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A COMPARISON OF BENEFITS EARNED UNDER SOCIAL SECURITY AND CIVIL SERVICE RETIREMENT

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There are a couple of difficulties encountered whenever Civil Service Retirement and Social Security are compared. First and most important is the fundamental difference in scope and intent of the two programs. The Civil Service Retirement System (CSRS) is a retirement pension program for employees of the Federal Government. Social Security is a social insurance system developed to promote the general welfare of the Nation as a whole.

While many people depend upon Social Security for a retirement income, that program is primarily an income insurance system providing benefits to categories of persons when the insured worker's income is interrupted by circumstances beyond that person's control. The circumstances activating the provisions of the program are death, disability, or old age of the worker, and the program presumes implicitly that these factors cause economic need. Because current benefits provided by the program are supported by a tax on current earnings covered by the program, Social Security can be viewed as a mechanism that regulates the flow of production from workers to specific categories of beneficiaries, most of whom do not work.

In recent years, Congress has established in Social Security a method for replacing a portion of preretirement earnings so that as individual circumstances vary, the earnings replacement rate they receive reflects both presumed need in retirement and career contributions prior to retirement. The term, "replacement rate," refers to this concept for balancing program equity and benefit adequacy. The concept implies that individual workers with similar presumed needs and similar positions within relative earnings distribution, but retiring at different points in time will, at retirement, retain the same position in the economy relative to each other.

An important aspect to note about this Federal effort is that, while the benefits are varied by such circumstances as number of dependents and size of average career earnings, the taxes to support the program are levied at an equal rate on earnings covered by the program. Income protection is granted to persons dependent upon a worker's income; because it cannot be known in advance who will need and/or qualify for aid, nor under what circumstances, all earnings up to a maximum are taxed equally. If earnings were to be taxed at variable rates based upon differences in anticipated benefit returns, the number of potential distinctions would make the tax rate structure infinitely complex. Therefore, the tax rate is the same for each worker, and the program is uniform in its variable response to individual circumstances. The tax and benefit treatment is clearly a manifestation of the social nature of the program as is its application to nearly all employment in the workforce.

On the other hand, the Civil Service Retirement System (CSRS) was developed and is maintained as a pension plan that serves Federal personnel needs. The primary objective of the retirement program is to improve the economy and efficiency of public management by staffing Federal positions with employees fully capable of carrying out their duties. According to a 1966 Cabinet Committee on Federal Staff Retirement Systems, "Because retirement provided a measure of protection for persons who were separated because they were old or ill, it was acceptable as a method for attaining management's ends." Thus, CSRS must be understood as a pension plan--a management tool which serves to attract and retain qualified personnel while providing for the orderly and humane treatment of employees who have completed their careers or are unable to perform their duties.

The program is designed to provide additional, but deferred compensation for employees of the Federal Government; this retirement income is determined strictly on the basis of salary and years of service (although exercising options for early retirement may result in a reduction of benefits). With a few exceptions for special occupations, contributions are assessed at an equal rate upon employee salaries and retirement benefits are earned equally by employees--based on term of service and ignoring such factors as size of earnings or number of dependents. Workers with the same length of service receive the same replacement rate; workers with the same replacement rate but higher salaries receive higher benefits. Thus, in contrast to Social Security, with its inherent social nature, CSRS is essentially a retirement pension plan.

CSRS began in 1920; Social Security was initiated in 1935. CSRS therefore was paying benefits and granting retirement credits well in advance of Social Security, and in fact, it is often asserted that Federal employees were excluded from Social Security for that very reason. Not only was a primary objective of Social Security in the early years to cover categories of workers most in need of coverage, but that coverage was to be applied to future earnings, with no credit granted for earnings prior to the program's inception. Because CSRS participants already were eligible for a dependable source of income in retirement and had been accruing credits toward those benefits, it was not considered necessary or desirable to immediately cover Federal employees. Thus, upon enactment of the Social Security Act in 1935, subsequent employment covered by the program began to earn income insurance, with some protection provided to workers no longer young as the program unfolded. In contrast, Federal employees were already earning retirement pension credits; by 1935 CSRS had accumulated substantial benefit obligations based on prior service.

Over time, the distinctions between the programs have blurred as Social Security has become a foundation for retirement income and CSRS has added features resembling social insurance. Social Security remains essentially, however, a transfer program with benefits earned in covered employment found throughout the society, while CSRS continues as pension earned strictly through Federal employment. A comparison of these two systems must retain some sense of the different nature and origin of the two programs. Issues sometimes arise because of the different nature of the programs, or, more often, because some employees become eligible for benefits from both programs. When the essential differences in the programs are ignored, these issues become clouded.

There is no question that ambiguities arise. For instance, it is often asserted that CSRS benefits for a full-career employee are roughly equivalent to the combined benefits from Social Security and private pensions that are available in comparable non-Federal employment. Yet Social Security benefits are tax-free, while CSRS benefits are fully taxed, once the amount the employee has contributed has been repaid to him in the form of an annuity. It is generally argued that Social Security is non-taxable because of the sense in which the benefits are a return on taxes paid to support a Federal program intended to reduce dependence upon other forms of social welfare. CSRS benefits are taxable—presumably as deferred compensation similar to any other pension. Certainly, the benefit structure of CSRS is intended to provide the retired full-career Federal employee with an amount that compensates for the absence of a Social Security benefit. Just as certainly, Social Security is often treated as deferred income received in retirement. Thus, the contrasting tax treatment of benefits provided by the two systems arouses protests from some Federal retirees.

It is, however, the issue of dual entitlement that provokes much of the controversy about the relationship between these two programs. Employees with careers split between Federal service and employment covered by Social Security often become eligible for benefits under both systems. There is nothing remotely illegal or unethical about this. On the contrary, employees do not have any choice with regard to their participation in CSRS (except for employees of the Legislative Branch) or Social Security, other than the initial choice to work in employment covered by each of the two programs. The law requires their participation whenever they work in jobs covered by the respective programs.

The problem arises because employees who become eligible for Social Security benefits on less than full careers covered by the program receive their benefits under especially favorable conditions. Thus, it is not dual entitlement itself that creates problems, but the advantage under which workers with dual entitlement receive their Social Security benefits.

This advantage, the so-called "windfall," occurs because under Social Security, the benefit reflects career total wages covered by the program and averaged over 35 years, with a higher percentage replacement rate for lower averages. This higher replacement rate is in recognition of the lower income worker's presumed need to receive a higher percentage of pre-retirement earnings than the percentage required by someone with a higher career average. A worker with fewer years of Social Security coverage because of a period of time in Federal employment can thus receive the higher replacement rate intended for low-paid workers. Congress has been considering proposals intended to treat advantages created by dual entitlement without eliminating the opportunity to earn and receive benefits under both programs.

Over against the advantageous treatment received by some dual beneficiaries is the fact that some employees, because of certain eligibility requirements, undergo periods without income protection. Under the current arrangement, employees who move back and forth between Social Security covered employment and

and Federal employment may actually be ineligible for benefits from either program when an unexpected need for those benefits arises.

A more detailed comparison of the respective benefit structures of Civil Service Retirement and Social Security follows.

COMPARISON OF SOCIAL SECURITY AND CIVIL SERVICE RETIREMENT SYSTEM (CSRS)

	Social Security as of 6/82		CSRS as of 4/82	
Average Current Benefits:	retired worker	$406	retired worker	$1,126
	newly retired worker	380	newly retired worker	946
	retired couple	695	widow(er) of annuitant	474
	aged widow(er)	375	widow(er) of employee	452
	young survivor family	923	new survivor	573
	disabled worker	425	disabled worker	822
	newly disabled worker	454	newly disabled worker	796
	disabled worker/family	851		
Approximate Average Current Active Worker Salary:	$14,500		$20,300	
Average Gross Final Salary Replacement Rate:	Based on Career (40 yrs.) at		Based on Length of Service	
	Federal minimum wage	53%	15 yrs.	26.25%
	Average covered earnings	42	30 "	56.25
	Maximum covered earnings	28	40 "	76.25
Average Expected Return on Contributions:	Currently, depending on salary and numbers of dependents between 5 to 1 and 13 to 1; for workers now beginning careers, the ratio will drop to between 1 to 1 and 4.3 to 1, depending upon salary and dependents.		5 to 1, indefinitely	
Key Differences in Provisions:	One set of benefits exists for all occupations.		Some variations in benefits exists for police and firefighters, air traffic controllers, Members of Congress and congressional staffs.	
	Retirement credits are portable from one employer to another.		Retirement credits are not transferable to non-Federal employers.	

	Social Security	CSRS
Key Differences in Provisions: (cont'd)	Benefits are based on indexed career average salary.	Benefits are based on highest 3 consecutive years of salary.
	Workers retire with full benefits at age 65. Retirement with reduced benefits is permitted at age 62.	Workers with 30 years of service retire with unreduced benefits at age 55. Some workers with 20 years' service can retire with benefits at age 50.
	Benefits are paid to the family. In addition to the worker's benefits, amounts (subject to a family maximum) are paid to all eligible dependents.	Benefits are paid only to the retiree during his or her lifetime. Survivor benefits are optional and, if elected, reduce the retiree's benefit. The reduction factor is based on the age difference between retiree and survivor and ranges from 10 to 40 percent.
	Disability benefits are payable only if a worker is totally and permanently disabled for any work in the economy.	Disability benefits are payable if a worker is totally disabled for useful and efficient service at his or her current grade or class of position.
	A surviving spouse is eligible for the worker's full benefit at age 65 or a reduced benefit at age 60. Benefits are payable at earlier ages if a spouse is disabled or caring for a dependent child.	A surviving spouse is eligible for an annuity equal to 55 percent of the retiree's reduced benefit. No benefits are payable if the worker rejected the survivor option upon retirement.
	A worker's spouse retains eligibility for all benefits after divorce if the marriage lasted 10 years.	A worker's spouse loses all eligibility for benefits upon divorce.

	Social Security	CSRS
Key Differences in Provisions: (cont'd)	Benefits are tax-free.	Benefits are taxed after they exceed the amount of the worker's contribution. Workers who retire early are eligible for the retirement income credit available to public sector retirees under age 65. After age 65, they are eligible for a double personal exemption, as are all persons over age 65.
	Benefits may be reduced or withheld because of subsequent employment.	Benefits are not affected by subsequent earnings in non-Federal employment.
	In 1982 workers will contribute 6.7 percent of their earnings up to $32,400. Both the tax rate and the taxable earnings' maximum are scheduled to increase under present law.	Workers contribute 7 percent of their basic pay (employees of the Legislative Branch pay 7 1/2 percent, Members of Congress pay 8 percent).
	Contributions are taxable as income at time of earning.	Contributions are taxable as income at time of earning.
	Workers cannot obtain a refund of their contribution.	Workers who leave service can obtain a refund of their contribution.
	Benefits are fully adjusted each June for changes in the cost-of-living as measured by the Consumer Price Index.	Benefits are fully adjusted each March for changes in the cost-of-living as measured by the Consumer Price Index.