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**CONGRESSIONAL
RETIREMENT ISSUES**

Statement of
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CONGRESSIONAL RETIREMENT ISSUES

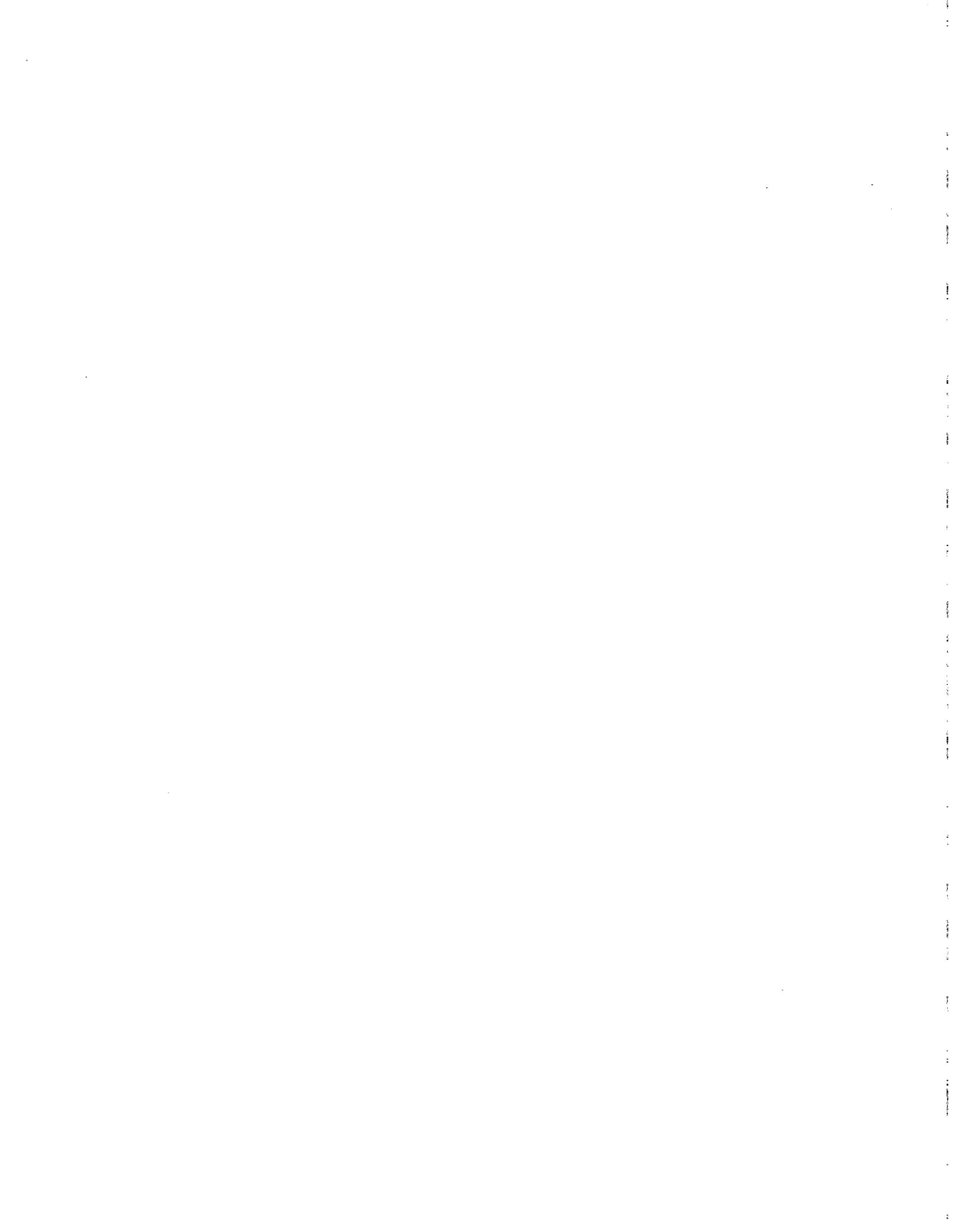
Summary of Statement by
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In this statement, GAO summarizes its findings in a report requested by the Subcommittee on how retirement benefits available to Members of Congress and congressional staff compare with benefits available to other groups of employees under the Civil Service Retirement System (CSRS) and the Federal Employees Retirement System (FERS).

GAO's report showed that, as a rule, the retirement provisions in CSRS for Members are more beneficial than the provisions for other federal employee groups, particularly general employees. Members can retire at younger ages and with fewer years of service than can general employees and congressional staff, and the formula for determining Members' benefit amounts, which also applies to congressional staff, yields greater benefits than the formula applicable to general employees.

Separate CSRS provisions for law enforcement officers, firefighters, and air traffic controllers generally fall between the congressional and general employee provisions. FERS brought benefits for Members, congressional staff, law enforcement officers, firefighters, and air traffic controllers more in line with each other, but continued the relative advantages of these groups over general employees.

GAO's review of the legislative history of CSRS and FERS disclosed little explanation of why preferential provisions were adopted for Members and congressional staff.



Mr. Chairman and Members of the Subcommittee:

We are pleased to be here today to discuss the issue of congressional retirement benefits.

CSRS and FERS each have a number of separate provisions for different employee groups, including Members of Congress, congressional staff, law enforcement officers and firefighters, air traffic controllers, and all other employees. The latter group (which we refer to as "general employees") constitutes more than 90 percent of all employees covered by the two systems.

In general, CSRS applies to employees who entered federal service before December 31, 1983, and FERS applies to employees who entered after that date.¹ CSRS is a "stand-alone" pension program with no supplementation by Social Security or any other source of employment-related income. In contrast, FERS is designed more like private sector retirement programs in that it includes a pension plan, a Thrift Savings Plan to which most covered employees and the government contribute, and Social Security as a three-part retirement package.

OVERALL COMPARISON OF CSRS AND FERS
BENEFITS FOR EACH EMPLOYEE GROUP

Many of the CSRS provisions for Members of Congress are quite different from the provisions for other employee groups, particularly general employees. As a rule, the Member provisions are more beneficial. In some cases, the provisions for congressional staff are the same as the Member provisions, but more often they are like the provisions for general employees. Law enforcement officer and firefighter benefits in CSRS generally fall between those for Members and congressional staff. Air traffic controller benefits are superior to general employee benefits but not as superior as the benefits law enforcement officers and firefighters receive.

¹Federal employees first hired after December 31, 1983, were included under Social Security by the Social Security Amendments of 1983. The amendments required all Members of Congress to be covered by Social Security on January 1, 1984, regardless of when they entered Congress. Members in CSRS were given the option of being fully covered by both CSRS and Social Security or joining a "CSRS offset plan" whereby the Social Security contributions they made and any Social Security benefits they received from their congressional service would be deducted from their CSRS contributions and benefits, respectively. Information is not available on which option each of the affected Members elected. A similar offset plan was applied to all other employees who entered the government between December 1983 and January 1987 when the FERS pension plan was implemented.

Many of the relative advantages afforded to Members and congressional staff over general employees in CSRS were continued under the pension plan part of FERS. However, the provisions for law enforcement officers, firefighters, and air traffic controllers are quite similar to the Member provisions.

Office of Personnel Management (OPM) estimates show that the costs of providing the differing retirement benefits under CSRS and FERS vary considerably. For example, according to OPM, the accruing cost of Member benefits under CSRS is 29.3 percent of the Member payroll and the accruing cost of congressional staff benefits is 34 percent of their payroll, compared to the overall estimated cost for all employees under CSRS of 25.14 percent of payroll. For the FERS pension plan, OPM estimates the Member costs to be 19.1 percent of payroll² and congressional staff costs to be 18.2 percent compared to a cost for general employees of 12.2 percent. The government's contributions to Social Security and the thrift plan are in addition to the FERS pension plan costs.

Under CSRS, Members contribute 8 percent of their salaries to the retirement fund, and congressional staff contribute 7.5 percent. General employees contribute 7 percent. Under FERS, Members and congressional staff contribute 1.3 percent of their salaries to the pension plan in addition to their Social Security contributions and any thrift plan contributions they may make. General employees contribute .8 percent of their salaries to the FERS pension plan along with their Social Security and thrift plan contributions.

SPECIFIC PROVISIONS OF CSRS IN WHICH
MEMBERS AND CONGRESSIONAL STAFF
RECEIVE UNIQUE BENEFITS

In CSRS, Members can retire at younger ages and with fewer years of service than can general employees and congressional staff. The earliest age at which general employees and congressional staff can retire under CSRS's optional retirement provisions is age 55. They must have at least 30 years of service to retire at this age. On the other hand, Members can retire at age 50 with 20 years of service or at any age if they have 25 years. Members may also retire at age 60 with 10 years of Member service and at age 50 with service in 9 Congresses.

The only other employees who are allowed to retire as early as Members are law enforcement officers, firefighters, and air

²OPM said its cost estimates for Member benefits under CSRS and FERS were done differently and, thus, must be used with caution. The CSRS estimate assumed Members retire at age 65, and the FERS estimate assumed Members retire at age 62.

traffic controllers. They may retire at age 50 if they have at least 20 years of such service. Air traffic controllers may also retire at any age if they have at least 25 years of controller service.

The provision that affords Members and congressional staff the greatest advantage is the benefit formula. If they have at least 5 years of congressional service, their formula is 2.5 percent of the average annual salaries they earned during their 3 consecutive highest-paid years (known as the "high 3") for each year of congressional service.³ Law enforcement officers and firefighters have the next most generous formula under CSRS. They receive 2.5 percent of high 3 for each of the first 20 years of service and 2 percent for each year of service greater than 20. The least generous formula applies to general employees. It is 1.5 percent of high 3 for each of the first 5 years of service; 1.75 percent for each of the next 5 years; and 2 percent for each year greater than 10. Air traffic controllers are covered by the general employee formula, but they are guaranteed to receive no less than 50 percent of their high 3 at retirement.

One disadvantage for Members under CSRS is that their accrued benefits are reduced when they retire before age 60. The reduction is 1 percent for each year they are between ages 55 and 60 and 2 percent for each year they are younger than age 55. No other group, including congressional staff, is subject to an age-based reduction under the optional retirement provisions.

As an illustration of the effects of the differing benefit formulas, a Member of Congress would receive an annuity equal to 71.25 percent of high-3 at age 55 and 30 years of service (after the reduction of 1 percent of the accrued annuity for each year the Member is younger than age 60) compared to 75 percent for a congressional staff member, 70 percent for a law enforcement officer or firefighter, and 56.25 percent for a general employee or an air traffic controller.

Several other provisions of CSRS treat Members of Congress differently from other employee groups. Some of them are less beneficial for Members, but generally they are advantageous to Members. These are as follows:

- When Members lose an election, they may receive immediate benefits if they are at least age 50 with 20 years of service or any age with 25 years. Congressional staff and general employees who lose their jobs through no fault of their own

³The same benefit formula applies to employees who are federal Claims Court judges, bankruptcy judges, United States magistrates, or judges of the United States Court of Military Appeals.

may also receive immediate benefits at the same ages and years of service. Benefits for all such early retirees are reduced by 2 percent for each year they are under age 55. However, unlike other employees, Members' early retirement benefits are also reduced by 1 percent for each year they are between ages 55 and 60. On the other hand, Members can retire on reduced benefits if they are age 50 and have served in 9 Congresses (18 years). Early retirement after 18 years of service is not available to any other employee group.

- When employees leave their jobs after completing 5 years of service but before qualifying for immediate retirement benefits, they may leave their contributions in the retirement fund and receive their earned benefits later under CSRS' deferred retirement provisions. The deferred retirement provisions are more generous for Members of Congress than for any other group. Deferred benefits for all employees, other than Members, are payable at age 62. Members may receive deferred benefits at age 62 if they had 5 years of federal service; however, they are also eligible for deferred benefits at age 60 if they had 10 years of Member service or at age 50 if they had 20 years of federal service of which at least 10 were Member service.
- Members receive another advantage under the deferred retirement provisions that is not available to any other employee group. When former Members die in the interim between their separation from service and the age at which deferred benefits are payable, CSRS provides annuities to their survivors. Other former employees do not have this survivor protection. If they die before deferred benefit payments begin, the contributions they made to the retirement fund are refunded to the survivors and no further benefits are payable.
- The maximum benefit provisions of CSRS are more favorable to Members. The maximum benefit allowed for other employees is 80 percent of high 3. For Members, the maximum is 80 percent of the greater of their high 3 or full final salary amount.
- The CSRS provisions covering the reemployment of retirees are more beneficial to retired Members. When retired Members are reemployed in either elective or appointive positions, their annuities are suspended and they again become covered by and contribute to the retirement system as if they had not retired. When they subsequently separate from their new positions, their annuities can be reinstated and recomputed with credit for their additional service, regardless of the

length of the reemployment period.⁴ Other retirees who become reemployed by the government continue to receive their annuities, and their salaries are reduced by the amount of the annuity. Unless they are reemployed for at least a year, they earn no additional retirement benefits. They are entitled to a supplemental annuity if they are reemployed for more than a year and make the required contributions, but must work for 5 years or more to have their annuities recomputed based on their total service and new high-3 salary.

- General employees, law enforcement officers, firefighters, and air traffic controllers receive service credit in their benefit calculations for any full months of unused sick leave they have accumulated at the time of retirement. However, CSRS allows the sick leave credit only for employees who are covered by a formal leave system. Since Members of Congress and most congressional staff are not under a formal leave system, they cannot receive the sick leave credit.

SPECIFIC PROVISIONS OF FERS IN WHICH
MEMBERS AND CONGRESSIONAL STAFF
RECEIVE UNIQUE BENEFITS

The Social Security and Thrift Savings Plan parts of FERS are the same for all employee groups, but the FERS pension plan continued the CSRS practice of providing preferential benefits to Members of Congress, congressional staff, law enforcement officers, firefighters, and air traffic controllers. However, some of the differences for Members under CSRS do not exist in the FERS pension plan.

- FERS eliminated the benefit reduction under CSRS that applies to Members of Congress who retire before age 60.
- FERS has no maximum benefit provision. Thus, the higher maximum benefits available to Members of Congress under CSRS do not exist in FERS.
- FERS provides survivor benefits for all employees who die in the interim between separation from service and commencement of deferred annuities if they had completed at least 10 years of service. CSRS makes this benefit available only to Members of Congress.
- FERS does not grant service credit for unused sick leave to any employees, thereby not following the CSRS practice of

⁴Alternatively, the Member's previous annuity can be reinstated and increased by the cost-of-living adjustments that occurred during the period of reemployment.

providing a sick leave credit for all covered employee groups other than Members of Congress and congressional staff.

- FERS eliminated CSRS' preferential treatment of retired Members of Congress who become reemployed by the government. It requires that annuities for all reemployed retirees, including Members, be continued during the reemployment period but deducted from the retirees' salaries. Any reemployed annuitant, including Members, must be reemployed at least 1 year before a supplemental annuity is payable and must be reemployed at least 5 years before the annuity can be recomputed.

The FERS pension plan raised the retirement age for general employees and congressional staff by adopting a Minimum Retirement Age (MRA) concept that gradually increases, from age 55 to age 57, the earliest age at which they are eligible for optional retirement.⁵ However, it continues to allow Members to retire earlier than general employees and congressional staff.

General employees and congressional staff are eligible to retire under the FERS pension plan at the MRA with 30 years of service; at age 60 with 20 years; and at age 62 with 5 years. Members of Congress are eligible to retire at the same age and service combinations, but may also retire without reductions in their accrued benefits at age 50 with 20 years of service or at any age with 25 years. Similarly, law enforcement officers, firefighters, and air traffic controllers can retire at age 50 with 20 years of service or at any age with 25 years.

A FERS provision not in CSRS allows all groups, including Members, to retire at the MRA with 10 years of service. However, the accrued benefits are reduced by 5 percent for each year they are younger than age 62.

The benefit formulas for Members of Congress, congressional staff, law enforcement officers, firefighters, and air traffic controllers are all the same under the FERS pension plan. They receive 1.7 percent of their high-3 salaries for each of the first 20 years of service and 1 percent for each year of service greater than 20.

The formula for general employees is considerably less beneficial. For employees who retire before age 62, the formula is 1 percent of high 3 for each year of service. Any employee who retires at age 62 or older and has at least 20 years of

⁵The FERS MRA is age 55 for general employees and congressional staff born before January 1, 1948. The MRA gradually increases until it reaches age 57 for individuals born after December 31, 1969.

service receives a benefit calculated at 1.1 percent for each year of service.

To illustrate the different FERS formulas, Members of Congress, congressional staff, law enforcement officers, firefighters, and air traffic controllers would all receive 44 percent of their high-3 salaries from the pension plan after 30 years of service. General employees would receive 30 percent if they were younger than age 62 and 33 percent if they were age 62 or older.

REASONS FOR THE CONGRESSIONAL RETIREMENT PROVISIONS

As you deliberate the congressional retirement issue, we thought you might find a discussion of the background of the provisions for Members and congressional staff to be helpful.

Accordingly, we reviewed the legislative history of the two retirement systems in an attempt to identify any reasons that may have been cited for adopting the preferential provisions for Members and congressional staff. Unfortunately, little information was available to explain why the differing provisions exist.

Neither Members nor staff were covered by CSRS when it was enacted in 1920. In fact, the issue of whether Members should be covered at all was apparently quite controversial at the time. Coverage was first extended to Members in 1942, but was rescinded 2 months later because of adverse public opinion. In 1946, Members were again covered and have been ever since. Documents on the 1946 legislation indicated the supporters felt that, by allowing Members to participate in the system, a sense of security would result and would contribute to independence of thought and action by Members. It was also believed that coverage could bring a larger number of younger Members with fresh energy and new viewpoints into legislative service. This explains why it was decided to include Members in the retirement system, but it does not explain why differing benefit provisions were adopted for Members.

Neither does more recent history offer explanation. The CSRS Member provisions differed from those for other employees from the beginning, and have changed a number of times as CSRS evolved. We could find no explanation in the legislative history for the specific provisions covering Members.

Congressional staff were covered by CSRS in 1937--9 years earlier than Members. From 1937 through 1954, these employees were covered by the same provisions as general employees. In 1954, however, a new provision was adopted giving congressional staff the option of having their annuities calculated under the Member

formula for up to 15 years of service with the general employee formula applying to any additional service.

The stated purpose of the 1954 legislation was to recognize the uncertain tenure of congressional staff and the potential impact of that uncertainty on their opportunity to establish an adequate retirement annuity based on years of service. Accordingly, the change enabled staff members who were unable to serve full careers to receive greater retirement benefits after limited periods of service than the general employee formula would provide. However, 6 years later, in 1960, a change made the higher Member benefit formula applicable to all the staff members' years of service. The effect of the change was to allow staff who work full careers in congressional jobs to receive greater annuities than other career federal employees at comparable salary levels. The legislative history was silent as to the reason for this change.

Similarly, we found no explanation as to why the preferential benefits for Members and staff were continued under the FERS pension plan. Apparently, the differential advantages they received under CSRS were simply extended into the new system.

SOME OPTIONS TO ASSIST SUBCOMMITTEE DELIBERATIONS

Our report was a factual comparison of the retirement provisions for the various employee groups in CSRS and FERS. We reached no conclusions about the appropriateness of the differing benefits, nor did we make any recommendations for change. These issues involve policy judgments that should ensue from congressional deliberations. To assist you in your deliberations toward those judgments, you asked us to identify and share with you in our appearance today some options you might wish to consider along with others on how the CSRS and FERS provisions for Members and congressional staff could be changed to accomplish cost savings.

Given the lack of historical explanation for the benefits that are currently in place, it seems to us that an approach the Subcommittee could use for identifying savings possibilities might be to examine whether there is a continuing need for those provisions in the two systems that afford preferential and more costly benefits to Members and congressional staff than general employees receive.

If that examination indicates there is not a continuing need, there are several options for achieving greater consistency among Member, congressional staff, and general employee retirement eligibility requirements and benefit formulas. One option would be to simply make Member and staff provisions the same as those for general employees. Thus, individuals who work the same number of years for the government would receive the same percentage of their high-3 salaries at retirement. S.228,

introduced by Senator Bryan, would partially achieve this objective. The bill would bring the congressional benefit formula in line with the general employee formula. However, it would leave in place the earlier retirement eligibility provisions in CSRS and FERS and other features in CSRS that are applicable only to Members of Congress.

Another option might be to construct the congressional benefit formulas in CSRS and FERS in a manner that would recognize the possibility that congressional careers for both Members and staff can sometimes be cut short before they reach normal retirement eligibility but not give higher benefits to those who are able to serve full careers. There are a couple of ways this could be done. One would be to follow the earlier arrangement for congressional staff under CSRS whereby a higher formula was applied to a specified period of service and the general formula was applied to all other years. Another way would be to adopt the arrangement used for air traffic controllers in CSRS or something patterned after that concept. Controller benefits are calculated under the general employee formula, but, to recognize the possibility of shortened careers, they are guaranteed a benefit of 50 percent of high 3 when they serve at least 20 years. Benefits equal to 50 percent of high 3 are available under the general employee formula after about 27 years of service. Thus, controllers who work longer than 27 years receive no advantage over other employees in their benefit calculations.

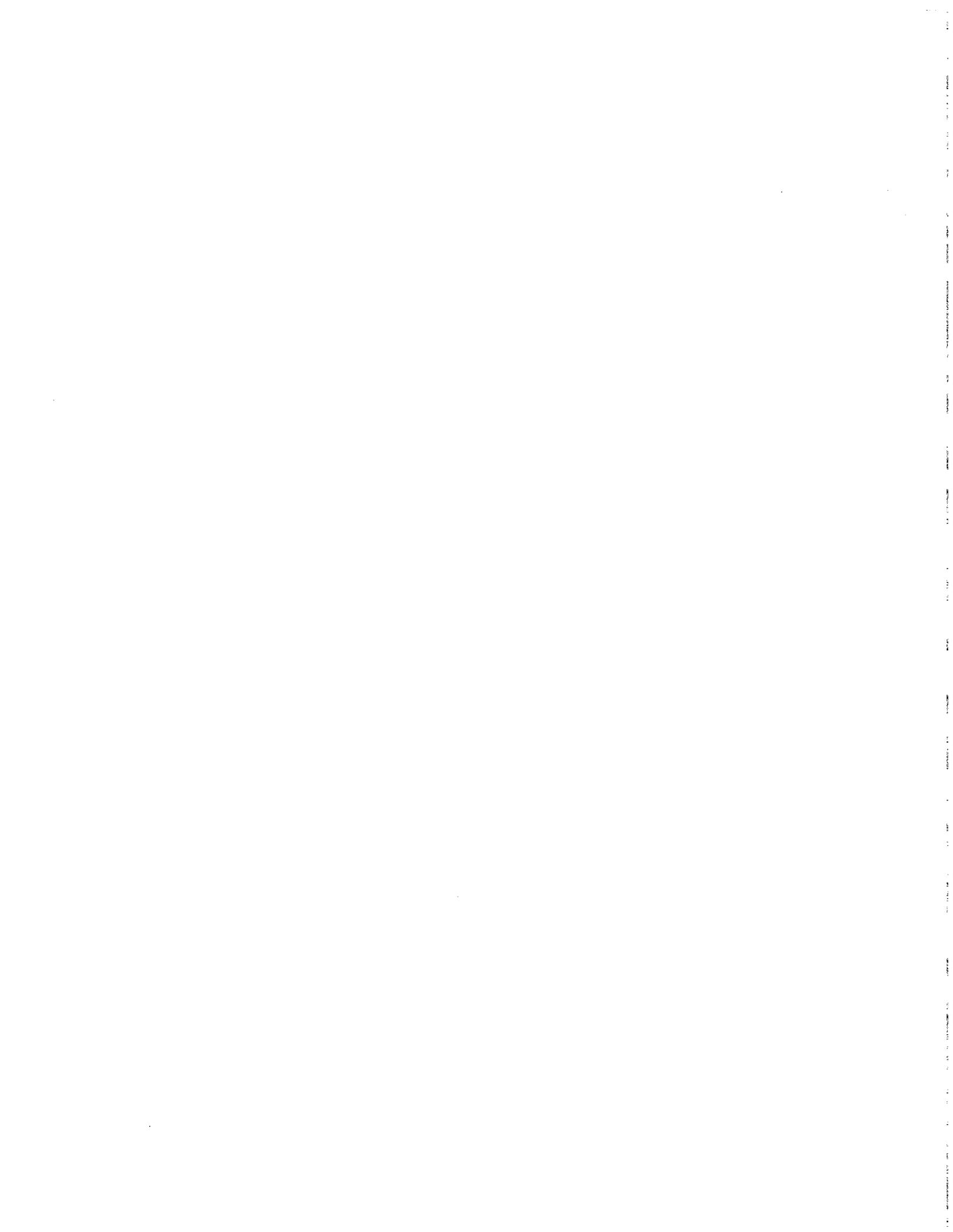
Yet another option would be to leave the basic CSRS and FERS retirement provisions for Members in place but change CSRS to eliminate the preferences for Members that were not continued under FERS, such as the higher maximum benefits allowed for Members, the preferential survivor benefits Members receive under the deferred retirement provisions, and the more generous treatment accorded retired Members who become reemployed by the government. In the interest of consistency, consideration could also be given to eliminating the benefit reductions Members must take under CSRS when they retire before age 60. This would increase costs somewhat, but CSRS does not apply age-based penalties to any other groups retiring optionally under CSRS. Moreover, Members under FERS are not subject to an age-based penalty.

Full consideration of the issues in these options involve policy judgments on inducements for congressional service and tenure. We offer them in response to your request for ideas that the Subcommittee may wish to consider along with options others may suggest as you proceed with your deliberations.

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That concludes my prepared statement. We would be pleased to answer any questions the Subcommittee might have.

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