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# Federal Retirement Plans: Frequently Asked Questions

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## Federal Retirement Plans: Frequently Asked Questions

This report answers common questions related to federal retirement plans. The vast majority of the civilian federal workforce is covered by either the Civil Service Retirement System (CSRS) or the Federal Employees' Retirement System (FERS), depending on date of entrance into federal service. Most civilian federal employees hired before 1984 are covered by CSRS; most civilian federal employees hired in 1984 or later are covered by FERS. This FAQ focuses on policy issues related to CSRS and FERS while also identifying additional retirement plans that provide benefits to specific populations of civilian federal employees. It provides the legislative history of CSRS and FERS as well as information on benefits and financing.

For additional information on CSRS and FERS benefits, see CRS Report 98-810, *Federal Employees' Retirement System: Benefits and Financing*.

For additional information on CSRS and FERS funding, see CRS Report RL30023, *Federal Employees' Retirement System: Budget and Trust Fund Issues*.

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## General Information

### What are the origins of retirement plans for civilian federal employees?

The impetus to design a retirement system for civilian federal employees arose from a pressing need to improve the federal workforce.<sup>1</sup> As early as 1845, “superannuation”—the idea that older workers were being retained even when they were no longer able to conduct their work—was discussed as a reason to create a federal retirement system.<sup>2</sup> When Congress passed the Civil Service Retirement Act of 1920 (P.L. 66-215), the legislation not only provided pension benefits for certain federal employees but also had the immediate effect of leading to the retirement of over 5,000 aged employees. Some of these federal employees were over 90 years old.<sup>3</sup> This legislation (subsequently amended in 1928 and 1930) provided for the payment of annuities to employees retiring after a specified period of service because of disability or upon reaching a compulsory retirement age, which varied with occupation.<sup>4</sup>

The act provided (1) for the compulsory retirement, on annuity, of employees who had reached the retirement age and who had had at least 15 years of government service<sup>5</sup> and (2) for annuities to employees who became disabled after at least 15 years of service. Employee contributions to the fund that financed these retirement benefits were set at 2.5% of basic salary.<sup>6</sup> The annuities were based on salary and length of service. A minimum annuity was set at \$180 per year and a maximum was set at \$720 per year.<sup>7</sup> Due to the strict eligibility requirements and small size of the pensions, employee contributions more than covered the funds for the first decade of the plan. The federal government did not provide further funding for CSRS, in the form of employer contributions, until 1928.<sup>8</sup>

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<sup>1</sup> See U.S. Congress, House Committee on Post Office and Civil Service, *Background on the Civil Service Retirement System*, committee print, prepared by the Congressional Research Service, 98<sup>th</sup> Cong., 1<sup>st</sup> Sess., April 20, 1983, Committee Print 98-5, <https://congressional.proquest.com/congressional/docview/t21.d22.crs-1983-epw-0061>.

<sup>2</sup> See U.S. Civil Service Commission, *History of the Federal Civil Service, 1789-1939*, 1939, p. 124, <https://hdl.handle.net/2027/uc1.c025392312>.

<sup>3</sup> See U.S. Office of Personnel Management (OPM), *Biography of an Ideal: A History of the Federal Civil Service*, Government Printing Office, 2003, p. 66, <https://hdl.handle.net/2027/uc1.31822030861199>.

<sup>4</sup> See U.S. Congress, House Committee on Post Office and Civil Service Subcommittee on Manpower and Civil Service, *History of Civil Service Merit Systems of the United States and Selected Foreign Countries together With Executive Reorganization Studies and Personnel Recommendations*, committee print, prepared by the Congressional Research Service, 94<sup>th</sup> Cong., 2<sup>nd</sup> Sess. December 31, 1976, House Print 94-29, <https://congressional.proquest.com/congressional/docview/t21.d22.crs-1976-crs-0002>.

<sup>5</sup> See U.S. Congress, House of Representatives, *Thirty-seventh Annual Report of the United States Civil Service Commission for the fiscal year ended June 30 1920*, prepared by the U.S. Civil Service Commission, November 12, 1920, 66<sup>th</sup> Congress, 3<sup>rd</sup> Sess., H. Rept. 66-867, [https://congressional.proquest.com/congressional/docview/t47.d48.7878\\_h.doc.867](https://congressional.proquest.com/congressional/docview/t47.d48.7878_h.doc.867). As explained in the cited report, automatic retirement could be suspended for up to two years “upon the recommendation of the head of the department, office, or branch in which employed, and the approval of the commission” (p. xviii).

<sup>6</sup> See OPM, *Biography of an Ideal: A History of the Federal Civil Service*, Government Printing Office, 2003, p. 66, <https://hdl.handle.net/2027/uc1.31822030861199>.

<sup>7</sup> See Ruth Reticker, “Benefits and Beneficiaries Under the Civil Service Retirement Act,” *Social Security Bulletin*, vol. 4, no. 4 (April 1941), p. 29, <https://www.ssa.gov/policy/docs/ssb/v4n4/v4n4p29.pdf>.

<sup>8</sup> See U.S. Congress, House Committee on Post Office and Civil Service, *Background on the Civil Service Retirement System*, committee print, prepared by the Congressional Research Service, 98<sup>th</sup> Cong., 1<sup>st</sup> Sess., April 20, 1983,

The original act generally limited its coverage to permanent competitive employees in the executive branch of the federal government and to certain employees of the District of Columbia covered by the federal civil service system.<sup>9</sup> During the first year after passage, approximately 330,000 employees were covered under the Civil Service Retirement System (CSRS). Three mandatory retirement ages were established: 62, 65, and 70.<sup>10</sup> The type of position in which one was employed determined the relevant retirement age.<sup>11</sup> Multiple changes to the system over time were designed to maintain morale, facilitate mobility among federal workers, and improve government operations.<sup>12</sup>

CSRS ran parallel to and separately from Social Security from 1935, when Social Security was enacted, until 1984, when federal employees began to contribute to and be covered by Social Security. Congress passed the Federal Employees' Retirement System (FERS) Act of 1986 (P.L. 99-335). FERS was implemented in 1987 and generally covers those employees who first entered federal service after 1983. The primary impetus for the new federal retirement plan was the Social Security Amendments of 1983, which required all federal employees hired after December 1983 to be covered by Social Security. FERS is a three-part retirement package that includes the following: (1) Social Security; (2) the FERS basic annuity, a defined benefit (DB) plan;<sup>13</sup> and (3) the Thrift Savings Plan (TSP), a defined contribution (DC) plan<sup>14</sup> to which the government and most employees contribute.<sup>15</sup> Employees who meet the definition of *employee* in Title 5, Section 8401(11), of the *U.S. Code* and are covered under Social Security's Old-Age, Survivors, and Disability Insurance (OASDI) are covered under FERS unless specifically excluded from FERS by law or regulation.<sup>16</sup>

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Committee Print 98-5, <https://congressional.proquest.com/congressional/docview/t21.d22.crs-1983-epw-0061>.

<sup>9</sup> For more information on which Washington, DC, government employees were included, see U.S. Congress, House of Representatives, *Thirty-seventh Annual Report of the United States Civil Service Commission for the fiscal year ended June 30 1920*, prepared by the U.S. Civil Service Commission, November 12, 1920, 66<sup>th</sup> Congress, 3<sup>rd</sup> Sess., H. Rept. 66-867, [https://congressional.proquest.com/congressional/docview/t47.d48.7878\\_h.doc.867](https://congressional.proquest.com/congressional/docview/t47.d48.7878_h.doc.867). The report also notes that, "In legislation during the past year, Congress extended the provisions of the civil service act and rules to cover positions in three distinct branches of the municipal government of the District of Columbia; namely, the Metropolitan police force, the fire department, and the rent commission" (p. vii).

<sup>10</sup> See U.S. Congress, House Committee on Post Office and Civil Service, *Background on the Civil Service Retirement System*, committee print, prepared by the Congressional Research Service, 98<sup>th</sup> Cong., 1<sup>st</sup> Sess., April 20, 1983, Committee Print 98-5, p. 2, <https://congressional.proquest.com/congressional/docview/t21.d22.crs-1983-epw-0061>. See also footnote 5 regarding exceptions to these mandatory retirement ages.

<sup>11</sup> See Committee Print, 98-5, "Background on the Civil Service Retirement System," <https://congressional.proquest.com/congressional/docview/t21.d22.crs-1983-epw-0061> (April 20, 1983), p. 2.

<sup>12</sup> See U.S. Congress, House Committee on Post Office and Civil Service, *Background on the Civil Service Retirement System*, committee print, prepared by the Congressional Research Service, 98<sup>th</sup> Cong., 1<sup>st</sup> Sess., April 20, 1983, Committee Print 98-5, at <https://congressional.proquest.com/congressional/docview/t21.d22.crs-1983-epw-0061>.

<sup>13</sup> In DB plans, participants receive regular monthly benefit payments in retirement—an annuity—which is often referred to as a "traditional" pension. In some DB plans, participants have the option to receive an actuarially equivalent lump-sum payment at retirement in lieu of the annuity. Typically, an annuity is a monthly payment for life.

<sup>14</sup> In DC plans, participants have individual accounts that can provide income in retirement.

<sup>15</sup> Excerpts from U.S. Government Accountability Office (GAO), *Federal Retirement: Federal and Private Sector Retirement Programs Vary*, GAO 97-40, April 1997, <https://www.gao.gov/assets/ggd-97-40.pdf>.

<sup>16</sup> See OPM, "Section 10A1.3-5 FERS: Exclusions," in OPM's *CSRS/FERS Handbook*, Chapter 10, "Coverage," <https://www.opm.gov/retirement-services/publications-forms/csrsfers-handbook/c010.pdf#21>.

## Which retirement plans currently provide benefits to federal employees?<sup>17</sup>

Most civilian federal employees who were first hired before 1984 are covered by CSRS. CSRS was created by the Civil Service Retirement Act of 1920 (P.L. 66-215). Under CSRS, employees do not pay Social Security taxes or earn Social Security benefits but may be eligible for a standalone defined benefit (DB) annuity. Most civilian federal employees first hired in 1984 or later are covered by FERS, which was created under the Federal Employees' Retirement System Act of 1986 (P.L. 99-335). All federal employees who are enrolled in FERS pay Social Security taxes and earn Social Security benefits along with a DB annuity under FERS that replaces a lower amount of earnings than does the CSRS benefit. Federal employees enrolled in either CSRS or FERS may also contribute to the Thrift Savings Plan (TSP), a defined contribution (DC) retirement plan similar to the 401(k) plans provided by many private-sector employers;<sup>18</sup> however, only employees enrolled in FERS are eligible for employer matching contributions under TSP.<sup>19</sup>

A number of smaller DB and DC plans have been established for certain employees within various agencies. There are only a few additional plans that provide federal pensions to a non-trivial number of civilian federal employees.<sup>20</sup> The Foreign Service Retirement and Disability System (FSRDS) and the Foreign Service Pension System (FSPS) are DB plans that cover Foreign Service Officers (FSOs)<sup>21</sup> based on their date of hire in a similar way to CSRS and FERS. These plans are authorized under current law: FSRDS was created by Section 18 of the Foreign Service Act of 1924 (P.L. 68-135), and FSPS was created by the Foreign Service Act of 1980 (P.L. 96-465). Similar to the distinction between CSRS and FERS, the FSRDS is the older retirement system that is not integrated with Social Security and provides a standalone DB pension for FSOs first hired before 1984. FSPS, which is integrated with Social Security, provides a retirement benefit package to FSOs hired in 1984 or later. FSRDS and FSPS have eligibility requirements and benefit calculations set out under current law.<sup>22</sup> Also similar to CSRS

<sup>17</sup> Military servicemembers are covered by a separate retirement system, which is not discussed in this report. For details on retirement benefits for military servicemembers, see CRS Report RL34751, *Military Retirement: Background and Recent Developments*.

<sup>18</sup> In DC plans, participants have individual accounts that can provide a source of income in retirement.

<sup>19</sup> For more details on CSRS and FERS, see CRS Report 98-810, *Federal Employees' Retirement System: Benefits and Financing*. In general, unless a new civilian federal employee with a permanent appointment is specifically covered by another retirement system, he or she is covered by FERS. For more details on CSRS and FERS coverage rules, see OPM's *CSRS/FERS Handbook*, Chapter 10, "Coverage," available at <https://www.opm.gov/retirement-services/publications-forms/csrsfers-handbook/c010.pdf>.

<sup>20</sup> The Central Intelligence Agency Retirement and Disability System (CIARDS), which covered certain special category employees, has been closed to new entrants since 1984. Special category CIA employees first hired in 1984 or later are covered by FERS (like other CIA employees).

The last audit of all "federal pension plans" (using a definition of *pension plans* subject to reporting requirements under P.L. 95-595) was in 1996 by GAO. This GAO investigation identified 34 federal DB plans and 17 federal DC plans. Some of these identified plans provide retirement coverage for federal entities that do not employ federal employees (e.g., employees of the Tennessee Valley Authority [Tennessee Valley Authority Retirement System]), or for individual employees (e.g., the former heads of the GAO [Comptrollers' General Retirement Plan]). See GAO, *Public Pensions: Summary of Federal Pension Plan Data*, AIMD-96-6, February 16, 1996, <https://www.gao.gov/assets/aimd-96-6.pdf>.

<sup>21</sup> Other employees of the State Department (i.e., civil service employees) are covered by CSRS or FERS, depending on their date of hire.

<sup>22</sup> For FSRDS, see Title 22 U.S.C. Chapter 52, Subchapter 8, Part I (i.e., 22 U.S.C. §§4041-4069). For FSPS, see Title 22 U.S.C. Chapter 52, Subchapter 8, Part II (i.e., 22 U.S.C. §§4071 et seq.).

and FERS, FSDRS employees may contribute to TSP, but only FSPS employees are eligible for TSP employer matching contributions.

The Federal Reserve also operates its own DB and DC plans on behalf of its bank and board employees and certain other employees. Under general authority provided by Title 10 of the Federal Reserve Act of 1913 (P.L. 63-43), the Federal Reserve operates its own retirement plan—the Federal Reserve System (FRS)—for employees of Federal Reserve Banks, the Office of Employee Benefits, the Federal Reserve Board of Governors, and the Consumer Financial Protection Bureau. The FRS provides a DB benefit, and covered employees also participate in Social Security. Unlike CSRS, FERS, FRDS, and FSPS, the FRB DB plan does not require any contributions from covered employees. The Federal Reserve also operates its own DC plan: the Thrift Plan, which is distinct from TSP. Employees covered by FRS are eligible for employer matching under the Thrift Plan.

## How many federal employees participate in federal retirement plans?

According to the FY2020 actuarial report of the Civil Service Retirement and Disability Fund, at the beginning of FY2020, there were 70,000 active CSRS employees and 2,474,000 active FERS employees; and 1,717,000 CSRS annuitants and 966,000 FERS annuitants.<sup>23</sup>

According to the FY2020 actuarial report of the Foreign Service Retirement and Disability Fund, as of June 2020, there were 33 active Foreign Service Retirement and Disability System (FSRDS) employees and 15,208 active Foreign Service Pension System (FSPS) employees; and 9,209 FSRDS annuitants and 7,220 FSPS annuitants.<sup>24</sup>

As of January 1, 2020, there were 23,675 active Federal Reserve System (FRS) employees and 21,085 FRS annuitants.<sup>25</sup>

## What are the key features of federal retirement plans?

Key features of the major federal retirement plans are summarized in **Table 1**. These features include the years required to be vested in the plan, age and service requirements, employee contributions, the benefit calculation, cost-of-living adjustments, and contributions (if any) to a defined contribution (DC) plan.

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<sup>23</sup> OPM, *Annual Report of the Board of Actuaries, Civil Service Retirement and Disability Fund, Fiscal Year Ended September 30, 2020*, February 2021, p. 16, available at <https://www.opm.gov/about-us/budget-performance/other-reports/fy-2020-csrd-f-annual-report.pdf>. Counts of annuitants include both retirees and survivors.

<sup>24</sup> U.S. Department of State, *Foreign Service Retirement and Disability Fund, Actuarial Report for the September 30, 2020 Valuation Fiscal Year Ended September 30, 2020*, December 8, 2020, Table 1.1, p. 4. Counts of annuitants include both retirees and survivors. FY2020 data are the most recently available program data from the State Department.

<sup>25</sup> CRS email communication with FRB, April 28, 2021.

Table I. Selected Federal Retirement Plans: Summary Information, 2021

	CSRS <sup>a</sup>	FERS	FSRDS	FSPS	FRS
<b>Statutory Authority</b>	5 U.S.C. Chapter 83	5 U.S.C. Chapter 84	22 U.S.C. Chapter 52 Subchapter 8 Part I (i.e., 22 U.S.C. §§4041-4069)	22 U.S.C. Chapter 52 Subchapter 8 Part II (i.e., 22 U.S.C. §§4071 et seq.)	Established under the authority provided in Section 10 of the Federal Reserve Act (12 U.S.C. Chapter 3) <sup>b</sup>
<b>Vesting<sup>c</sup></b>	5 years	5 years	5 years	5 years	5 years, or when employee attains age 65 while covered by plan
<b>Age and Years of Service Requirements</b>	Age 55 with 30 years of service; Age 60 with 20 years of service; or Age 62 with 5 years of service	Age 55-57, depending on year of birth, with 30 years of service; Age 60 with 20 years of service; or Age 62 with 5 years of service	Age 50 with 20 years of service (Mandatory retirement at age 65 <sup>d</sup> )	Age 50 with 20 years of service (Mandatory retirement at age 65)	Age 50 if hired before Jan. 1, 2009; and Age 55 if hired on or after Jan. 1, 2009
<b>Employee Contributions</b>	7% of pay	For employees first hired before 2013: 0.8% of pay; For employees first hired (or rehired with less than 5 years of service) in 2013: 3.1% of pay; and For employees first hired (or rehired with less than 5 years of service) after 2013: 4.4% of pay	7.25% of pay	For employees first hired before 2013: 1.35% of pay; For employees first hired (or rehired with less than 5 years of service) in 2013: 3.65% of pay; and For employees first hired (or rehired with less than 5 years of service) after 2013: 4.95% of pay	No employee contributions

	CSRS <sup>a</sup>	FERS	FSRDS	FSPS	FRS
<b>Benefit Accrual Rate</b>	1.5% per year for first 5 years of service; 1.75% per year for years 6 to 10 of service; and 2.0% per year after 10 years of service	1.0% per year, OR if at least 20 years of service and work until at least age 62, then 1.1% per year	2.0% per year	Voluntary retirement age at 50 with 20 years of service: 1.7% per year for first 20 years of service; and 1.0% per year for any subsequent years of service; or Voluntary retirement age at 62 with 5 years of service: 1.0% per year for all years	For FAS benefit: <sup>e</sup> 1.3% of pay up to Social Security taxable wage base (\$142,800 in 2021); 1.8% of pay over the Social Security taxable wage base
<b>Years of Pay Used in Benefit Calculation</b>	Highest three, consecutive years	Highest three, consecutive years	Highest three, consecutive years <sup>f</sup>	Highest three, consecutive years	For FAS for Federal Reserve Bank and OEB employees: highest average annualized eligible pay during any 60 consecutive months (five years) of service prior to separation For FAS for Federal Reserve Board and CFBP employees: highest average annualized eligible pay during any 36 consecutive months (three years) of service prior to separation

	CSRS <sup>a</sup>	FERS	FSRDS	FSPS	FRS
<b>Cost-of-Living-Adjustment (COLA)</b>	Calculated based on the change between the average monthly CPI-W during the third quarter (July to September) of the current calendar year and the third quarter of the base year, which is the last previous year in which a COLA was applied (same as Social Security COLA)	Same calculation as CSRS, but limited (or capped) if the rate of inflation is greater than 2.0%: If between 2.0% and 3.0%, the FERS COLA is 2.0%; and If greater than 3.0%, then the FERS COLA is equal to the change in CPI-W minus one percentage point	Same as CSRS COLA	Same as FERS COLA	Same as FERS COLA
<b>DC Pension Employer Matching Contribution</b>	TSP: no match CSRS employees may participate and make contributions subject to Internal Revenue Code (IRC) annual limits (in 2022: \$20,500 and an additional \$6,500 for employees age 50 and older), but receive no automatic agency contributions or agency matching contributions	TSP: match up to 5% of pay FERS employees may participate and are subject to same IRC annual contributions limits as CSRS employees; automatic agency contribution (1% of pay regardless of whether employee contributions are made [3-year vesting requirement]); employee contributions on the first 5% of pay are matched by agency contributions— with the first 3% of pay matched dollar for dollar and the next 2% of pay matched at 50 cents on the dollar	Same as CSRS TSP participation; no match	Same as FERS TSP participation and employer match	Federal Reserve Thrift Plan: match up to 6% of pay for Federal Reserve Bank employees; up to 7% for Federal Reserve Board and CFPB employees FRS employees may participate and are subject to same annual contributions limits as CSRS employees; automatic agency contribution (1% of pay regardless of whether employee contributions are made), and then employee contributions are matched by agency contributions dollar for dollar on the first 6% or 7% of pay

**Source:** Compiled by CRS based on analysis of current law and the following secondary sources: U.S. Department of State, *Foreign Service Retirement and Disability Fund, Actuarial Report for the September 30, 2020*

Valuation Fiscal Year Ended September 30, 2020, December 8, 2020; Federal Reserve Employee Benefits System, *Your Federal Reserve Plan Handbook, 2021, Information for Federal Reserve Bank, Board and Bureau Participants*; and Federal Reserve Employee Benefits System, *Your Thrift & Retirement Plan Handbook, 2021, Information for Federal Reserve Participants*.

**Notes:** “CSRS” is Civil Service Retirement System. “FERS” is Federal Employees’ Retirement System. “FSRDS” is the Foreign Service Retirement and Disability System. “FSPS” is the Foreign Service Pension System. “FRS” is the Federal Reserve System. “FAS” is Final Average Salary. “CFPB” is Consumer Financial Protection Bureau. “OEB” is Office of Employee Benefits. “DB” is defined benefit, and “DC” is defined contribution, which refer to the two major types of retirement plans. “CPI-W” is Consumer Price Index for Urban Wage Earners and Clerical Workers. “TSP” is Thrift Savings Plan.

- a. The CSRS and FERS plan features described in this table apply to “regular” CSRS and FERS employees. Certain “special category” employees have access to enhanced retirement benefits due to an expectation of limited federal service. “Special category” employees are subject to different plan rules. The two major groups of “special category” CSRS and FERS employees are (1) federal law enforcement officers (LEOs) and related personnel (e.g., air traffic controllers and firefighters) and (2) Members of Congress and congressional employees. For details on CSRS and FERS plan features for these groups, see CRS Report R42631, *Retirement Benefits for Federal Law Enforcement Personnel*, and CRS Report RL30631, *Retirement Benefits for Members of Congress*, respectively.

FSRDS and FSPS also include one group of “special category” employees who, similar to LEOs under CSRS and FERS, have access to enhanced retirement benefits: Diplomatic Security “special agents,” as defined under 22 U.S.C. §4044(15). See U.S. Department of State, Foreign Affairs Manual (FAM), 3 FAM 6150, “Special Provisions for Law Enforcement Retirement Coverage for Special Agents Covered Under the Foreign Service Retirement and Disability System,” <https://fam.state.gov/fam/03fam/03fam6150.html>.

- b. Unlike CSRS, FERS, FSRDS, and FSPS, the specific plan features of FRS are not codified under current law. Instead, the Federal Reserve has general authority under Title 10 of the Federal Reserve Act of 1913 (P.L. 63-43) to operate a retirement plan.
- c. Vesting occurs when a retirement plan participant’s accrued benefit is considered to be nonforfeitable. This vesting required refers to the DB annuity portion of the pension. There is also a two-year vesting requirement for automatic 1% employer contributions to the DC Thrift Savings Plan pension benefit under FERS. Employees are always immediately vested in their own contributions to DC plans.
- d. Foreign Service Officers under both FSRDS and FSPS are subject to mandatory retirement, which generally occurs at age 65 with five years of service. For more information on mandatory retirement under these plans, see U.S. Department of State, FAM, 3 FAM 6210, “Mandatory Retirement,” <https://fam.state.gov/FAM/03FAM/03FAM6210.html>.
- e. The FRS retirement benefit described in this table refers to the FAS benefit. There is also a Portable Cash Option (PCO) benefit authorized, which allows employees to take all or a portion of the FRS benefit as a lump sum if elected within 180 days of receipt of the notice from the FRS’s recordkeeper of ability to take the PCO. The PCO is calculated using the following formula: For each of the first 60 months of pay credits (generally years 1-5), the Federal Reserve contributes 5% of salary into an individual’s PCO account; for each of the next 120 months of pay credits (generally years 6-15), the Federal Reserve contributes 10% of salary into an individual’s PCO account. After these pay credits end, an individual’s PCO account continues to earn interest on a monthly basis until (1) termination of employment and an individual’s withdrawal of PCO balance or (2) the commencement of monthly FAS benefits from FRS, whichever is earlier.
- f. The salary used for FSRDS and FSPS after December 28, 2002, is the greater of (1) actual salary or (2) the locality-based compensation that would be payable if the employee was stationed in Washington, DC.

## CSRS and FERS Benefits

This section answers questions related to CSRS and FERS benefits, including creditable service, employee retirement contributions, benefit eligibility, benefit calculation, Social Security coverage, pension forfeiture, special categories of workers under CSRS and FERS (i.e., Members of Congress and congressional staff; and law enforcement officers (LEOs) and related personnel), and reemployed annuitants.

## What service is creditable under CSRS and FERS?

Under both CSRS and the FERS, *creditable service* refers to time that may be (1) counted toward eligibility for a retirement benefit and (2) used in the benefit calculation. *Creditable service* is defined under current law.<sup>26</sup> It includes:

- Federal service during which the employee’s pay is subject to CSRS or FERS retirement contributions;
- Federal service when an employee’s pay is not subject to retirement contributions (e.g., under a temporary appointment) but only prior to January 1, 1989, for the purposes of FERS;<sup>27</sup>
- Any service for which there is specific statutory authority (e.g., service as a Peace Corps volunteer); and
- Active duty military service if required deposit is made.<sup>28</sup>

## What are the required contributions for CSRS and FERS employees?

Employees who are covered by CSRS contribute 7.0% of their pay.

FERS employee contributions depend on date of hire:

- FERS employees first hired before 2013 contribute 0.8% of their pay;<sup>29</sup>
- FERS employees first hired (or rehired with less than five years of service) in 2013 contribute 3.1% of their pay;<sup>30</sup> and
- FERS employees first hired (or rehired with less than five years of service) after 2013 contribute 4.4% of their pay.<sup>31</sup>

The employee contribution rates described above apply to “regular” CSRS and FERS employees. Special categories of CSRS and FERS employees—certain Members of Congress and congressional staff; law enforcement officers and related personnel, such as air traffic controllers and federal firefighters—have access to enhanced retirement benefits and contribute an additional

<sup>26</sup> For CSRS, see 5 U.S.C. §8332; for FERS, see 5 U.S.C. §8411.

<sup>27</sup> CSRS has been closed to new entrants since 1984. Federal employees with appointments of one year or less may be excluded from FERS coverage. See 5 U.S.C. §8402(c)(1) and 5 C.F.R. §842.105(a) for exclusions to FERS coverage. “Non-deduction” or “non-contributory” federal service means that individuals did not pay FERS employee contributions at the time of the service; generally, these were individuals with temporary or intermittent appointments. Beginning in 1989, individuals with “non-deduction” or “non-contributory” federal service are not able to make deposits at a later date and credit that service for purposes of their FERS pension. (Prior to January 1, 1989, however, “non-deduction” or “non-contributory” federal service is creditable under FERS if the individuals makes the required deposit.) There are certain exceptions to the general rule that post-1988 “non-deduction” or “non-contributory” federal service is not creditable under FERS (e.g., Peace Corps service). For an overview, see OPM, “Retirement Services: FERS Information,” <https://www.opm.gov/retirement-services/fers-information/creditable-service/>.

<sup>28</sup> For details on the crediting of active duty military service under CSRS and FERS, see CRS Report R40428, *Credit for Military Service Under Civilian Federal Employee Retirement Systems*.

<sup>29</sup> These FERS employees are unaffected by the increased employee contributions enacted under P.L. 112-96 and P.L. 113-67. See 5 U.S.C. §8422(a)(3)(A).

<sup>30</sup> These FERS employees are “FERS revised annuity employees” under the increased employee contributions enacted by P.L. 112-96. See 5 U.S.C. §8422(a)(3)(B).

<sup>31</sup> These FERS employees are “FERS revised annuity employees” under the increased employee contributions enacted by P.L. 113-67. See 5 U.S.C. §8422(a)(3)(C).

0.5 percentage points for their employee contributions. These special categories of employees are described in the answer to the question “Are there any special categories of federal employees for the purposes of CSRS and FERS?” The enhanced retirement benefits for these special categories of employees are summarized in the answer to the question “What are the different program rules that apply to these special categories of workers under CSRS and FERS?”

## What is the retirement age for CSRS and FERS employees?

Under CSRS, a worker with at least 30 years of creditable service can retire at the age of 55, a worker with at least 20 years of service can retire at 60, and a worker with five or more years of service can retire at 62.

A FERS employee who has reached the minimum retirement age (age 55-57, depending on year of birth; see **Table 2**) can retire with 30 years of service; at age 60 with 20 years of service; and at age 62 with five years of service.

**Table 2. Minimum Retirement Age Under FERS**

Year of Birth	Minimum Retirement Age
1947 or earlier	55 years
1948	55 years, 2 months
1949	55 years, 4 months
1950	55 years, 6 months
1951	55 years, 8 months
1952	55 years, 10 months
1953 to 1964	56 years
1965	56 years, 2 months
1966	56 years, 4 months
1967	56 years, 6 months
1968	56 years, 8 months
1969	56 years, 10 months
1970 or later	57 years

**Source:** 5 U.S.C. §8412(h).

The significance of this retirement age is that individuals who separate from federal service are entitled to an immediate annuity, a monthly payment in retirement.<sup>32</sup>

For information on retirement age for special categories of employees, see “What are the different program rules that apply to these special categories of workers under CSRS and FERS?”

<sup>32</sup> There are additional types of retirement with different age requirements—for example, disability retirement, as described in CRS Report RS22838, *Disability Retirement for Federal Employees*. Also see, for CSRS, OPM’s summary information at <https://www.opm.gov/retirement-services/csrs-information/types-of-retirement/>; for FERS, OPM’s summary information at <https://www.opm.gov/retirement-services/fers-information/types-of-retirement/>.

Employees who separate from federal service with less than five years of services (i.e., are not vested) may request a refund of their employee contributions (with interest if service was more than one year). See OPM’s FERS summary information at <https://www.opm.gov/retirement-services/fers-information/former-employees/>.

## How is the CSRS and FERS retirement benefit calculated?

The basic retirement annuity under both CSRS and FERS is determined by multiplying three factors: the *salary base*, the *accrual rate*, and the number of *years of service*. This relationship is shown in the following formula:

$$\text{Annual Pension Amount} = \text{salary base} \times \text{accrual rate} \times \text{years of service}$$

Under both CSRS and FERS, *salary base* is defined as the average of the highest three consecutive years of basic pay, or “high-three” pay.

CSRS accrual rates increase with length of service. CSRS pensions equal 1.5% of high-three average pay for each of the first five years of service, 1.75% for the sixth through 10<sup>th</sup> years, and 2.0% for each year of service after the 10<sup>th</sup> year. This formula yields a replacement rate of 56.25% for a worker who retires with 30 years of service.<sup>33</sup> Under current law, CSRS initial pension amounts are capped at 80% of high-three pay—although they may be subsequently increased by cost-of-living adjustments (COLAs).<sup>34</sup>

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. FERS accrual rates are lower than those under CSRS because employees under FERS pay Social Security payroll taxes and earn Social Security retirement benefits.<sup>35</sup>

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). The FERS annuity supplement, like the basic retirement annuity, is administered by the Office of Personnel Management (OPM).

## Are cost-of-living adjustments (COLAs) applied to CSRS and FERS benefits?

Both CSRS and FERS retirement benefits are eligible for annual, automatic COLAs based on the rate of inflation as measured by the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W). COLAs for both CSRS and FERS are determined by the average monthly CPI-W during the third quarter (July to September) of the current calendar year compared to the third quarter of the base year, which is the last previous year in which a COLA was applied. The “effective date” for COLAs is December, but they first appear in the benefits issued during the following January.

All CSRS retirees and survivors receive COLAs. Under FERS, however, nondisabled retirees under the age of 62 do not receive COLAs. Survivors and disabled retirees are eligible for COLAs under FERS regardless of age. CSRS pays a COLA that is equal to the percentage change

<sup>33</sup> A commonly used measure of retirement income adequacy is the percentage of pre-retirement income replaced by pension income. The measure of pre-retirement income used in the replacement rates in this FAQ reflects the replacement of individual’s high-three pay.

<sup>34</sup> See 5 U.S.C. §8339(f)(1). Credit for sick leave is not included for the purposes of this 80% cap. See 5 U.S.C. §8339(m).

<sup>35</sup> There is no cap on the initial calculation of retirement benefits under FERS.

in the CPI-W during the measurement period, but COLAs under FERS are limited if the rate 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 one percentage point.

For additional details on CSRS and FERS COLAs, see CRS Report 94-834, *Cost-of-Living Adjustments for Federal Civil Service Annuities*.

## Are there any CSRS and FERS benefits available to survivors of federal employees?

A married federal employee who retires under either CSRS or FERS automatically receives a *joint and survivor annuity* unless both the employee and the spouse decline it in writing, in which case the worker will receive a *single-life annuity*.<sup>36</sup>

Under CSRS, if a worker receives a joint and survivor annuity, the annual benefit is reduced by an amount equal to 2.5% of the first \$3,600 plus 10% of the annuity above that amount. In return for this reduction, the worker's spouse is entitled to a survivor annuity equal to 55% of the worker's full annuity *before the reduction* is taken into account. Alternatively, a worker retiring under CSRS and his or her spouse can elect a smaller survivor annuity, in which case the worker's annuity is reduced by 2.5% of the first \$3,600 and 10% of the annuity above this amount, up to the limit that he or she specifies as the base upon which the survivor benefit is to be calculated.

Under FERS, if a worker receives a joint and survivor annuity, the retiree's annual benefit is reduced by an amount equal to 10% of the annuity that would otherwise be paid. In return for this reduction, the worker's spouse is entitled to a survivor annuity equal to 50% of the worker's full annuity *before the reduction* is taken into account. Alternatively, the couple may elect that the survivor benefit is to be based on one-half of the retiree's annuity, in which case the retired worker's annuity is reduced by 5% and the survivor benefit would be equal to 25% of the retiree's unreduced annuity. The reduction in the benefits of workers who elect a joint and survivor annuity is sufficient to cover only about half of the cost of the FERS survivor annuity and less than half of the cost of the CSRS survivor annuity. Consequently, survivor benefits under both CSRS and FERS are partially subsidized by the federal government.

See the following CRS reports for additional information on survivor benefits under CSRS and FERS:

- CRS Report RS21029, *Survivor Benefits for Families of Civilian Federal Employees and Retirees*, provides information on benefits for spouses and families of retirees as well as current employees.
- CRS Report RS22856, *Retirement and Survivor Annuities for Former Spouses of Federal Employees*, describes benefits for formers spouses.

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<sup>36</sup> To elect a reduced survivor annuity or a single-life annuity requires the written, notarized consent of *both* the retired worker and his or her spouse. If the worker cannot obtain the spouse's signature, the worker can submit the application to OPM without it. OPM will then make a good-faith effort to notify the spouse that the retired worker has elected a single-life annuity, after which the application can be processed.

## Do CSRS and FERS employees contribute to Social Security?

CSRS was created in 1920 to provide standalone retirement benefits to civilian federal employees. Thus, federal employees were initially not covered by Social Security when it was created in 1935 and remained outside of it until the enactment of the Social Security Amendments of 1983 (P.L. 98-21). The Social Security Amendments of 1983 mandated coverage of new federal employees and current Members of Congress, the President, the Vice President, current legislative employees not covered by CSRS, and most current executive-level political appointees, including current federal judges, effective January 1984.<sup>37</sup> As a result, the Federal Employees' Retirement System (FERS) Act of 1986 (P.L. 99-335) created a new retirement plan, FERS, that is fully integrated with Social Security. Thus, FERS employees pay Social Security payroll taxes and earn Social Security retirement benefits, but CSRS employees do not.

## Can federal employees opt out of CSRS or FERS coverage?

The majority of CSRS and FERS employees are required to participate in the basic retirement annuity portion of the federal retirement system. But there is currently an exception for Senators and certain House Members. Until the Legislative Branch Appropriations Act, 2004 (P.L. 110-83), all Members could opt to decline coverage under FERS. Section 104 of P.L. 110-83, however, amended the provisions of law applicable to coverage of Members of the U.S. House of Representatives under FERS. Effective with passage of P.L. 110-83, Representatives (including a Delegate or Resident Commissioner to Congress) entering office on or after September 30, 2003, may not elect to be excluded from such coverage. The changes under P.L. 108-83 did not affect Senators. Therefore, all Senators and those Representatives serving as Members prior to September 30, 2003, continue to be able to decline FERS coverage. No one is required to file a claim for a CSRS or FERS benefit. However, covered employees are required to make employee contributions to CSRS and FERS.

Participation in TSP is optional, however. P.L. 111-31 provided for newly hired federal employees under FERS to be enrolled automatically in TSP, initially with a default contribution rate of 3% of pay. This TSP default contribution rate was subsequently increased, beginning October 1, 2020, to 5% of pay.<sup>38</sup> FERS employees may elect not to participate in TSP and/or change their contribution rates.

## Are there any situations in which a CSRS or FERS pension may be forfeited?

Section 8312 of Title 5 of the *U.S. Code* provides that a federal employee, including a Member of Congress, may not receive a retirement annuity for any period of federal service if that individual is convicted of certain offenses that were committed during the period of service when the annuity was earned. In general, the crimes that would lead to forfeiture of a federal retirement annuity under this provision of law are limited to acts of treason or espionage.

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<sup>37</sup> The Servicemen's and Veterans' Survivor Benefits Act of 1956 (P.L. 84-881) granted Social Security wage credits for all military service performed before 1957 and brought military service performed after 1956 fully under the Social Security Act. Since 1957, military service has been subject to Social Security payroll taxes and has been counted as covered employment for all Social Security benefits.

<sup>38</sup> P.L. 111-31 provided authority for the default contribution rate to be determined by the Executive Director of the Federal Retirement Thrift Investment Board but that it be no less than 2% and no more than 5%. See 5 U.S.C. §8432(b)(2)(A)(B).

Section 401 of the Honest Leadership and Open Government Act of 2007 (P.L. 110-81, September 14, 2007) amended Title 5, Section 8332, of the *U.S. Code* to exclude from creditable service toward a retirement annuity any service as a Member of Congress of an individual convicted of a felony involving

1. bribery of public officials and witnesses;
2. acting as an agent of a foreign principal while a federal public official;
3. fraud by wire, radio, or television, including as part of a scheme to deprive citizens of honest services;
4. prohibited foreign trade practices by domestic concerns;
5. engaging in monetary transactions in property derived from specified unlawful activity;
6. tampering with a witness, victim, or an informant;
7. racketeer-influenced and corrupt organizations;
8. conspiracy to commit an offense or to defraud the United States;
9. perjury; or
10. subornation of perjury.

The law directs the Office of Personnel Management (OPM) to issue regulations to specify the circumstances under which the spouse or children of such individual may be eligible for benefit payments under CSRS or FERS, taking into consideration (1) the financial needs of the spouse or children; (2) whether the spouse or children participated in a specified offense of which such individual was convicted; and (3) what measures, if any, may be necessary to ensure that the convicted individual does not benefit from any such payment.

Section 15(a) of the STOCK Act (P.L. 112-105, April 4, 2012) further amended 5 U.S.C. §8332 so that a Member of Congress would lose the credit for service as a Member for the purposes of a retirement annuity if convicted of one of the numerous corruption offenses not only during time served as a Member of Congress, but also if convicted of any of such offenses while the President, the Vice President, or as an elected official of a state or local government.

Section 15(b) of the STOCK Act also adds other federal criminal laws relating generally to public corruption or elections for which a final felony conviction would result in losing creditable service as a Member of Congress for federal pension purposes, including, among other offenses,

1. criminal offenses that include conflicts of interest;
2. conspiracy to make false claims;
3. making false claims to the government;
4. vote buying;
5. illegal solicitation of political contributions from federal employees;
6. soliciting political contributions in a federal building or office;
7. theft, conversion, or embezzlement of government funds or property;
8. false statements to the government;
9. obstruction of proceedings before government agencies; or
10. attempt to evade or defeat paying taxes.

Finally, Section 203 of the Department of Veterans Affairs Accountability and Whistleblower Protection Act of 2017 (P.L. 115-41, June 23, 2017) provides authority to reduce CSRS and FERS benefits for certain Veterans Affairs employees removed from service for performance or

misconduct (or subject to removal or transfer but who left the VA before final action was taken) and convicted of a felony that influenced performance in that position.

## Are there any special categories of federal employees for the purposes of CSRS and FERS?

Yes, there are two broad types of special category employees under CSRS and FERS: (1) certain Members of Congress and congressional staff (i.e., individuals in those groups first in office or first hired prior to 2013)<sup>39</sup> and (2) federal law enforcement officers (LEOs),<sup>40</sup> federal firefighters, air traffic controllers, and nuclear materials couriers (often referred to “LEOs and related personnel”). These two special categories of employees have access to enhanced retirement benefits (i.e., they accrue benefits at higher rates under both CSRS and FERS than do other federal employees). The rationale behind enhanced benefits for these employee groups is an expectation of limited federal service. For Members of Congress and congressional staff, this limited federal service is due to the uncertain tenure of congressional office. For LEOs and related personnel, the expectation of limited federal service is because they are subject to a mandatory retirement age.

For additional information on enhanced retirement benefits for Members and congressional staff, see CRS Report RL30631, *Retirement Benefits for Members of Congress*.

For additional information on enhanced retirement benefits for LEOs and related personnel, see CRS Report R42631, *Retirement Benefits for Federal Law Enforcement Personnel*.

## What are the different program rules that apply to these special categories of workers under CSRS and FERS?

Members of Congress in office prior to 2013 and congressional staff first hired before 2013, as well as law enforcement officers (LEOs) and related personnel, have access to enhanced retirement benefits under CSRS and FERS. These enhanced benefits come with different program rules for three aspects of CSRS and FERS:

1. *Higher benefit accrual rates*

- Under CSRS, Members of Congress in office prior to 2013 and congressional staff first hired before 2013 earn benefits at the rate of 2.5% for each year of service.<sup>41</sup> LEOs, firefighters, air traffic controllers, and nuclear materials

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<sup>39</sup> Prior to the enactment of P.L. 112-96, all Members of Congress and congressional staff were part of this special category of CSRS and FERS employees with access to enhanced retirement benefits. With enactment of P.L. 112-96, Members of Congress and congressional staff first covered by FERS in 2013 or later accrue pension benefits at the same rate as regular FERS employees (i.e., 1% per year; or, for Members and congressional employees in this category with at least 20 years of service and who work until age 62, the accrual rate is 1.1% for each year of service). The replacement rate for these Members and congressional staff is, therefore, the same as for regular FERS employees. For additional information on this change to law, see CRS Report RL30631, *Retirement Benefits for Members of Congress*.

<sup>40</sup> The statutory definition of *law enforcement officer* for the purposes of CSRS and FERS is quite narrow and does not include federal police officers, for example. Additional groups of employees who do not meet the statutory definition of LEO under CSRS and FERS have been provided comparable enhanced retirements through direct legislation (e.g., U.S. Capitol Police). For additional information on these definitions and policy issues, see CRS Report R42631, *Retirement Benefits for Federal Law Enforcement Personnel*.

<sup>41</sup> There are provisions under current law that cap the initial CSRS pension calculation specifically for Members of Congress. That calculation is capped at the greater of 80% of high-three pay or 80% of final pay. See 5 U.S.C. §8339(f)(2). Other special category employees are subject to the more general cap of initial CSRS benefits at 80% of

couriers enrolled in CSRS accrue benefits at the rate of 2.5% for each of their first 20 years of service and 2.0% for each year thereafter.

- Under FERS, Members of Congress and congressional staff first covered by FERS before 2013 accrue pension benefits at the rate of 1.7% per year for their first 20 years of service and 1.0% for each year of service after the 20<sup>th</sup> year. LEOs, firefighters, air traffic controllers, and nuclear materials couriers also accrue pension benefits at the rate of 1.7% per year for their first 20 years of service and 1.0% for each year of service after the 20<sup>th</sup> year.<sup>42</sup>

2. *Higher employee contributions*

- All special category employees contribute an additional 0.5 percentage points of pay toward their enhanced retirement benefits compared with other CSRS and FERS employees hired at the same time.

3. *Earlier retirement eligibility and mandatory retirement* for LEOs and related personnel

- All Members of Congress and congressional staff may retire at earlier ages than regular CSRS and FERS employees (for instance, at age 50 with 20 years of service under FERS).<sup>43</sup>
- Under both CSRS and FERS, LEOs and related personnel are required by law to retire at age 57 or as soon as 20 years of service have been completed after the age of 57. The mandatory retirement age for air traffic controllers is 56.<sup>44</sup> Otherwise, such personnel may retire at age 50 with 20 years of service under CSRS and FERS or at any age with 25 years of service under FERS.

## Are U.S. Postal Service (USPS) workers covered by CSRS and FERS?

Yes, USPS participates in CSRS and FERS, which provide a defined benefit (DB) to eligible postal retirees. Thus, career USPS employees are covered by CSRS and FERS, depending on date of hire. Prior to the Postal Reorganization Act (P.L. 91-375), which replaced the U.S. Post Office Department (USPOD) with USPS in 1971, employees of the USPOD had been covered by CSRS. Employees in the newly created USPS remained covered by CSRS and, when FERS was created, newly hired career USPS employees became covered by FERS like other civilian federal employees hired in 1984 or later.<sup>45</sup>

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high-three pay. See 5 U.S.C. §8339(f)(1). Credit for sick leave is not included for the purposes of any cap on CSRS benefits. See 5 U.S.C. §8339(m).

<sup>42</sup> There is no cap on the initial calculation of retirement benefits under FERS.

<sup>43</sup> No changes were made to early retirement eligibility for Members of Congress and congressional staff under P.L. 112-96.

<sup>44</sup> For information on existing authorities to exempt individuals from mandatory retirement as well as current authorities for maximum age of entry for LEOs and related personnel, see CRS Report R42631, *Retirement Benefits for Federal Law Enforcement Personnel*.

<sup>45</sup> For information on recent changes to USPS health benefits—including retiree health benefits—made under P.L. 117-108, the Postal Service Reform Act of 2022, see CRS Insight IN11856, *Proposed Changes to USPS Health Benefits in the Postal Service Reform Act of 2022*. The Postal Service Reform Act of 2022 made no changes to CSRS and FERS benefits for USPS employees.

For additional information on USPS retirement benefits, see CRS Report R44603, *Reforming the U.S. Postal Service: Background and Issues for Congress*.

## What happens when a federal retiree is reemployed in federal service?

Individuals receiving retirement benefits under CSRS or FERS may be reemployed by the federal government in some situations. These individuals may not simultaneously collect a federal civil service retirement benefit and a salary for current employment with the federal government in most circumstances.<sup>46</sup> Reemployed annuitants generally have their federal salaries reduced by the amount of their CSRS or FERS retirement benefits while they are reemployed.<sup>47</sup>

Prior to 1990, there were no exceptions to the prohibition on concurrent receipt of a federal salary and a federal retirement annuity. Since 1990, several types of waiver authority have been provided to allow certain reemployed annuitants to receive their full salaries and full CSRS or FERS retirement benefits. Currently, except for cases in which a dual compensation waiver has been granted by the Director of the Office of Personnel Management (OPM), the Secretary of Defense, or an agency head, a reemployed annuitant's retirement annuity continues during the period of reemployment, and his or her pay is reduced by the amount of the annuity. Reemployed annuitants earn additional retirement benefits while reemployed unless hired under a waiver granting simultaneous receipt of salary and pension. If the period of reemployment lasts one year or more, the individual is eligible for a supplemental annuity when he or she retires. If the period of reemployment lasts five years or more, the individual can elect a redetermined annuity.

Finally, Section 100121 of the Moving Ahead for Progress in the 21<sup>st</sup> Century Act (MAP-21, P.L. 112-141, July 6, 2012) provides authority for a phased retirement option for certain federal employees. In federal agencies that choose to offer this phased retirement option, eligible employees are able to move to a part-time work schedule (50%) while simultaneously receiving partial retirement benefits (50%).

For additional information on dual compensation, dual compensation waivers, and phased retirement, see CRS Report R43755, *Phased Retirement: In Brief*.

## CSRS, FERS, and TSP: Funding and Investment Practices

This section answers questions related to how CSRS and FERS are financed as well as how the assets in the Civil Service Retirement and Disability Fund are invested. It also addresses questions related to TSP financing and investments.

### How are CSRS and FERS financed?

Both CSRS and FERS are financed through one federal trust fund, the Civil Service Retirement and Disability Fund (CSRDF), which is administered by the Office of Personnel Management (OPM). When CSRS was established in 1920, it was not pre-funded. When Congress established FERS in 1986, however, it required all pension benefits earned under FERS to be fully pre-

<sup>46</sup> See 5 U.S.C. §8344 (CSRS) and 5 U.S.C. §8468 (FERS).

<sup>47</sup> For additional information on federal pay and benefits for reemployed annuitants, see OPM, "Reemployment in Federal Service," <http://www.opm.gov/retirement-services/my-annuity-and-benefits/life-events/#url=Reemployment>.

funded by the sum of employer and employee contributions and the interest earned by the U.S. Treasury bonds held by the CSRDF. Congress required pre-funding of FERS retirement benefits so that federal agencies would have to recognize these costs in their budgets. Pre-funding promotes more efficient allocation of resources between personnel costs and other expenses because it forces federal agencies to recognize the full cost of employee compensation when they prepare their annual budget requests.

Employees who are covered by CSRS contribute 7.0% of pay to the CSRDF. 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.<sup>48</sup>

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 five years of service) in 2013 contribute 3.1% of pay, and employees first hired (or rehired with less than five years of service) after 2013 contribute 4.4% of pay. In addition, employing agencies currently contribute 18.4% of pay for regular employees hired before 2013 and 16.6% of pay for employees hired after 2012 to the CSRDF.<sup>49</sup>

## How is the CSRDF invested?

The CSRDF is similar to the Social Security trust funds in that, by law, 100% of its assets are invested in special-issue U.S. Treasury bonds or other bonds backed by the full faith and credit of the U.S. government.<sup>50</sup> When the trust fund needs cash to pay retirement benefits, it redeems the bonds and the Treasury disburses an equivalent dollar value of payments to CSRS and FERS beneficiaries.

## What is the projected long-term solvency of the CSRDF?

As of the beginning of FY2020, CSRS had an unfunded liability of \$823.5 billion, and FERS had an unfunded liability of \$201.5 billion.<sup>51</sup> Because the full costs of CSRS benefits are not met by the combined total of employee contributions, agency contributions, interest earnings, and the supplemental payments from the Treasury, some future CSRS benefits will of necessity be paid

<sup>48</sup> P.L. 91-93 (1969) requires three payments to be made annually from the general revenues of the U.S. Treasury into the CSRDF. These payments are the amount necessary to amortize (pay off with interest) over a 30-year period any increase in pension liability that results from (1) pay increases (but not retiree COLAs) or from bringing newly covered groups of workers into the CSRS; (2) the amount of the employer's share of the cost of benefits attributable to military service; and (3) interest, fixed at a rate of 5%, on the estimated amount of the previously accrued liabilities of the CSRS for which contributions have not yet been made to the CSRDF. The costs of retiree COLAs, which also are not part of the static normal cost of the CSRS, are not included in the annual transfer from the Treasury to the CSRDF and will ultimately be paid from the general fund of the Treasury.

<sup>49</sup> These agency contributions are effective on or after October 1, 2021, and are based on FERS "normal cost percentages" net of employee contributions. See OPM, "Federal Employees' Retirement System: Normal Cost Percentages," 86 *Federal Register* 16401-16402, March 29, 2021. FERS agency contribution rates may be adjusted in future fiscal years based on changes in OPM's annual actuarial calculations of the dynamic normal cost of FERS benefits as well as any changes in required employee contribution rates. For a discussion of the dynamic normal cost of FERS benefits, including the calculation of agency contributions, see CRS Report RL30023, *Federal Employees' Retirement System: Budget and Trust Fund Issues*.

<sup>50</sup> See 5 U.S.C. §8348(c). For information on the investment practices of the Social Security trust funds, see CRS In Focus IF10564, *Social Security Trust Fund Investment Practices*.

<sup>51</sup> OPM, *Annual Report of the Board of Actuaries, Civil Service Retirement and Disability Fund, Fiscal Year Ended September 30, 2020*, February 2021, Table 1, p. 26, <https://www.opm.gov/about-us/budget-performance/other-reports/fy-2020-csrdf-annual-report.pdf>. This is the most recent version of CSRDF reporting available at this time.

from contributions that were made to the CSRDF on behalf of employees who are enrolled in FERS. This will add to the unfunded liability for FERS, which will be paid off through a new series of 30-year amortization payments from the general fund of the Treasury to the CSRDF.

Yet CSRS has been closed to new entrants since 1984, and FERS was designed by Congress to be pre-funded. Thus, the unfunded liability of the CSRDF has already peaked, will steadily decline, and is projected to be eliminated by FY2085.<sup>52</sup> Actuarial estimates indicate that the unfunded liability of the CSRS does not pose a threat to the solvency of the trust fund. There is no point over the next 80 years at which the assets of the CSRDF are projected to run out. In its current annual report, OPM has stated that “total assets of the CSRDF ... including both CSRS and FERS are expected to continue to grow throughout the term of the projection under the existing statutory funding provisions.”<sup>53</sup>

## How is TSP financed?

The TSP is administered by the Federal Retirement Thrift Investment Board (FRTIB).<sup>54</sup> FRTIB is an independent agency that receives no appropriations from Congress. Instead, administrative expenses for FRTIB are paid through 1% agency automatic contributions forfeited by FERS employees who leave federal service before they have vested,<sup>55</sup> TSP loan fees,<sup>56</sup> and charges against participant accounts.<sup>57</sup>

TSP accounts are financed through voluntary contributions made by employees as well as automatic and matching contributions made by employing agencies, although only FERS employees are eligible for any agency contributions. In addition to the 1% automatic agency contribution, FERS employees receive matching contributions from their employing agencies of up to 5% of pay—with the first 3% of pay matched dollar for dollar and the next 2% of pay matched at 50 cents on the dollar. TSP contributions for both CSRS and FERS are subject to annual contribution limits under the Internal Revenue Code (in 2022: \$20,500 and an additional \$6,500 for employees age 50 and older).<sup>58</sup>

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<sup>52</sup> OPM, *Annual Report of the Board of Actuaries, Civil Service Retirement and Disability Fund, Fiscal Year Ended September 30, 2020*, Table 2, p. 34.

<sup>53</sup> OPM, *Annual Report of the Board of Actuaries, Civil Service Retirement and Disability Fund, Fiscal Year Ended September 30, 2020*, p. 23.

<sup>54</sup> For more information on FRTIB, see the Appendix in CRS Report RL30387, *Federal Employees' Retirement System: The Role of the Thrift Savings Plan*.

<sup>55</sup> The vesting requirement for this 1% agency automatic contribution is three years of civilian federal service for most FERS employees and two years for Members, congressional staff, and certain senior-level employees. See 5 U.S.C. §8432(g).

<sup>56</sup> For information on TSP loans, see TSP, “Loan Types and Terms,” <https://www.tsp.gov/loan-basics/loan-types-and-terms/>.

<sup>57</sup> For more information on TSP administrative expenses, see TSP, “Administrative and Investment Expenses,” <https://www.tsp.gov/tsp-basics/administrative-and-investment-expenses/>.

<sup>58</sup> See 26 U.S.C. §415. For 2022 annual limits, see Internal Revenue Service, “IRS Announces Changes to Retirement Plans for 2022,” November 17, 2021, <https://www.irs.gov/newsroom/irs-announces-changes-to-retirement-plans-for-2022>.

## How is TSP invested?

At its creation in 1986 under the FERS Act, the TSP was designed to be passively-managed in order to avoid political manipulation—in particular, using the large pool of assets managed by the FRTIB for political purposes.<sup>59</sup> All TSP investment options are set out under current law.<sup>60</sup>

Participants in the TSP may currently choose among five funds in which they can invest their TSP contributions:<sup>61</sup>

- The “C” fund invests in a stock market index fund that replicates the Standard and Poor’s 500 Index of 500 large to medium-sized U.S. companies.
- The “F” fund invests in bonds in the same proportion as they are represented by the Barclays Capital U.S. Aggregate Bond Index.
- The “G” fund invests in U.S. government securities and pays interest equal to the average rate of return on government securities with maturities of four years or more.
- The “S” fund invests in a stock index fund that tracks the Dow Jones U.S. Completion Total Stock Market Index of small to medium-sized U.S. companies not included in the “C” Fund.
- The “I” fund invests in a stock index fund that replicates the Morgan Stanley Capital International EAFE (Europe, Australasia, Far East) Index.

Additionally, TSP participants may invest in “Lifecycle Funds” (L Funds), which are invested in various combinations of the five existing TSP funds. The allocation of contributions among the five core TSP funds is based on the year that the participant expects to begin withdrawing money from the TSP.<sup>62</sup>

Current TSP funds, except the G Fund, are all passively managed by professional fund managers,<sup>63</sup> each with an investment objective of matching the performance of a specific, benchmark index fund. TSP fund managers do not actively select a fund’s portfolio assets.

Recently, the FRTIB has announced that it will exercise an optional authority provided by P.L. 111-31 to offer a new mutual fund window (MFW) to TSP participants.<sup>64</sup> FRTIB has stated that the implementation date for the MFW will be summer 2022 and provided the following additional details: “Of the more than 5,000 mutual funds available through the MFW, there will be funds that are designed for ESG [environmental, social, and governance] investment (however a

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<sup>59</sup> See House Conference Report 99-906 (May 16, 1986).

<sup>60</sup> See 5 U.S.C. §8438.

<sup>61</sup> For additional details on TSP individual funds, see TSP, “Individual Funds,” <https://www.tsp.gov/funds-individual/>.

<sup>62</sup> For additional details on TSP Lifecycle funds, see TSP, “Lifecycle (L) Funds,” <https://www.tsp.gov/funds-lifecycle/>.

<sup>63</sup> All four of these funds currently have contracts with two fund managers: BlackRock and State Street Global Advisors. See FRTIB, “Federal Retirement Thrift Investment Board Awards the First of Two Fund Manager Contracts,” press release, February 24, 2020, [https://www.frtib.gov/pdf/reading-room/PressRel/PR\\_2020-02-26\\_Fund\\_Manager\\_Contract.pdf](https://www.frtib.gov/pdf/reading-room/PressRel/PR_2020-02-26_Fund_Manager_Contract.pdf); and FRTIB, “Federal Retirement Thrift Investment Board Awards the Second of Two Fund Manager Contracts,” press release, October 22, 2020, [https://www.frtib.gov/pdf/reading-room/PressRel/PR\\_2020-10-27\\_Multi\\_Manager\\_Selection.pdf](https://www.frtib.gov/pdf/reading-room/PressRel/PR_2020-10-27_Multi_Manager_Selection.pdf).

<sup>64</sup> Authorized under 5 U.S.C. §8438(b)(5). See, for instance, FRTIB, “FRTIB Strategic Plan: FY2022-2026,” Objective B4, p. 7, [https://www.frtib.gov/pdf/reading-room/StratPlan/FRTIB\\_FY22-26\\_Strategic\\_Plan.pdf](https://www.frtib.gov/pdf/reading-room/StratPlan/FRTIB_FY22-26_Strategic_Plan.pdf); and FRTIB, “Mutual Fund Window,” 87 *Federal Register* 3940-3943, January 26, 2022.

participant may define that), as well as commodity specific funds, actively managed funds, and emerging manager funds.”<sup>65</sup>

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<sup>65</sup> FRTIB, “Annual Report of the Thrift Savings Plan Required by §105 of the TSP Enhancement Act of 2009,” June 20, 2021, p. 2, [https://www.frtib.gov/pdf/reading-room/congress/TSP-Annual-Report\\_2020.pdf](https://www.frtib.gov/pdf/reading-room/congress/TSP-Annual-Report_2020.pdf).

ESG is a widely used acronym for environmental, social, and governance issues. For background on ESG, see CRS In Focus IF11716, *Introduction to Financial Services: Environmental, Social, and Governance (ESG) Issues*.