TO GAIN FULL RETIREMENT BENEFITS. THEREFORE, WOMEN'S LOW RETIREMENT ANNUITIES CAN IN LARGE PART BE ATTRIBUTED TO THEIR LOW EARNINGS.

OLDER WOMEN ARE THE FASTEST GROWING POVERTY POPULATION IN OUR NATION. FEDERAL WOMEN RETIREES SHARE THE SAME BURDENS IN THEIR RETIREMENT YEARS AS ALL OTHER WOMEN. THE GREAT MAJORITY OF ELDERLY WOMEN LIVE ALONE, DEPEND ON THEIR RETIREMENT BENEFITS FOR THE MAJORITY OF THEIR INCOME, AND PAY INCREASING SHARES OF THAT INCOME FOR MEDICAL BILLS. IN 1983, 52 PERCENT OF ELDERLY WHITE SINGLE WOMEN AND 84 PERCENT OF ELDERLY BLACK SINGLE WOMEN LIVED AT OR NEAR THE POVERTY LEVEL. TODAY, WORKING FOR THE FEDERAL GOVERNMENT IS NO GUARANTEE THAT A FEDERAL WOMAN RETIREE WILL NOT JOIN THE INCREASING RANKS OF ELDERLY WOMEN LIVING IN POVERTY. WOMEN WHO DEVOTE THEIR WORKING LIVES TO THE CIVIL SERVICE SYSTEM MUST BE GUARANTEED A DECENT STANDARD

OF LIVING UPON RETIREMENT.

THE PRESENT CIVIL SERVICE RETIREMENT SYSTEM

ALTHOUGH THE CURRENT CIVIL SERVICE RETIREMENT SYSTEM (CSRS) IS GENDER NEUTRAL, IT HAS A DISPARATE IMPACT UPON WOMEN. THE PRESENT SYSTEM REWARDS EMPLOYEES WITH HIGH EARNINGS AND LIFE-LONG FEDERAL CAREERS WITH HIGH RETIREMENT ANNUITIES. WOMEN WHO DO NOT OCCUPY HIGH PAYING OCCUPATIONS IN THE FEDERAL GOVERNMENT SUFFER UNDER THE CURRENT RETIREMENT SYSTEM. THE BENEFIT CALCULATION THAT AVERAGES THE THREE YEARS OF HIGHEST EARNINGS WITH AN INCREASED PERCENTAGE OF RETURN AS THE NUMBER OF YEARS OF SERVICE INCREASES AFFORDS WOMEN LITTLE OPPORTUNITY TO BUILD A SUBSTANTIAL RETIREMENT ANNUITY. ALTHOUGH THE QUESTION OF WOMEN'S CONCENTRATION IN THE LOWEST GRADE LEVELS AND RESULTING LOW WAGES IS ANOTHER CONCERN, IT MUST BE TAKEN INTO ACCOUNT WHEN LOOKING AT A RETIREMENT SYSTEM. THE NEW SUPPLEMENTAL RETIREMENT SYSTEM CAN NOT IGNORE THESE FACTS AND CONTINUE TO DISCRIMINATE AGAINST FEDERALLY EMPLOYED WOMEN. FEW URGES THIS COMMITTEE TO CLOSELY EXAMINE WOMEN'S CURRENT STATUS IN THE FEDERAL WORKFORCE WHEN DESIGNING THIS NEW SYSTEM.

BASIC STRUCTURE OF A NEW SUPPLEMENTAL CIVIL SERVICE RETIREMENT SYSTEM

FEW ENVISIONS A NEW RETIRMENT SYSTEM WITH EITHER TWO OR THREE LEVELS. THE BASIC ANNUITY WOULD CONSIST OF THE SOCIAL SECURITY BENEFIT WITH A DEFINED BENEFIT AS THE SECOND LEVEL AND POSSIBLY AN OPTIONAL CAPITAL ACCUMULATION PLAN AS THE THIRD LEVEL. FEW URGES THE IMPLEMENTATION OF A DEFINED BENEFIT PLAN AS THE SECOND LEVEL BENEFIT, RATHER THAN A DEFINED CONTRIBUTION PLAN, BECAUSE A DEFINED BENEFIT PLAN TARGETS A SET OF RETIREMENT ANNUITIES UNDER SPECIFIED CONDITIONS. THESE SPECIFIC BENEFITS

ALLOW WORKERS TO BETTER PLAN FOR THEIR RETIREMENT YEARS. ALSO, A DEFINED BENEFIT PLAN EASES THE ADDITION OF SUPPLEMENTAL BENEFITS (I.E. DISABILITY AND SURVIVOR) AND CAN BE RETROACTIVE FOR EMPLOYEES HIRED PRIOR TO THE ENACTMENT OF THE PLAN. THIS LATTER ASPECT IS IMPORTANT BECAUSE THE FEDERAL WORKERS WHO WILL BE UNDER THE NEW SYSTEM ARE CURRENTLY ENTERING THE WORKFORCE. DEFINED CONTRIBUTION PLANS, ON THE OTHER HAND, ARE NOT USUALLY UTILIZED BY LARGE CORPORATIONS, BUT RATHER BY SMALL COMPANIES OR FOR SHORT SERVICE EMPLOYEES. DEFINED CONTRIBUTION PLANS ARE MORE RISKY AND DO NOT ALLOW WORKERS TO PLAN ADEQUATELY FOR THEIR RETIREMENT INCOME.

CAPITAL ACCUMULATION PLANS ARE BECOMING INCREASINGLY MORE POPULAR AMONG PRIVATE SECTOR COMPANIES. UNDER A TYPICAL 401 (k) THRIFT PLAN, EMPLOYEES CAN DEFER A PERCENTAGE OF THEIR YEARLY EARNINGS TO A RETIREMENT ACCOUNT. A RANGE OF OPTIONS EXIST ON EMPLOYER MATCHINGS OF THIS DEFERRED INCOME. RETIREMENT INCOME FROM A CAPITAL ACCUMULATION PLAN IS DIRECTLY RELATED TO ONE'S INVESTMENT PARTICIPATION. MANY WOMEN WOULD BE UNABLE TO TAKE ADVANTAGE OF A CAPITAL ACCUMULATION PLAN, DUE TO THEIR INABILITY TO DECREASE THEIR MODEST TAKE-HOME PAY, BUT SUCH A PLAN WOULD AFFORD HIGHER PAID EMPLOYEES THE OPTION OF HIGHER RETIREMENT BENEFITS WITH IMMEDIATE TAX SAVINGS.

THERE ARE CERTAIN COMPONENTS OF THE PRESENT CIVIL SERVICE RETIREMENT SYSTEM THAT SHOULD BE KEPT INTACT. FEW BELIEVES THAT THE CURRENT STRUCTURE OF FULL BENEFITS AT AGE 55 WITH 30 YEARS OF SERVICE SHOULD BE CONTINUED. MANY EMPLOYEES HAVE ENTERED THE FEDERAL SERVICE WITH THE UNDERSTANDING THAT THEY CAN EXERCISE THIS OPTION. ALTHOUGH WOMEN EMPLOYED BY THE FEDERAL GOVERNMENT CURRENTLY RETIRE LATER THAN THEIR MALE COUNTERPARTS,

THEY SHOULD RETAIN THE OPTION OF RETIREMENT AT AGE 55. ALSO, AS WE SEE WOMEN'S LABOR FORCE ATTACHMENT GROW STRONGER AND MORE CONTINUOUS, IT IS LIKELY THAT MORE WOMEN WILL HAVE ENOUGH YEARS OF SERVICE TO RETIRE WITH FULL BENEFITS AT AGE 55. FEW WOULD ALSO LIKE TO SEE THE PRESENT COMPUTATION OF THE THREE YEARS OF HIGHEST EARNINGS FOR BENEFIT CALCULATIONS PRESERVED. ALTHOUGH WOMEN HAVE A RELATIVELY FLAT EARNINGS PROFILE AS OPPOSED TO MALE WORKERS, WOMEN ARE BEGINNING TO MAKE INROADS INTO THE HIGHER PAYING GRADE LEVELS. BECAUSE THIS MOVEMENT IS RELATIVELY RECENT, EXPANDING THE COMPUTATION YEARS WILL ONLY SERVE TO LOWER WOMEN'S FINAL ANNUITY. AVERAGING LIFE LONG EARNINGS, AS IN THE SOCIAL SECURITY SYSTEM, WOULD DRASTICALLY LOWER THESE WOMEN'S RETIREMENT ANNUITIES. TO PROTECT RETIREMENT BENEFITS FROM INFLATION, COST OF LIVING ADJUSTMENTS (COLAS) MUST BE PAID ON AN ANNUAL BASIS. IF NO COLA PROVISION IS PROVIDED TO FEDERAL RETIREMENT BENEFITS, THE BENEFITS ARE QUICKLY ERODED AWAY AND THE PHILOSOPHY OF REPLACING A PERCENTAGE OF A RETIREE'S SALARY IS LOST. THE MEDIAN REPLACEMENT RATE FOR FEDERAL RETIRED WOMEN IS 46.5 PERCENT (BASED ON THE THREE YEARS OF HIGHEST EARNINGS). ANY REDUCTION IN THIS AMOUNT IS INADEQUATE TO LIVE ON. FOR EXAMPLE, AFTER 10 YEARS, WITH A 4 PERCENT INFLATION RAGE, A BENEFIT ONLY HAS TWO-THIRDS OF ITS ORIGINAL PURCHASING POWER. A WOMAN RETIRED FROM THE FEDERAL GOVERNMENT MUST BE ABLE TO KEEP HER PURCHASING POWER IN PACE WITH INFLATION.

ALTHOUGH WE CONTEND THAT CERTAIN PROVISIONS OF THE CURRENT CIVIL SERVICE RETIREMENT SYSTEM SHOULD BE PRESERVED AND IMPLEMENTED INTO THE SUPPLEMENTAL SYSTEM, WE WILL ALSO OFFER SOME SUGGESTIONS ON HOW TO CHANGE

THE SYSTEM TO BETTER ACCOMMODATE FEDERAL WOMEN. AS PREVIOUSLY MENTIONED, THE PRESENT SYSTEM DOES NOT ADEQUATELY PROVIDE WOMEN RETIREES WITH A DECENT STANDARD OF LIVING. IF WE BASE THE SUPPLEMENTAL SYSTEM ON THE PRESENT CSRS, WOMEN WILL CONTINUE TO BE LOSERS. AT THE RETIREMENT HEARINGS HELD IN THIS COMMITTEE ON APRIL 2, 1985, IT WAS STATED THAT FEDERAL EMPLOYEES HAD TO REACH THE GENERAL SCHEDULE GRADE NINE BEFORE THEY RECEIVED A FEDERAL ANNUITY AS LARGE AS THE SOCIAL SECURITY BENEFIT. BECAUSE MOST WOMEN ARE CONCENTRATED IN GRADES BELOW GENERAL SCHEDULE NINE, THEY ARE RECEIVING LOWER RETIREMENT ANNUITIES THAN THEIR PRIVATE SECTOR COUNTERPARTS.

SOCIAL SECURITY TILT

ALTHOUGH THE SOCIAL SECURITY SYSTEM IS NOT FREE FROM INEQUITIES FOR WOMEN, THE SOCIAL SECURITY TILT BUILT INTO THIS SYSTEM GUARANTEES LOW WAGE EARNERS A HIGHER REPLACEMENT RATE OF THIER EARNINGS UPON RETIREMENT THAN HIGH WAGE EARNERS. DUE TO THE FACT THAT WOMEN MAKE UP A LARGE PART OF THE LOW PAID LONG TERM FEDERAL EMPLOYEES, FEW RECOMMENDS MAINTAINING THE SOCIAL SECURITY TILT BY SIMPLY ADDING ON THE SUPPLEMENTAL CIVIL SERVICE BENEFIT. THE HAY-HUGGINS COMPANY HAS REPORTED THAT THIS PROCEDURE WOULD BE SIMPLE TO ADMINISTER. THEY OFFER AN EXAMPLE OF A BENEFIT CALCULATION OF 1 PERCENT OF BASE PAY FOR EACH YEAR OF SERVICED ADDED TO THE SOCIAL SECURITY BENEFIT. THIS CALCULATION WOULD FULLY PRESERVE THE TILT INCORPORATED IN SOCIAL SECURITY BENEFITS. THIS SYSTEM IS USED BY SEVERAL STATE RETIREMENT PLANS. THE HAY GROUP ALSO POINTS OUT THAT UNDER THIS PLAN THERE WOULD BE LOSERS AND GAINERS. SHORT TERM, LOW-PAID EMPLOYEES AND MARRIED EMPLOYEES WOULD GAIN AS COMPARED TO THE PRESENT SYSTEM AND

HIGH-PAID CAREER EMPLOYEES WOULD LOSE RELATIVE TO THE PRESENT SYSTEM. SOME OF THESE RESULTS COULD BE PARTIALLY OFFSET BY USING A BENEFIT CALCULATION THAT DOES NOT GIVE A STRAIGHT PERCENTAGE OF BASE PAY FOR EACH YEAR OF SERVICE, BUT RATHER INCREASES THE PERCENTAGE OF BASE PAY AS THE NUMBER OF YEARS OF SERVICE INCREASES (SIMILAR TO THE CURRENT SYSTEM'S PRESENT BENEFIT CALCULATION). USING THIS METHOD WOULD INCREASE THE REPLACEMENT RATE FOR THE HIGHER-EARNING LONG TERM EMPLOYEES. IN ADDITION, IF A CAPITAL ACCUMULATION PLAN WAS ADOPTED, IT IS LIKELY THAT HIGHER-EARNING EMPLOYEES WOULD BE MORE LIKELY TO PARTICIPATE AND FURTHER INCREASE THEIR REPLACEMENT RATE OF THEIR FINAL SALARY. THE CONGRESSIONAL RESEARCH SERVICE HAS PROVIDED A MODEL OF SUCH A SYSTEM THAT INCLUDES AN ADD-ON SUPPLEMENTAL BENEFIT AND A CAPITAL ACCUMULATION PLAN THAT ALLOWS A MAXIMUM 6 PERCENT EMPLOYEE CONTRIBUTION WITH A 3 PERCENT EMPLOYER MATCH. THE SOCIAL SECURITY TILT IS MAINTAINED FOR THE LOWER PAID EARNER, YET THE HIGHER PAID LONG TERM EMPLOYEE DOES NOT SUFFER. THE PRESIDENT'S COMMISSION ON PENSION POLICY REPORTED IN 1981 THAT 51 TO 86 PERCENT OF BEFORE TAX FINAL EARNINGS WAS NEEDED FOR RETIREES TO MAINTAIN A CONSTANT STANDARD OF LIVING UPON RETIREMENT IN 1980. THEY ALSO SHOWED THAT LOWER-EARNERS NEEDED A HIGHER REPLACEMENT RATE OF THEIR FINAL SALARY THAN HIGHER-EARNERS TO ACCOMPLISH A PRE-RETIREMENT STANDARD OF LIVING. BY MAINTAINING THE SOCIAL SECURITY TILT, PART OF THIS GOAL IS ACCOMPLISHED.

BY INTEGRATING THE SOCIAL SECURITY BENEFIT WITH A PENSION ANNUITY, THE LONG TERM LOW-PAID EMPLOYEE WILL RECEIVE A LOWER BENEFIT. A 100 PERCENT SOCIAL SECURITY OFFSET WOULD ELIMINATE THE TILT ALTOGETHER AND CONTINUE THE PHILOSOPHY OF THE PRESENT CIVIL SERVICE RETIREMENT SYSTEM

OF PENALIZING THE LOW EARNER.

EMPLOYEE CONTRIBUTIONS

UNDER THE CURRENT SYSTEM, FEDERAL EMPLOYEES CONTRIBUTE 7 PERCENT OF THEIR INCOME TOWARD THEIR RETIREMENT BENEFIT. UNDER THE SOCIAL SECURITY SYSTEM, EMPLOYEES NOW CONTRIBUTE 5.7 PERCENT OF THEIR INCOME TOWARD THE SOCIAL SECURITY BENEFIT. FEW SUGGESTS THAT THE SUPPLEMENTAL RETIREMENT SYSTEM NOT REQUIRE AN EMPLOYEE CONTRIBUTION BEYOND THE SOCIAL SECURITY CONTRIBUTION. ACCORDING TO THE GOVERNMENT ACCOUNTING OFFICE (GAO), 93 PERCENT OF ALL WORKERS IN THE PRIVATE SECTOR DO NOT CONTRIBUTE TO THEIR RETIREMENT PLANS. FEW WOULD LIKE TO SEE THIS PRACTICE TRANSLATE INTO THE SUPPLEMENTAL RETIREMENT SYSTEM. HOWEVER, WE REALIZE THAT PRESENT FEDERAL WORKERS COULD PERCEIVE AN INEQUITY SINCE THEIR CONTRIBUTIONS WILL BE HIGHER OR THAT FINANCING A NEW SYSTEM MAY NOT BE POSSIBLE WITHOUT AN EMPLOYEE CONTRIBUTION. IN THESE CASES, FEW RECOMMENDS <u>NO MORE THAN</u> A 2 PERCENT EMPLOYEE CONTRIBUTION AS A FLAT PERCENTAGE OF TOTAL EARNINGS. WE WOULD ALSO RECOMMEND THAT THIS COMMITTEE EXAMINE THE POSSIBILITY OF LEGISLATING A COMPANION PROPOSAL TO TAX DEFER THIS CONTRIBUTION SIMILAR TO 414 (h)(2) STATE PLANS.

VESTING

WHEN DISCUSSING THE QUESTION OF VESTING PERIODS, IT IS IMPORTANT TO NOTE THAT MOST FEDERAL EMPLOYEES WHO LEAVE THE GOVERNMENT PRIOR TO TEN YEARS OF SERVICE ELECT TO REMOVE THEIR RETIREMENT MONEY RATHER THAN SELECT A DEFERRED ANNUITY. FOR THIS REASON, FEW SUPPORTS A TEN YEAR VESTING

PERIOD FOR THE SUPPLEMENTAL RETIREMENT SYSTEM IN ORDER FOR THE SYSTEM TO BE COMPATIBLE WITH SOCIAL SECURITY VESTING REQUIREMENTS. THE HAY GROUP HAS ESTIMATED THAT ONLY 1 PERCENT OF EMPLOYEES WOULD RECEIVE A BENEFIT UNDER A 5 YEAR VESTING PERIOD WHO WOULD NOT RECEIVE BENEFITS UNDER A 10 YEAR VESTING PERIOD.

FUNDING

THE CIVIL SERVICE BENEFITS MUST BE PROTECTED FROM FLUCTUATIONS IN THE ECONOMY, CHANGING POLITICAL ATMOSPHERES, AND INFLATION. UNDER THE CURRENT RETIREMENT SYSTEM, FEDERAL AGENCIES MATCH THE EMPLOYEE'S CONTRIBUTION AND THE REMAINING FUNDS COME FROM THE FEDERAL TREASURY. FEW ENCOURAGES THE COMMITTEE TO SET UP A SYSTEM THAT BETTER SEGREGATES THE RETIREMENT FUNDS FROM OTHER TREASURY FUNDS. EACH AGENCY SHOULD BE REQUIRED TO SET ASIDE FUNDS FOR THIS PURPOSE IN A SIMILAR MANNER TO SEGREGATING FUNDS FOR SOCIAL SECURITY BENEFITS. YEARLY CONGRESSIONAL APPROPRIATIONS TO THE RETIREMENT FUND SHOULD BE ELIMINATED AND REPLACED BY A FUNDING FORMULA. IT IS THE ULTIMATE RESPONSIBILITY OF THE EMPLOYER TO ENSURE THAT RETIREMENT FUNDS ARE SOLVENT.

COSTS

A COST DECISION MUST BE MADE WHETHER TO APPROXIMATE BENEFIT LEVELS IN THE PRESENT CSRS OR RETIREMENT SYSTEMS IN THE PRIVATE SECTOR IN COMPARABLE COMPANIES. WE DO NOT FEEL THAT THE LEVEL OF BENEFITS AFFORDED FEDERAL EMPLOYEES SHOULD BE UNDULY HAMPERED BY STRICT COST CONSTRAINTS. DESIRED BENEFIT LEVELS SHOULD BE CALCULATED FOR COST AND ADJUSTED ACCORDING TO FUNDING CONSTRAINTS.

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CONCLUSION

THE SUPPLEMENTAL CIVIL SERVICE RETIREMENT SYSTEM SHOULD MAINTAIN THE INTEGRITY OF A FEDERAL RETIREMENT SYSTEM AND PROVIDE ADEQUATE BENEFITS TO EMPLOYEES OF ALL INCOME LEVELS WHILE ATTRACTING A QUALIFIED FEDERAL WORKFORCE AND NOT PENALIZING LOW EARNERS. THIS TASK IS NO SMALL JOB. IN TODAY'S ATMOSPHERE OF CONSTANT ATTACKS ON FEDERAL WORKERS, IT IS EVEN MORE IMPORTANT THAT A NEW RETIREMENT SYSTEM BE DESIGNED THAT WILL REWARD HARD WORKING CIVIL SERVANTS AND ATTRACT TALENTED NEW EMPLOYEES. FEW URGES THIS COMMITTEE TO LOOK AT THE CURRENT STATUS OF WOMEN EMPLOYED BY THE FEDERAL GOVERNMENT AND TO INCORPORATE YOUR FINDINGS INTO A NEW SYSTEM THAT DOES NOT PENALIZE LOW WAGE EARNERS. WE WOULD SUGGEST TAKING CIVIL SERVICE WOMENS' EMPLOYMENT DATA AND INPUTING IT INTO A RETIREMENT COMPUTER MODEL TO DETERMINE HOW WOMEN WILL FARE UNDER THE VARIETY OF PROPOSED RETIREMENT SYSTEMS. EVEN THOUGH THERE IS A WEALTH OF EXCELLENT INFORMATION ON SUPPLEMENTAL CIVIL SERVICE RETIREMENT PLANS (I.E. GAO, CRS, HAY), THERE IS LITTLE DATA ON HOW THESE PROPOSALS WOULD IMPACT WOMEN RETIRED FROM THE FEDERAL GOVERNMENT. ALTHOUGH WOMEN ARE MOVING INTO HIGHER GRADE POSITIONS, THE FACT THAT MOST FEDERALLY EMPLOYED WOMEN ARE CONCENTRATED IN THE LOWEST GENERAL SCHEDULE GRADE LEVELS WILL NOT SUBSTANTIALLY CHANGE IN THE NEAR FUTURE. THESE HARD WORKING, DEVOTED FEDERAL EMPLOYEES CAN NOT BE IGNORED IN THE DEVELOPMENT OF A NEW SUPPLEMENTAL CIVIL SERVICE RETIREMENT SYSTEM.

THANK YOU FOR ASKING FEDERALLY EMPLOYED WOMEN TO TESTIFY BEFORE THE COMMITTEE TODAY. I WILL BE HAPPY TO ANSWER ANY QUESTIONS THE COMMITTEE HAS.