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IN FOCUS

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Civilian Federal Retirement: Current Law, Recent Changes, and Reform Proposals

Current Law

Most civilian federal workers hired before 1984 are covered by the Civil Service Retirement System (CSRS). Most civilian federal workers hired in 1984 or later are covered by the Federal Employees' Retirement System (FERS). Both CSRS and FERS require that employees make contributions and meet other requirements (e.g., age and years of service) in order to be eligible for a pension benefit. FERS employees also contribute to and earn benefits under the Social Security program. Employees covered by CSRS and FERS may participate in the Thrift Savings Plan (TSP), a retirement savings and investment plan; but only employees under FERS receive matching employer contributions to TSP. (This In Focus largely describes the features of CSRS and FERS benefits for regular federal employees; certain special categories of employees—e.g., Members of Congress, congressional employees, and law enforcement officers—are subject to different rules.)

CSRS

Congress passed the Civil Service Retirement Act of 1920 (P.L. 66-215), which created CSRS, to provide pension benefits for civilian federal employees. CSRS law has been amended over time and is currently set out under Title 5 U.S.C. Chapter 83. As of FY2014, there were 224,000 current employees covered by CSRS and 2.0 million CSRS annuitants (1.5 million retirees and 524,000 survivors).

Financing—Employees who are covered by CSRS contribute 7.0% of pay to the Civil Service Retirement and Disability Fund (CSRDF), the federal trust fund that finances both CSRS and FERS benefits. Federal agencies employing CSRS workers also contribute 7.0% of employees' pay to the CSRDF. Additional funds from the U.S. Treasury are also transferred into the CSRDF to pay for CSRS benefits. In FY2015, CSRS is estimated to have an unfunded liability of $761.1 billion.

Age and Years of Service Requirements—Under CSRS, a worker with at least 30 years of service can retire at age 55; with at least 20 years of service at age 60; and with at least 5 years of service at age 62.

Benefit Calculation—The retirement annuity under CSRS is determined by multiplying three factors: the salary base, the accrual rate, and the number of years of service. The salary base is defined as the average of the highest three, consecutive years of basic pay, or high-3 pay. The CSRS accrual rate increases with length of service: 1.5% for each of the first 5 years of service; 1.75% for the 6th through 10th years; and 2.0% for each year of service after the 10th year. This formula yields a replacement rate of high-3 pay of 56.25% for a worker who retires with 30 years of service.

Cost-of-Living Adjustments (COLAs)—CSRS COLAs are calculated using the same formula as the Social Security COLA: the average monthly percentage change in the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) in the third quarter (July to September) of the current calendar year compared with the third quarter of the base year, which is the year that the last COLA was applied. All CSRS retirees and survivors receive COLAs.

FERS

FERS was created by the Federal Employees' Retirement System Act of 1986 (P.L. 99-335), which integrated federal civilian workers into the Social Security program and reduced pension costs for the federal government. The FERS has three elements: (1) Social Security; (2) the FERS basic annuity (including the FERS supplement); and (3) the TSP. FERS law is set out under Title 5 U.S.C. Chapter 84. As of FY2014, there were 2,471,000 current employees covered by FERS and 582,000 annuitants (532,000 retirees and 50,000 survivors).

Financing—Employees enrolled in FERS and first hired before 2013 contribute 0.8% of their pay to the CSRDF; employees first hired (or rehired with less than 5 years of service) in 2013 contribute 3.1% of pay; and employees first hired (or rehired with less than 5 years of service) after 2013 contribute 4.4% of pay. FERS employees also pay 6.2% of wages up to the Social Security taxable wage base ($118,500 in 2015) to the Social Security trust fund. Federal agencies also pay Social Security taxes (6.2%) on behalf of their FERS employees. In addition, employing agencies pay 13.2% of pay for employees hired before 2013 and 11.1% of pay for employees hired after 2012 to the CSRDF. Unlike CSRS, FERS benefits are required under law to be fully funded by the combination of employee contributions, agency contributions, and interest earned on CSRDF assets.

Age and Years of Service Requirements—A FERS employee who has reached the minimum retirement age (age 55-57, depending on year of birth) can retire with 30 years of service; at age 60 with 20 years of service; and at age 62 with 5 years of service.

Benefit Calculation—The FERS annuity is calculated using a similar formula to the CSRS annuity—multiplying high-3 pay by the benefit accrual rate and by the number of years of service—except that the benefit accrual rate is lower under FERS than CSRS. Under FERS, workers accrue retirement benefits at the rate of 1% per year; or, if a

FERS employee has at least 20 years of service and works until at least age 62, then the FERS accrual rate is 1.1% for each year of service.

Some employees under FERS may be eligible for the FERS annuity supplement, which is paid to workers who retire at the age of 55 or older with at least 30 years of service or at the age of 60 with at least 20 years of service. This annuity supplement is equal to the estimated Social Security benefit that the individual earned while employed by the federal government and is paid only until the age of 62 (regardless of whether the retiree chooses to apply for Social Security retired worker benefits at 62 years old).

COLAs—Like CSRS COLAs, FERS COLAs are calculated using the average monthly percentage change in the CPI-W in the third quarter of the current calendar year compared with the third quarter of the base year. Unlike CSRS COLAs, the FERS COLA is capped if the measure of inflation is greater than 2.0%. If the rate of inflation during the measurement period is between 2.0% and 3.0%, the COLA under FERS is 2.0%. If inflation is greater than 3.0%, then the COLA for FERS benefits is equal to the CPI-W minus 1 percentage point. Under FERS, non-disabled retirees under the age of 62 do not receive COLAs. Survivors and disabled retirees are eligible for COLAs under FERS, however, regardless of age.

Recent Changes

Two recent laws made changes to employee contributions and benefits for new employees covered by FERS: the Middle Class Tax Relief and Job Creation Act of 2012 (P.L. 112-96) and Bipartisan Budget Act of 2013 (P.L. 113-67).

Middle Class Tax Relief and Job Creation Act of 2012 (P.L. 112-96)

Title V of the Middle Class Tax Relief and Job Creation Act of 2012 (P.L. 112-96; February 22, 2012), made two types of changes to FERS. First, P.L. 112-96 increased the FERS employee contribution rate by an additional 2.3 percentage points (3.1% vs. 0.8% of pay) for FERS employees hired (or rehired with less than 5 years of service) after 2012. Second, P.L. 112-96 reduced the benefit accrual rates for new Members of Congress and new congressional staff after 2012 so that they are now the same as for regular FERS employees. Previously, all Members of Congress and all congressional staff covered by FERS had a benefit accrual rate of 1.7% per year for the first 20 years of service and 1.0% for any years of service after 20 years.

Bipartisan Budget Act of 2013 (P.L. 113-67)

Title IV of the Bipartisan Budget Act of 2013 (P.L. 113-67; December 26, 2013) further increased the required FERS employee contribution—by an additional 1.3 percentage points over prior law (4.4%)—for new employees first hired (or rehired with less than 5 years of service) after 2013.

Reform Proposals

In recent years, Congress has considered additional proposals to make changes to federal retirement programs. Such legislative proposals seek to reduce federal expenditures on these benefits, which totaled $81.0 billion in FY2014. In many cases, these proposals have also been part of the larger policy discussion about federal deficit reduction. Sometimes these discussions also consider comparability with retirement benefits in the private sector.

The following are examples of reform proposals included in binding legislation or made by deficit reduction commissions:

- **Increase employee contributions:** Proposed by the National Commission on Fiscal Responsibility and Reform (commonly referred to as Simpson-Bowles); in H.R. 3813 and H.R. 5652 in the 112th Congress; and in S. 18 and H.R. 3639 in the 113th Congress
- **Change calculation of pay from high-3 to high-5:** Proposed by Simpson-Bowles; by Debt-Reduction Task Force (commonly referred to as Rivlin-Domenici); in H.R. 3813 in the 112th Congress; and in H.R. 1230 in the 114th Congress
- **Eliminate FERS annuity supplement:** Proposed in H.R. 3813 and H.R. 5652 in the 112th Congress; and in S. 18 and H.R. 3639 in the 113th Congress
- **Change COLAs to be based on Chained CPI:** Proposed by Simpson-Bowles; and Rivlin-Domenici
- **Eliminate FERS coverage for new hires:** Proposed in S. 1678 in the 113th Congress

For More Information

CRS Report 98-810, *Federal Employees' Retirement System: Benefits and Financing*, by Katelin P. Isaacs

CRS Report RL30023, *Federal Employees' Retirement System: Budget and Trust Fund Issues*, by Katelin P. Isaacs

CRS Report RL30387, *Federal Employees' Retirement System: The Role of the Thrift Savings Plan*, by Katelin P. Isaacs

CRS Report RL30631, *Retirement Benefits for Members of Congress*, by Katelin P. Isaacs

National Commission on Fiscal Responsibility and Reform: https://www.fiscalcommission.gov/

Debt-Reduction Task Force Plan 2.0: http://bipartisanpolicy.org/library/domenici-rivlin-debt-reduction-task-force-plan-20/

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