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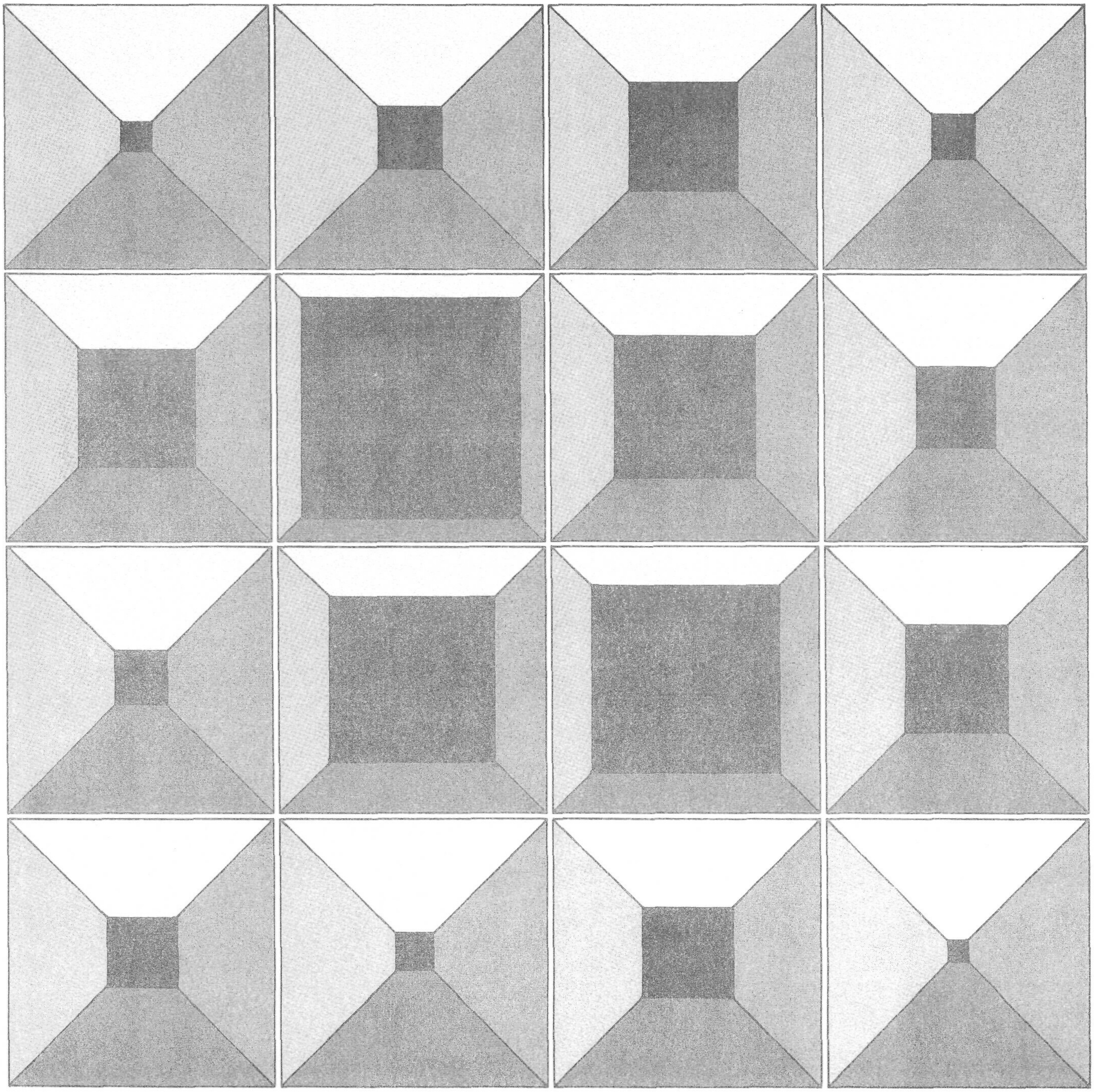
Civil Service Retirement: Financing and Costs

Congress of the United States
Congressional Budget Office



CIVIL SERVICE RETIREMENT: FINANCING AND COSTS

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NOTES

Unless otherwise stated, all dates are expressed in fiscal years.

Projections to the year 2030 are presented in 1980 dollars; annual discounts through 1986 are based on CBO five-year economic assumptions (March 1981) and on an annual 6 percent rate for the remaining years.

The various measures of long-term retirement costs are based on economic assumptions used by the CSR Board of Actuaries: long-term annual rates of 6 percent inflation, 7 percent interest, and 6.5 percent pay increases (in addition to promotions and other increases).

Details in tables may not add exactly to totals because of rounding.

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PREFACE

Current debate about the costs of the Civil Service Retirement (CSR) system has raised concerns about the financial condition of the system, its costs to the government, and the rates at which federal employees and agencies contribute to it. This study, undertaken at the request of the House Budget Committee, addresses these questions and poses several alternative approaches to financing CSR benefits.

Civil Service Retirement was prepared by Sherri Kaplan of the General Government Management staff of CBO's Office of Intergovernmental Relations, under the supervision of Stanley L. Greigg and Earl A. Armbrust. The author gratefully acknowledges the special assistance given by David DelQuadro, Stacy Sheffrin, and Mark Thurber. Johanna Zacharias edited the paper, and Norma Leake typed the various drafts and prepared the paper for publication. In keeping with CBO's mandate to provide objective analysis, the paper offers no recommendations.

Alice M. Rivlin
Director

May 1980

CONTENTS

TABLES

APPENDIXES

SUMMARY

At present, the Civil Service Retirement (CSR) system provides pension coverage for some 2.7 million active federal civilian employees and 1.8 million annuitants. In each of the coming five years, an average of 92,500 more civil servants will retire and begin to draw CSR pensions.

COMPARISON WITH PRIVATE SECTOR RETIREMENT

Retirement under CSR differs markedly from that in the private sector. Benefits under CSR are relatively large when compared to the two-part retirement income of private-sector retirees: an employer-provided pension plan plus Social Security. The two areas in which differences have the most significant cost effects are age of eligibility for retirement and cost-of-living adjustments (COLAs) of benefits. CSR enrollees may draw pensions as early as age 55, and their benefits are kept abreast of inflation by being adjusted twice annually to reflect changes in the Consumer Price Index. These two features are largely responsible for the recent and projected steep growth in CSR outlays.

Under current law, CSR's annual outlays will increase from $14.7 billion to $30.1 between 1980 and 1986. About $10.6 billion (69 percent) of this increase will result from COLAs, and such adjustments become progressively more expensive every year. For example, in October 1980, each one-percentage-point adjustment caused annual outlays to rise by $161 million. By October 1985, each such increase will add some $341 million to annual CSR outlays.

HOW THE SYSTEM IS FINANCED

Despite large and growing outlays, the system's statutory financing provisions assure its present and future solvency. Last year, the CSR trust fund's reserves of $73.6 billion were five times annual outlays; although this ratio is expected to decline in the long run, the reserves will still provide adequate resources at a ratio of more than one and a half times annual outlays.

78-033 0 - 81 - 2

Income from five sources finances the CSR trust fund. By far the largest portion--46.5 percent--comes in the form of annual appropriations from the general fund of the U.S. Treasury. Interest on fund balances furnishes a further 20.7 percent. Another large portion comes from contributions from employing agencies and employees, for most of whom participation is mandatory; the employee and agency shares (each set at 7 percent of payroll) together constitute 26.5 percent to CSR trust fund income. The balance, 6.2 percent, comes from off-budget agencies such as the U.S. Postal Service.

Maintaining the CSR trust fund according to current financing provisions involves considerable out-of-pocket cost to the federal government. This sum is calculated as the difference between the annual income from employee contributions and payments from off-budget agencies, less that year's outlays. In 1980, the CSR cost to the government was $9.6 billion (65.3 percent of outlays), and over the coming five decades, it is projected to grow in 1980 dollars to $20.2 billion (78.0 percent of outlays).

PROS AND CONS OF CSR

Proponents of the CSR system and of maintaining it in its present form stress three points in particular. First, they note that the federal government has the obligation, as a model employer, to protect its retired personnel fully against inflation; this goal is served by the COLA provision of CSR. Second, they point to the tax-exempt status of the Social Security income of private-sector retirees; the generosity of CSR pensions is viewed in part as offsetting this relative private-sector advantage. Third, they point to the relatively lower pay the federal government offers for many comparable jobs in the private sector; again, generous pensions are cited as fair recompense for salary inequities.

On the other side of the debate, the cost to the government is one of the causes of concern about the CSR system. Critics of the present system view its expense as excessive and seek ways of reducing it.

The fact that employing agencies pay only a small share of CSR's federal cost is another source of criticism. The full expense of this important fringe benefit is not accurately reflected in operating agency budgets. Increasing the employing agencies' contributions to CSR has been cited as a way to improve cost accounting and, in turn, budgeting and decisionmaking.

A third criticism arises from the wide disparity between CSR and private-sector retirement practices. Opponents of the present system would like to see the costs or benefits of CSR brought more into line with the private-sector combination of company pensions plus Social Security.

POSSIBLE SOLUTIONS

In response to the above concerns about CSR, the effects of maintaining current law (Option I) and adopting one of three alternatives are outlined below. The net reductions in costs to the government that could be achieved by the three alternatives (Options II-IV) are summarized in the table on the next page.

Option I: Continue Current Financing

Advocates of continuing the status quo point out that current financing mechanisms will continue to provide adequate income to the CSR fund. Opponents argue that the present employee and agency contribution rates do not provide sufficient income to cover the full cost of benefits for either current annuitants or active employees. They further point out that the cost to the government is excessive in comparison with retirement practices in the private sector.

Option II: Increase Agency Contribution Rates to Reflect the Full Cost to the Government

If the agency contribution were to reflect the full cost to the government as computed by actuaries, the rate would have to be increased from 7 to 29.5 percent of payroll. For most agencies, this increase would be offset by a corresponding adjustment in annual appropriations, and thus it would simply represent an internal transfer from one budget account to another with no effect on federal receipts. For off-budget agencies, however, the increased rate could result in additional CSR fund income that would reduce annual costs to the government by $3.2 billion (23 percent) in 1982 and accumulate to $17.8 billion (20 percent) through 1986.

SUMMARY TABLE. PROJECTED CSR COSTS TO THE GOVERNMENT UNDER CURRENT LAW FINANCING AND RELATIVE SAVINGS FROM ALTERNATIVES: 1982-1986, IN BILLIONS OF DOLLARS

	1982	1983	1984	1985	1986	Cumulative Costs to the Government
Costs Under Current Financing (Option I)	14.2	16.2	18.4	20.2	22.2	91.2
	(NET REDUCTIONS UNDER ALTERNATIVES)					
Increase Agency Contribution Rates (Option II)	3.2	3.3	3.3	4.0	4.0	73.4
Increase Employee and Agency Contribution Rates (Option III)	1.0	2.1	3.3	5.1	5.2	74.5
Retain Present Contribution Rates but Limit Certain Benefit Provisions (Option IV)	0.8	1.4	2.1	2.8	3.4	80.7

SOURCE: Congressional Budget Office.

The General Accounting Office believes that this alternative would improve management decisions about the level and nature of federal programs, because personnel costs of federal operations would be more visible and accurately recorded. This approach would not change CSR benefit provisions or employee withholding rates. It would, however, result in substantial increases in CSR reserve levels, with trust fund balances reaching 12.5 times annual outlays in 1986.

Option III: Increase Agency and Employee Contribution Rates

This alternative would incorporate essentially the same CSR funding provisions as Option II, but it would require federal employees to shoulder some of the rate adjustment. Specifically, over the next four years, employee contributions to the CSR fund would increase from 7 to 9 percent of pay, while employing agency rates (reflecting the remaining actuarial cost) would increase from 7 to 27.5 percent of payroll.

Because of phased-in implementation, this alternative would initially yield a smaller reduction in federal costs than would Option II. But in 1986, it would yield the greatest annual savings to the government among the alternatives considered--$5.2 billion (23 percent) below current financing.

Increasing the employee withholding rate from 7 to 9 percent of pay would bring CSR's long-term cost to the government into line with private-sector standards. Employee organizations would oppose this alternative, because any mandatory increase in employee withholding rates would widen existing disparities in take-home pay between many federal employees and their private-sector counterparts.

Option IV: Retain Current Contribution Rates but Limit Benefits for Early Retirement and Cost-of-Living Adjustments

This approach would reduce the government's cost for CSR by limiting cost-of-living adjustments in benefits to once a year and to 70 percent of changes in the Consumer Price Index. Also, a reduction in initial benefits for persons who choose to retire before age 65 would be phased in over 20 years, eventually reaching 10 percent at age 60 and 20 percent at age 55. The 20 percent maximum reduction would still be less severe than early retirement reductions required by private pension plans and Social Security. The government's cumulative five-year savings, relative to current law, could total $10.5 billion (12 percent).

This option would be supported by critics who view current CSR cost-of-living and early retirement provisions as too generous and costly to the government when compared to private-sector practices. CSR beneficiaries might point to the argument mentioned above concerning the federal government's responsibility as a model employer. Obviously, this plan would have particularly little appeal to retirees during a period of high inflation.

CHAPTER I. INTRODUCTION

The Civil Service Retirement (CSR) system now covers some 2.7 million active federal civilian workers and 1.8 million annuitants currently drawing retirement, disability, or survivor benefits. 1/ From 1981 through 1986, an average of 92,500 federal employees will retire each year under the CSR program. Participation in CSR is mandatory for most federal employees and usually requires a payroll withholding fixed by law at 7 percent of salary. 2/ The employee contribution, equivalent to a payroll tax, is matched dollar-for-dollar by the employing agency. Employee and agency contributions are far from adequate to finance future benefits for current employees, however; nor do they cover annual benefit payments to present CSR annuitants. The remaining amounts needed are paid by the federal government.

The costs of CSR have been rising sharply. For instance, between 1970 and 1980, annual CSR outlays have grown from $2.7 billion to $14.7, and they are estimated to reach $30.1 billion in 1986. This represents a $15.4 billion increase in annual outlays in the next six years, of which $10.6 billion (69 percent) will result from automatic post-retirement cost-of-living adjustments (COLAs). These adjustments are becoming progressively more expensive every year, because of increases in the numbers of annuitants, the upward trend of wages, and the compounding of COLAs on previous such adjustments. In October 1980, each one-percentage-point adjustment caused annual outlays to increase by $161 million, while in October 1985, each one-percentage-point adjustment is projected to add $341 million to annual outlays.

1/ Appendix A provides summary information on the characteristics of CSR annuitants.

2/ The statutory provisions for financing CSR were last changed by the Civil Service Retirement Amendments of 1969 (Public Law 91-93). Contribution rates differ slightly for certain groups of federal employees. For example, Congressional staff and workers on hazardous duty contribute 7.5 percent of pay; Members of Congress contribute 8 percent of pay.

These trends of growing costs have given rise to concern about the adequacy of current CSR financing, the accountability of CSR costs in federal programs, as well as whether or not CSR costs and benefits should be reduced. In response to these concerns, this paper addresses the following questions:

- o Should federal programs reflect the full cost of CSR?
- o Is the system's cost to the federal government excessive?
- o Do current provisions ensure the CSR fund an adequate income?

The remainder of this chapter presents an overview of the current CSR program--its financing provisions, its costs to the government, and a comparison with retirement provisions in the private sector. Chapter II analyzes CSR financing issues; and Chapter III describes possible modifications to the current system.

CSR FINANCING

In practice, the CSR program operates on a pay-as-you-go basis, inasmuch as current income from CSR employee withholdings and general revenues pays for the benefits of current annuitants. With the exception of payments from certain off-budget federal agencies (discussed below), only federal employee contributions directly offset the budgetary costs of CSR. The CSR trust fund serves mainly a bookkeeping purpose within the federal budget. 3/

The CSR Fund. The CSR program is reflected in the federal budget as a trust fund account. The fund serves as a repository into which various payments are deposited as income and from which benefits and administrative expenses are paid. Payments into the fund, counted as budget authority, consist of payroll withholdings from federal employees, agency contributions, interest earned on fund investments, and appropriations from the general fund of the U.S. Treasury--the major source of CSR financing (see Table 1).

3/ For a discussion of the budgetary impact of federal trust fund accounts see CBO, Federal Financial Reporting (June 1977), pp. 12-15.

TABLE 1. CSR TRUST FUND FINANCING, BY SOURCE: FISCAL YEAR 1980

Source	Dollar Amount Contributed (in Billions)	Percent of Total Funding
Employee Contributions	3.6	14.9
Employing Agency Contributions	2.8	11.6
Off-Budget Agency Contributions	1.5	6.2
Earned Interest and Other Income	5.0	20.7
Appropriations from the General Fund of the U.S. Treasury	11.2	46.5
Total Trust Fund Income	24.2	100.0

SOURCE: U.S. Budget Appendix for Fiscal Year 1982, p. I-V118.

Annual appropriations from the Treasury, authorized by the Civil Service Retirement Amendments of 1969, currently make up 46 percent of income to the CSR trust fund. These payments reimburse the CSR fund for costs associated with prior military service by CSR annuitants, annual pay raises for federal civilian workers, and interest earnings not realized, primarily because the fund does not receive sufficient income from employee and employing agency contributions.

Only two sources of CSR fund income--employee withholdings and payments from off-budget agencies--constitute budget receipts and thus offset CSR costs. The U.S. Postal Service (USPS) accounts for nearly all of the payments from off-budget agencies. Current law requires USPS to match its employee contributions to CSR and to pay additional amounts for retirement liabilities associated with collective bargaining agreements affecting postal salaries. The other sources of CSR income are merely internal transactions among budget accounts. They do not affect budget receipts or CSR costs because they are only internal accounting entries, not payments to or from the federal government. As income to the CSR fund, however, they affect budget authority totals.

78-033 0 - 81 - 3

TABLE 2. PROJECTED ANNUAL CSR COST TO THE GOVERNMENT: SELECTED FISCAL YEARS TO 2030, IN BILLIONS OF 1980 DOLLARS

	1980	1990	2000	2010	2020	2030
Total Outlays	14.7	18.1	20.4	22.3	24.4	25.9
Income from Employee Withholdings and Off-Budget Agencies (-)	-5.1	-4.5	-5.0	-5.2	-5.4	-5.7
Cost to the Government	9.6	13.6	15.4	17.1	19.0	20.2
As a percent of total outlays	(65.3)	(75.1)	(75.5)	(76.7)	(77.9)	(78.0)

SOURCE: Derived by the Congressional Budget Office from estimates prepared by the Office of Personnel Management.

The Costs to the Government of CSR

The cost to the government of CSR--that is, the government's annual out-of-pocket expense--is calculated as the difference between CSR outlays and receipts from employee withholdings and from off-budget agencies. Over the next half century, the annual cost to the government will reach $20.2 billion (in 1980 dollars), an increase of 110 percent over present levels (see Table 2). A substantial part of CSR's cost increases will result from cost-of-living adjustment provisions, which automatically increase CSR benefits for inflation. For example, by 1986, the estimated annual cost to the government will rise from $12.1 billion in 1981 to $22.2 billion (nominal dollars). About 89 percent of this $10.1 billion increase will result from COLAs that have not yet occurred (September 1981 through March 1986). The remainder will be caused by changes in the number of annuitants and their wage and work histories.

CSR COMPARED WITH RETIREMENT IN THE PRIVATE SECTOR

Comparing the retirement provisions for federal civilian employees with retirement in the private sector involves contrasting a single, one-source pension program--CSR--against a dual one: a private pension plan in tandem with Social Security. (In reality, however, only half of the workers covered by Social Security also participate in a private-pension plan.) Federal civil service is not covered by Social Security, and the CSR system is therefore designed to provide adequate retirement income that substitutes for the combination of a private employer's retirement plan and Social Security. Unless otherwise indicated, the information on private-sector retirement practices is based mainly on a 1977 survey of 448 companies, which together employed a total of 5 million workers. 4/

The CSR system shares certain features with both private retirement plans and Social Security, but in more ways, it differs. A major distinction concerns the redistribution of income. Social Security is unique in this regard, in that recipients whose earnings were low throughout their careers tend to receive proportionately greater Social Security benefits. The same applies to retirees with greater needs associated with a nonworking spouse or with a large number of dependents. Neither CSR nor most private-sector plans have this redistribution effect; they base benefits on salary and length of service. A related distinction results from the tax-exempt status of Social Security income, a feature not shared either by CSR or any private pension plan. 5/

5/ The private-sector advantage from tax-exempt Social Security income is described in CBO, Compensation Reform for Federal White-Collar Employees (May 1980), pp. 22-24. For further description of the taxation of retirement income, see Congressional Research Service, Federal Income Tax Treatment of Retirement and Disability Income (July 13, 1977).

4/ The data were drawn from the annual Hay/Huggins Non-Cash Compensation Survey (Spring/Summer 1977) and were analyzed for CBO by Hay Associates (see Appendix C). For information on CSR benefit levels and those provided in the private sector, see previous CBO studies: Options for Federal Civil Service Retirement: An Analysis of Costs and Benefit Provisions (December 1978); Federal White Collar Employees--Their Pay and Fringe Benefits (April 1979); Compensation Reform for Federal White Collar Employees: The Administration's Proposal and Budgetary Options for 1981 (May 1980); and Alternative Approaches to Adjusting Compensation for Federal Blue-Collar Employees (November 1980).

Other major points of comparison include the following:

- Employee contributions,
- Age of retirement, and
- Adjustments for the cost of living.

Employee Contributions. All but a few employees in the private sector contribute to the Social Security system (now 5.35 percent of pay--if the portion for Health Insurance is excluded--on earnings up to a maximum annual amount of $29,700) but not to private pension plans, most of which are fully paid for by employers. If federal white-collar employees, as a group, contributed only to Social Security according to future withholding increases scheduled by the Social Security Amendments of 1977, the withholding rate for retirement would average 5 percent of payroll. (This estimate, expressed as a percent of total employee earnings, reflects the average withholding over the careers of active federal white-collar workers as a group.)

Although the federal employee contributes 7 percent of pay for CSR, retirement benefits are more generous--mainly because of provisions for retirement before age 65 and for automatic cost-of-living adjustments. These two features most sharply distinguish CSR from retirement practices in the private sector and contribute significantly to CSR outlays--the COLA provisions being the single most important cause of rising CSR costs.

Age of Retirement. Federal employees retire at much earlier ages than do employees in the private sector. 6/ Under the CSR system, federal employees may retire as early as age 55 if they have served 30 years in government employment. 7/ Both private

6/ Appendix B compares CSR and private-sector age retirement.

7/ Some civil service employees may receive a pension before age 55 if they retire under special provisions for law enforcement officers or firefighters, if they are employed by an agency undergoing a cutback or reorganization, or if they are laid off for reasons other than misconduct or delinquency. In the latter two cases, the annuity is reduced by 2 percent for each year the employee is under age 55. For further discussion see, General Accounting Office, Voluntary Early Retirements in the Civil Services Too Often Misused (December 31, 1980).

pension and Social Security benefits are usually based on retirement at age 65. Most private plans do allow earlier retirement, but the benefits are reduced, typically by 3.5 percent for each year from age 64 down to age 60 and by 4 percent for each year below age 60. Persons younger than 62 cannot receive Social Security benefits, and for persons between ages 62 and 64, these benefits are reduced by 6.66 percent per year.

Cost-of-Living Adjustments. Like Social Security recipients, CSR annuitants receive automatic adjustments for increases in the cost of living, but the CSR adjustments occur twice rather than once a year. In both programs, the adjustments recover the full increase in inflation as measured by changes in the Consumer Price Index (CPI). 8/ According to the General Accounting Office (GAO), federal COLA provisions are far superior to those available to retirees from private industry or from other employment not covered by CSR. 9/

Various studies of post-retirement cost-of-living adjustments support the conclusion that federal retirees receive better protection from inflation than is generally available in the private sector. (Appendix C summarizes recent surveys that have collected data on cost-of-living adjustments available to private-sector retirees.) Most significantly, only a small proportion of private-sector plans (3 to 8 percent) have an explicit COLA provision, and most of these limit the adjustment to a maximum annual increase of 2 to 5 percent. Nearly 40 percent of private-sector plans do not grant cost-of-living increases of any kind. As a group, retirees with private pension plans receive COLAs averaging between only 30

8/ The CPI is criticized as a measure for adjusting federal benefit programs because it has overstated the decline in purchasing power in recent years. See for example, CBO, Paying for Social Security: Funding Options for the New Term (February 1981); An Analysis of President Reagan's Budget Revisions for Fiscal Year 1982 (March 1981); and a forthcoming CBO study on the CPI and alternative measures of inflation.

9/ Letter report from the Comptroller General of the United States to the Honorable James M. Hanley, July 1, 1980.

and 33 percent of changes in the CPI. If CSR COLAs were adjusted according to provisions of a typical private pension plan in combination with Social Security, the pension adjustments would recover--over a period of years--approximately 70 percent of the annual rate of inflation. 10/

10/ The estimated 70 percent recovery from inflation for private-sector retirement is described in CBO, Options for Federal Civil Service Retirement (December 1980), pp. 16-20.

CHAPTER II. CSR FINANCING ISSUES--SOLVENCY, ACCOUNTABILITY, AND COSTS TO THE GOVERNMENT

Changing the financing mechanisms of the CSR system could be considered primarily for two purposes:

- o To improve the accountability of CSR costs in agency operations, and

- o To lower the system's costs to the federal government.

In addition, the future solvency of the system has been questioned, and there have been recommendations advanced to enhance CSR's financial solidity. The first portion of this chapter assesses the need to fortify the CSR system further.

THE FINANCIAL CONDITION OF THE CSR TRUST FUND

According to analysis of projections by the Office of Personnel Management (OPM), which administers CSR, the CSR system's present financing provisions will continue to keep the system on a sound footing--mainly because of appropriations from the general fund of the U.S. Treasury, which now make up roughly half of the fund's annual income (see Table 1 in Chapter I). This suggests that concern about CSR's future solvency is unwarranted.

The financial condition of the CSR fund, as an internal budget account, can be assessed by analyzing its cash position--that is, the relationship of annual fund income to outgo. 1/ In fiscal year 1980, CSR income from all sources exceeded the year's outlays by about $9.5 billion, and balances in the fund increased from $64.1 billion to $73.6 billion--a ratio of five times the year's outlays. CBO analysis of long-range OPM projections shows this ratio steadily declining throughout the next 50 years, but it shows CSR still operating from a sound cash position in the year 2030, when the margin will be more than one and a half times annual outlays (see Table 3).

1/ This analysis should not be confused with the CSR cost to the federal government. This aspect is addressed in the last portion of this chapter.

TABLE 3. PROJECTED RATIO OF CSR RESERVES TO OUTLAYS: SELECTED FISCAL YEARS TO 2030, IN BILLIONS OF 1980 DOLLARS

	1980	1990	2000	2010	2020	2030
Reserves	73.6	84.5	87.9	82.7	65.9	41.0
Outlays	14.7	18.1	20.4	22.3	24.4	25.9
Ratio of Reserves to Outlays	5.0:1	4.7:1	4.3:1	3.7:1	2.7:1	1.6:1

SOURCE: Prepared by the Congressional Budget Office from data supplied by the Office of Personnel Management.

Between 1970 and 1980, general fund appropriations (plus interest) added some $59.7 billion to the CSR fund. Without these sizable payments, CSR fund balances would be exhausted during 1982, leading to larger deficits in subsequent years. By 1986, the deficit would have accumulated to about $79.3 billion. But the continued appropriation of general funds called for under current law assures the availability of substantial fund balances to meet future CSR requirements. During the next five decades, general fund appropriations to the CSR trust fund will increase from $11.2 billion to $14.8 billion (in 1980 dollars).

The CSR fund's dependency on general fund appropriations can be illustrated by identifying annual CSR outlays not covered by contributions from either employees or from employing agencies. Dependency on general fund appropriations is estimated to increase from $6.7 billion in 1980 to $17.3 billion (in 1980 dollars) in the year 2030, when general fund payments will cover two-thirds of annual CSR outlays (see Table 4).

Another Perspective--Viewing CSR as a Private Pension Plan

Although CSR is not a private pension plan, some people assess it as such. Judged in the same terms as a private plan, the CSR system is not actuarially sound, largely because future cost-of-living adjustments are not now fully taken into account. From this

TABLE 4. PROJECTED CSR DEPENDENCY ON GENERAL FUND APPROPRIATIONS: SELECTED FISCAL YEARS TO 2030, IN BILLIONS OF 1980 DOLLARS

	1980	1990	2000	2010	2020	2030
Total CSR Outlays	14.7	18.1	20.4	22.3	24.4	25.9
Contributions from Employees and Employing Agencies (-)	-8.0	-6.9	-7.6	-7.9	-8.2	-8.6
Dependency on General Fund Appropriations	6.7	11.2	12.8	14.4	16.2	17.3
As a percent of total outlays	(45.6)	(61.9)	(62.7)	(64.6)	(66.4)	(66.8)

SOURCE: Derived from estimates prepared by the Office of Personnel Management.

perspective, financial inadequacy is often measured by estimates of "unfunded liability." In the CSR system, unfunded liability is the cost of future benefits for current employees and annuitants, less the trust fund's assets (that is, current reserves plus future income).

CSR's "Unfunded Liability." According to calculations by OPM, CSR unfunded liability more than doubled, from $52.8 billion to $166.4 billion, in the decade 1970-1980. 2/ This increase occurred largely because of the automatic cost-of-living adjustments in benefits. For example, the two COLA raises effective in 1980 (6.0 percent in March and 7.7 percent in September) increased CSR unfunded liability by $20.4 billion. Based on traditional calculations, CSR's unfunded liability could reach $255 billion by the end of 1986, reflecting only estimated COLAs up to that time.

2/ According to the OPM, the $52.8 billion in unfunded liability as of June 30, 1970 included $1.6 billion that was incurred when the system was created, $4.3 billion for deficiency in subsequent government contributions, and $46.9 billion for pay and benefit increases and COLAs.

78-033 0 - 81 - 4

Traditional OPM calculations of CSR unfunded liability fail to take into account both future pay raises and COLAs. If these two factors were included in the computation (assuming present contribution rates), the resulting unfunded liability would be more than three times the traditional estimate--some $840 billion, rather than the estimated $255 billion. 3/ On this basis, about 63 percent of CSR liability is unfunded.

Shortcomings of Unfunded Liability Measures. For several reasons, measures of unfunded liability do not provide a useful standard for assessing the financial condition of CSR as a public pension plan. They reflect only the revenues and costs associated with however many participants (active employees and annuitants) are covered at the time the calculation is made; thus, they disregard the cash-flow effects of new participants in the system.

More important, because CSR is backed by a permanent institution--the federal government--the system does not need full funding as a safeguard against bankruptcy or insolvency, prospects that cannot be overlooked in private pension plans. The taxing power of the federal government provides the ultimate assurance that federal retirement benefits can be paid.

ACCOUNTABILITY OF CSR COSTS IN AGENCY BUDGETS

The long-term actuarial cost of CSR, expressed as a level percent of payroll, is estimated by the CSR Board of Actuaries at 36.5 percent. Subtracting the employee contribution (7 percent of payroll) leaves a federal cost for CSR of 29.5 percent of

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3/ The unfunded liability estimate of $840 billion for 1986, revised from a previous CBO estimate, is based on long-term economic assumptions used in the most recent valuation by the CSR Board of Actuaries. Over the next 50 years, annual inflation is assumed to average 6 percent; CSR rate of return on investments 7 percent; and annual pay increases (in addition to promotions and longevity pay increases) 6.5 percent. The estimate reflects the existing contribution rates, cost and financing of past and future pay raises, and the exclusion of appropriations for interest forgone on unfunded liability.

payroll. 4/ This estimate includes the effects of both future salary increases and future annuity adjustments. Because the employing agency contribution rate is now set at 7 percent of pay, rather than at the full federal cost of 29.5 percent, the true cost is greatly understated in agency operations.

Even though federal payments partly compensate the CSR fund for the lower contribution rate, program managers are not required systematically to use accurate data on the true costs of their programs. For example, the 7 percent agency contribution rate understates the average personnel cost (pay and fringe benefits) for the Internal Revenue Service and the Social Security Administration. Consequently, the 1981 operating costs for these two agencies are understated by $28 million (17 percent) and $329 million (12 percent), respectively.

Both GAO and CBO have observed that raising the employing agencies' contribution rates to reflect the full federal cost of CSR could, by improving cost accounting, also improve programmatic and budgetary decisionmaking. 5/ The Office of Management and Budget requires agencies to consider the full cost of CSR when deciding whether to assign work in-house or to contractors. 6/ For other decisions, however, managers do not uniformly include the full federal cost of CSR when assessing program costs and benefits, levels of service, methods of operation, or capital investment decisions.

4/ The long-term actuarial cost of CSR is calculated as the present value of prospective CSR benefits as a percent of the present value of payroll during active employment. The estimate (based on workforce characteristics concerning years of federal work, age, income, sex, and marital status) reflects the number of employees expected to die, become disabled, retire, or otherwise terminate employment at different ages.

5/ See General Accounting Office, Federal Retirement Systems: Unrecognized Costs, Inadequate Funding, Inconsistent Benefits (August 1977) and CBO, Retirement Accounting Changes: Budget and Policy Impacts (April 1977). The CBO study addresses the need for cost recognition for military and civilian retirement within the defense agencies.

6/ Executive Office of the President, Office of Management and Budget, Cost Comparison Handbook, Supplement No. 1 to OMB Circular No. A-76 (March 1979), and Transmittal Memorandum No. 5 (September 1980).

GAO further notes that the present 7 percent agency contribution rate results in unrecognized subsidies to various public enterprises. 7/ These subsidies, amounting to an estimted $2.7 billion in 1981, mainly benefit the U.S. Postal Service and the government of the District of Columbia.

Because of its size and its unique financial relationship to the CSR program, the Postal Service deserves special attention in considering agency accountability for retirement costs. The USPS contributions to CSR (described in Chapter I) have the effect of reducing federal outlays somewhat, but they do not cover the full cost of CSR benefits for postal employees. The resulting indirect subsidy to USPS derives from two aspects of current CSR financing: that the 7 percent agency contribution rate does not reflect the full federal CSR cost; and that the USPS is not charged for its share of general fund payments for reduced interest earnings in the CSR fund. Together, these two features generate indirect subsidies--in the form of lower costs to USPS--estimated at $3.7 billion for 1981.

Estimates of CSR cost, as a level percent of pay, are highly sensitive to long-term economic assumptions and actuarial techniques. For example, OPM analysis indicates that a one-percentage-point increase in the assumed interest rate could decrease overall CSR costs from 36.5 percent of pay to about 27 percent. On the other hand, a comparable increase in the annual rates assumed for either federal pay raises or inflation could raise overall CSR costs to nearly 41 percent of pay. Given the sensitivity to long-term economic assumptions, one can argue that actuarial measures of CSR costs are unreliable bases for altering the agency contribution rate.

THE REASONABLENESS OF CSR COSTS

No statutory or generally agreed-upon criterion exists for evaluating the reasonableness of CSR benefits and the associated federal costs. Employee organizations, for example, maintain that CSR's costs to the government are warranted by the government's commitment to retirees and by its responsibility as a model employer. From this perspective, retirement practices in the private sector are not a proper basis for comparison. Other

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7/ GAO, Federal Retirement Systems. The $2.7 billion in estimated subsidies derives from the current agency contribution rate that does not reflect the full federal costs of CSR.

justifications maintain that a liberal federal retirement system is fair recompense for federal salary levels, which, in many cases, are lower than earnings for equivalent work in the private sector.

On the other hand, taxpayers as well as some civil servants and federal managers may view CSR costs as excessive--especially when compared to private-sector pay and benefit practices. From a managerial viewpoint, recruitment and retention of qualified federal employees might be enhanced if a deferred fringe benefit such as retirement were decreased somewhat to permit higher salaries. Many professionals and younger employees, who do not foresee long government careers, or who have a choice between federal and nonfederal work, may attach greater importance to salaries than to retirement benefits.

This tradeoff is especially critical in view of the limitations on federal pay raises that have been imposed in each of the last three years and that are proposed again for this year. The Administration has proposed legislation that would significantly limit the October 1981 federal pay adjustments; the proposal involves inclusion of the dollar value of fringe benefits. Under the new plan, the size of annual pay adjustments through 1983 would be further reduced to reflect a policy that federal compensation (pay and fringe benefits) be lower than that for similar nonfederal jobs. 8/

Civil Service Retirement Compared to Private Sector Practice

Although federal employees contribute more toward their retirement program than they would under a private plan combined with Social Security (see Chapter I), CSR annuitants receive greater benefits. From this point of view, CSR's costs to government as employer are excessive.

If federal white-collar employees, as a group, were covered by a representative private plan plus Social Security, the federal cost (as a level percent of payroll) could range between 21 and 23

8/ For detailed analysis of previous pay reform proposals see CBO, Compensation Reform for Federal White-Collar Employees (May 1980) and Alternative Approaches to Adjusting Compensation for Federal Blue-Collar Employees (November 1980).

TABLE 5. CSR COMPARED TO PRIVATE SECTOR RETIREMENT PRACTICE--COSTS NOT PAID BY EMPLOYEES: AS A LEVEL PERCENT OF PAYROLL

	High Differential	Low Differential
(Civil Service Retirement)		
Total Cost	36.5	30.3 a/
Employee Contribution (-)	-7.0	-7.0
Cost not paid by employees	29.5	23.3
(Private Sector Retirement)		
Total Cost	24.2 b/	23.7 a/
Advantage from Tax-Exempt Income (+)	+3.5	+2.7
Value of Employee Contribution to Social Security (-)	-5.0	-5.0
Cost not paid by employees	22.7	21.4
Difference Between CSR and Private Sector Retirement	6.8	1.9

NOTES: Costs and contributions expressed as a level percent of payroll. Private-sector retirement includes representative private pension plans plus a constant value for Social Security of 15.7 percent of pay.

a/ Estimates incorporate data supplied by Hay Associates.

b/ Estimates incorporate illustrative data supplied by the Office of Personnel Management, Standardized Cost Estimates of 'Typical' Benefit Plans (May 25, 1979).

percent. This cost would be 2 to 7 percent of pay lower than the cost of current CSR provisions, depending on the particular method, data, and assumptions used in the comparison (see Table 5). 9/

The 7 percent differential shown in the table derives from an OPM illustration of a private pension plan that includes COLA provisions recovering 25 percent of the increases in the CPI. 10/ The lower differential of 2 percent is based largely on analyses prepared for CBO by Hay Associates using different actuarial techniques. The estimate also assumes that private pension COLAs would average 30 percent of CPI changes. Both the high and low differentials use the same economic assumptions supplied by the CSR Board of Actuaries, cost estimates for Social Security, and the estimated advantage from the tax-exempt status of Social Security income. To express the comparison between CSR and private-sector retirement costs another way, the CSR employee withholding rate could be increased from 7 to at least 9 percent of pay without creating a disadvantage in the value of retirement benefits not paid by federal employees.

If the costs to the federal government of the CSR system are regarded as excessive, there are only two ways to decrease them: either reduce benefit levels, or increase employee contributions. Both approaches are described in the following chapter.

9/ Previous CBO papers have compared CSR and private-sector retirement benefits and indicated the difficulty of quantifying such comparisons. See Options for Federal Civil Service Retirement (December 1978); Federal White Collar Employees (April 1979); and Compensation Reform for Federal White-Collar Employees (May 1980).

10/ The 7 percent differential could be even higher if other cost assumptions now being considered by OPM were used, particularly those concerning Social Security and related tax considerations.

CHAPTER III. ALTERNATIVE CONTRIBUTION RATES AND BENEFIT PROVISIONS

In considering what if any action to take with regard to Civil Service Retirement, the Congress will want to weigh several factors. The goals that could be achieved by changing the present mechanisms of CSR--particularly by altering contribution rates--include improving the system's accountability in federal agency operations, lowering CSR's overall cost to the government, and bringing federal retirement closer to the practices that prevail in the private sector.

As the following discussion of various options makes clear, these objectives need not be mutually exclusive. Several goals could be met by taking the same course of action. Or, as is always the case, the Congress could decide that the present system is satisfactory, or at least optimal, in which case, a continuation of current law (Option I) would be the obvious course. The alternatives, all of which would involve Congressional amendments of current CSR authorizing legislation, focus either on improving cost accountability (Option II) or on reducing federal costs (Options III and IV). The changes entailed in the alternatives to current law would be brought about by:

- o Increasing agency contributions to CSR to reflect the system's full federal costs (Option II),
- o Increasing employees' and employing agencies' contributions (Option III), or
- o Maintaining present contribution rates but limiting benefits for early retirement and cost-of-living adjustments (Option IV).

The following table summarizes the major financing provisions of each option. 1/ The changes in Options II and III include a new basis for annual appropriations to CSR from the general fund of the Treasury.

1/ Appendix D displays the distribution of income to the CSR system under the various options.

TABLE 6. SUMMARY OF MAJOR FINANCING PROVISIONS OF OPTIONS

	Employee Withholding Rate as a Percent of Pay	Employing Agency Contribution Rate as a Percent of Pay	Appropriations from U.S. Treasury
Option I	7	7	Continues reimbursements for costs associated with military service, federal pay raises, and lower interest earnings
Option II	7	29.5	Limits reimbursements to costs associated with past pay raises and amortizes unfunded liability a/
Option III	9 (phased in over 4 years)	27.5 (phased in over 4 years)	Same as Option II
Option IV	7	7	Same as Option I except that reduced benefits will decrease reimbursements for military service and lower interest earnings

SOURCE: Congressional Budget Office.

a/ Under Options II and III, the annual general fund appropriations will amortize CSR unfunded liability at 7 percent over a 75-year period, the unfunded liability being calculated as of September 30, 1981 and to include the impact of future COLAs for existing annuitants.

OPTION I. CONTINUE CURRENT LAW

Analysis of OPM's projections of CSR fund income and outgo over the next 50 years indicates that fund reserves, though declining under present financing, would still have a margin of about 1.6 times annual outlays by the year 2030. The cost to the government, however, would continue to be excessive in comparison with private-sector practices. If benefit levels, the tax-free status of Social Security income, and employee contributions are considered together, the present CSR cost to the government might be 1.9 to 6.8 percent of pay greater than private-sector practices. Thus, continuing current law both would retain the relative advantage of federal retirees and the more expensive associated costs to the government.

Opponents of the present system note that the existing contribution rates do not bring the true cost of federal retirement to light in agency operations, and thus they conceal part of federal personnel costs. Other critics, who assess CSR in terms of private pension plans, also point out that current financing is actuarially inadequate according to measures of unfunded liability (see Chapter II).

Advocates of current financing provisions note that CSR, unlike most private pension plans, operates on a pay-as-you-go basis. Calculations of unfunded liability are considered an artificial and inappropriate basis for determining the CSR fund's financial condition. They also point out that the taxing power of the federal government--not the condition of the CSR fund--ultimately assures that future CSR obligations will be met.

OPTION II. INCREASE AGENCY CONTRIBUTION RATES TO REFLECT THE FULL COST TO THE GOVERNMENT

Both the CSR Board of Actuaries and GAO have made recommendations that would effectively increase most agency contributions from 7 percent to about 29.5 percent of payroll. 2/ The new rate

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2/ General Accounting Office, Federal Retirement Systems: Unrecognized Costs, Inadequate Funding, Inconsistent Benefits (August 1977). The Board of Actuaries of the Civil Service Retirement System, 57th Annual Report (November 1979). For further discussion on cost accounting, see CBO, Retirement Accounting Changes: Budget and Policy Impacts (April 1977).

would represent the difference between the full actuarial cost, which includes the impact of future COLAs and annual pay increases, and the present employee contribution rate. GAO believes this alternative would improve management decisions about the costs and nature of federal programs. It would not, however, change present CSR benefit provisions or employee withholding rates.

This option would improve cost accounting and thus, the basis for agencies' programmatic and budgetary decisions. Consistent with current regulations concerning contracting for certain services, Option II would require that agency operating budgets recognize the full federal cost of retirement for active employees.

Because of the increased agency contributions, Option II would eliminate needs to reimburse the fund for benefit costs attributable to military service and to amortize CSR costs associated with future federal pay raises. In addition, general fund appropriations would amortize unfunded liability rather than compensate the CSR fund for interest. 3/ Option II's financing changes would increase annual income to the retirement fund by a net amount of $55.4 billion in 1986, including $17.6 billion in agency contributions (including $4.0 billion from off-budget agencies) and $17.0 billion in federal payments appropriated from the general fund. The additional income during the first five years (1982-1986) would increase accumulated reserves by $230.6 billion, reaching 12.5 times outlays in 1986. In light of the buildup of reserves, lowering the general fund appropriations could be considered.

Increasing the agency contribution rate from 7 percent of pay to 29.5 percent would reduce CSR's annual costs to the government because of the additional receipts from off-budget agencies. The extra income, mainly from the U.S. Postal Service, would begin at $3.2 billion in 1982 and accumulate to $17.8 billion through 1986 (see Table 7). The higher agency contribution rate would eliminate present indirect CSR subsidies to off-budget enterprises, but the costs would eventually be reflected in higher postage rates and other government charges. These consequences could be avoided by enacting corresponding increases in direct federal payments to off-budget agencies, but doing so would cancel out the reduction in federal costs.

3/ A 75-year amortization of unfunded liability (estimated at $480 billion for September 30, 1981) would require annual federal payments of $33.8 billion. Annual payments of $3.3 billion for amortization of past pay raises would continue.

TABLE 7. PROJECTED CSR COST TO THE GOVERNMENT a/ UNDER OPTIONS: 1982-1986, IN BILLIONS OF DOLLARS

	Option I	Option II	Option III	Option IV
1982				
Level	14.0	10.8	13.0	13.2
Decrease from current law	--	3.2	1.0	0.8
1983				
Level	16.2	12.9	14.1	14.8
Decrease from current law	--	3.3	2.1	1.4
1984				
Level	18.4	15.1	15.1	16.3
Decrease from current law	--	3.3	3.3	2.1
1985				
Level	20.2	16.2	15.1	17.4
Decrease from current law	--	4.0	5.1	2.8
1986				
Level	22.2	18.2	17.0	18.8
Decrease from current law	--	4.0	5.2	3.4
Five-year Cumulative Decrease from Current Law	--	17.8	16.7	10.5

SOURCE: Estimates prepared by Congressional Budget Office.

a/ Outlays not covered by employee and off-budget agency contributions.

OPTION III. INCREASE AGENCY AND EMPLOYEE CONTRIBUTION RATES

This option would use essentially the same CSR funding provisions as those outlined in Option II, but it would increase employee contributions as well. Under this alternative, federal employees would shoulder some of the CSR rate adjustment, with their payroll withholdings eventually rising from 7 to 9 percent of pay. The CSR employee contribution rate has been adjusted only twice during the past 25 years. In 1956, the rate increased from 6 to 6.5 percent of pay and again in 1969 to the present 7 percent of pay. The agency contribution rate, in contrast, would rise from 7 to 27.5 percent of pay. Both increases would be phased in by equal installments over the next four years.

The higher employee withholdings, together with existing retirement benefits, would bring CSR costs more into line with prevailing private-sector retirement practices. The increase in the CSR employee withholding rate from 7 to 9 percent of pay would make up approximately half of the cost for the difference between CSR COLAs (100 percent of CPI increases) and COLAs estimated under private-sector standards (70 percent of CPI increases). Thus, federal employees would continue to be better protected against inflation; but while working, they would pay part of the extra cost. The higher employee contribution rate would also bring the long-term costs to the government closer to private-sector standards (based on the combination of a private pension plan plus Social Security).

The higher employee contributions would substantially increase receipts to the government. Increased annual receipts from employee contributions and off-budget agencies could reach $1.0 billion in 1982 and as much as $5.2 billion in 1986. Over the five-year period, cumulative receipts could increase by $16.7 billion. About $11.6 billion of this amount would come from off-budget agencies and would be nullified if direct federal payments to such enterprises were adjusted to cover the additional costs.

Proponents of Option III might argue that economic conditions have changed significantly since the last CSR employee rate increase and that a further increase is now in order. They point out that, from 1970 to 1980, CSR unfunded liability rose from $52.8 billion to $166.4 billion, and that CSR's annual cost to the government rose from $949 million to $9.5 billion. During the same period, employee contributions to Social Security (excluding the Health Insurance portion) increased markedly--from a rate of

4.2 percent applied to the first $7,800 of pay to a 5.08 percent applied to the first $25,900 of pay. Social Security withholding rates and the taxable maximum of earnings went up again at the start of 1981.

Employee organizations would strongly oppose a mandatory increase in withholding rates because most private plans, albeit providing less generous benefits, require no employee contributions at all. Moreover, an increase in the CSR withholding rate would widen an existing disparity in take-home pay between many federal workers and their nonfederal counterparts.

OPTION IV. RETAIN CURRENT CONTRIBUTION RATES BUT LIMIT EARLY RETIREMENT BENEFITS AND COST-OF-LIVING ADJUSTMENTS

The costs to the government of CSR could be lowered by reducing certain benefit provisions while leaving contribution rates and other sources of financing unchanged. Specifically, this option would limit the size and frequency of CSR cost-of-living adjustments; and gradually, it would reduce initial benefits for persons who choose to retire before age 65. These changes would affect features of CSR that are very costly over the long run and that are much more generous than retirement practices in the private sector. New benefit provisions would reduce CSR's cost to the government by a total of some $10.5 billion through 1986.

Of the present two yearly cost-of-living adjustments, the October one would be eliminated, effective in fiscal year 1982. The remaining March adjustment would be limited to 70 percent of the change in the CPI, based on the preceding year's December-to-December CPI computation.

In addition, the reduction in annuities for persons younger than age 65 would be phased in over 20 years for specified age groups in order to prevent a sudden increase in CSR retirements. Without this gradual phase-in, many persons might elect early retirement before implementation of the change. When fully implemented, pension reductions for early retirement would progress toward 10 percent for retirement at age 60 and 20 percent for retirement at age 55. The 20 percent maximum reduction, averaging 2 percent per year, would still be less severe than annuity reductions required under private-sector practice. Many private plans reduce benefits by about 4 percent for each year that retirement occurs before age 65, and Social Security reduces benefits by 6.66 percent for each year down to age 62.

The substantial savings in costs to the government could be applied either to reducing the federal budget or to funding a greater increase in federal pay for active workers. For example, potential decreases in CSR outlays in 1982 would yield savings adequate to provide federal employees with a 1.2 percent pay raise in addition to the pay increases assumed in the Administration's budget for 1982. The cumulative additional pay increases would total 4.6 percent over the five-year period 1982-1986.

Proponents of this option--those who regard CSR COLA and early retirements as too generous and too costly to the government--believe that the government should provide retirement benefits comparable to those available in the private sector. Opponents, in contrast, would argue that the government, as a model employer, has a responsibility fully to protect its retired employees against inflation--especially at a time of rapid increases in the cost of living. The fact that most private plans do not provide such protection is considered a defect that should not be incorporated in federal retirement policy, too. Moreover, current CSR benefits have been viewed as fair recompense for pay limitations affecting active workers and for the taxation of civil service retirement income.

APPENDIX A: CHARACTERISTICS OF CSR ANNUITANTS

TABLE A-1. AGE DISTRIBUTION OF CSR ANNUITANTS AT THE END OF 1980, IN PERCENTS

Age Group	Employee Retirees		Survivors	
	On the Rolls	New Adds	On the Rolls	New Adds
29 and Under	a/	0.3	12.4	23.1
30 - 39	0.6	1.6	1.1	2.2
40 - 49	2.0	5.2	3.1	6.3
50 - 54	3.8	9.5	4.6	7.5
55 - 59	14.0	37.0	8.7	12.1
60 - 64	21.6	34.0	11.1	12.3
65 - 69	21.6	11.2	13.0	11.9
70 - 74	16.3	1.2	13.6	10.0
75 - 79	9.6	0.1	13.1	8.3
80 and Over	10.4	a/	19.3	6.3

SOURCE: Prepared by the Congressional Budget Office from data supplied by the Office of Personnel Management.

a/ Less than 0.05 percent.

TABLE A-2. DISTRIBUTION OF CSR RETIREES BY TYPE OF PENSION, AT THE END OF 1980

	On the Rolls		New Adds	
	Number (in thousands)	Percent	Number (in thousands)	Percent
Voluntary Retirement for Age and Length of Service	699.6	56.1	69.6	68.3
Involuntary Retirement	128.3	10.3	5.8	5.7
Disability	343.3	27.5	23.2	22.8
Delayed Pensions for Persons, Age 62 and Over, Who Had Left Government Service Before Retiring	76.8	6.2	3.3	3.2
Total	1,247.9		102.0	

SOURCE: Prepared by the Congressional Budget Office from data supplied by the Office of Personnel Management.

TABLE A-3. INCOME DISTRIBUTION OF CSR ANNUITANTS ON THE ROLES AT THE END OF 1980, IN PERCENTS

Bracket of Benefit Income (in dollars)	Retirees	Survivors
Under 6,000	22.6	74.7
6,000 - 8,399	18.0	14.1
8,400 - 9,599	8.0	3.6
9,600 - 10,799	8.4	2.3
10,800 - 11,999	8.2	1.5
12,000 - 23,999	29.1	3.6
24,000 - 35,999	4.9	0.1
36,000 and Over	0.8	a/
Total	100.0	100.0

SOURCE: Prepared by the Congressional Budget Office from data supplied by the Office of Personnel Management.

a/ Less than 0.05 percent.

APPENDIX B. COMPARISON OF AGE OF RETIREMENT UNDER CSR AND PRIVATE SECTOR PRACTICES

Approximately 80 percent of male retirements under private plans occur at age 62 or later, as compared with 36 percent of male civil servants. Nearly half of all male civil service retirements occur before age 60, as compared with less than 10 percent of the male workforce covered by a company pension and Social Security (see below).

TABLE B-1. DISTRIBUTION OF MALE CIVIL SERVICE AND PRIVATE SECTOR RETIREES BY AGE AT RETIREMENT, 1976: IN PERCENTS

Age at Retirement	Civil Service a/	Private Sector b/
Under 55	9.5	1.1
55 - 59	39.6	6.3
60 - 61	14.5	12.6
62 - 64	18.1	42.1
65 and Over	18.3	37.9

SOURCE: CBO, Options for Federal and Civil Service Retirement: An Analysis of Costs and Benefit Provisions (December 1978), p. 10.

a/ Calculated from data on men who retired under civil service during fiscal year 1976, excluding those who were disabled or who received deferred pensions.

b/ Age at which private pension was first received by men awarded Social Security retirement benefits in fiscal year 1970. (Data include some individuals who also received civil service benefits.) Social Security Administration, Office of Research and Statistics, Research Report No. 47, Table 12.4, p. 172.

APPENDIX C. INFORMATION ON COST-OF-LIVING ADJUSTMENTS IN THE PRIVATE SECTOR

Recent surveys have collected data on cost-of-living adjustments (COLA) available to private-sector retirees. Summaries of these surveys follow.

Hay-Huggins Noncash Compensation Survey, 1977, Section IV, pp. 18-22.

The Hay-Huggins data are summarized in CBO, Options for Civil Service Retirement (December 1978), pp. 16-20. The data show that 37 percent of the private pension plans analyzed do not grant cost-of-living increases of any kind. In addition, only 3 percent have an explicit COLA provision, and even in these, the adjustments average 85 percent of increase in the CPI.

The analysis covered 448 companies that together employed a total of 5 million workers. The companies were included in the data base only if they met both the minimum size and the industrial classification criteria used to determine annual pay adjustments for federal white-collar employees.

Hay-Huggins Noncash Compensation Comparison, 1980, Section V, pp. V19-V23.

Out of the 549 organizations surveyed in the spring of 1980, 43 percent provide no cost-of-living increases and 49 percent provide increases on an ad hoc basis. The remaining plans (8 percent) provide formal post-retirement adjustments provisions. These plans provide increases according to changes in CPI, but most include a limitation on annual increases, ranging from 2 percent to 5 percent and averaging 3.2 percent. Unlike the 1977 survey, the 1980 data was not edited for CBO analysis.

Social Security Administration Retirement History Survey

Private pension annuitants received periodic increases on an ad hoc basis recovering about 44 percent of the annual increase in the cost-of-living between 1972 and 1974. Specifically, the median private pension increased 7.3 percent, as compared with a 16.9 percent increase in the cost of living during the two-year period.

This information was derived by CBO from the Social Security Administration's Retirement History Survey, a 10-year longitudinal study of persons aged 58-63 in 1969. The sample consists of men in all marital status categories and women who were not married at the time of sample selection. The analysis was limited to those persons who: received a private pension in both 1972 and 1974; did not earn any money in either 1972 and 1974; and were aged 65-66 in 1972 and 67-68 in 1974. The Retirement History Survey is based on the same sampling frame that is used by the Bureau of Census for its Current Population Survey.

Towers, Perrin, Foster and Crosby Analysis

From January 1, 1975 through December 31, 1979, annual COLA increases for 100 private-sector pension plans averaged one-third of the change in the CPI. Specifically, the average annual increase (weighted for plan size) was 2.7 percent, compared to an annual inflation rate of 8.1 percent. The TPF & C study, conducted for the Office of Personnel Management, analyzed 100 private pension plans that covered over 2 million employees.

Bankers Trust Corporate Pension Plan Study 1980, Section 2, pp. 52-55.

The Bankers Trust Study of 325 pension plans covering more than 8 million employees found that only 13 plans (4 percent) provided cost-of-living adjustments based on changes in the Consumer Price Index. In nine of these plans, changes were made automatically on an annual basis, but increases were limited to no more than 4 percent per year. Another 32 percent provided post-retirement adjustments, mainly unscheduled, on some base other than changes in CPI.

For the plans that granted post-retirement increases of any kind during the six year period (1975-1980), none granted increases every year: 45 percent of the plans gave one increase, 35 percent gave 2 increases, 5 percent gave 3 increases, and 5 percent gave 4 increases, and 10 percent gave 5 increases.

APPENDIX D. SOURCES OF FUNDING FOR CSR

TABLE D-1. PROJECTED CSR FINANCING UNDER OPTIONS: 1982-1986, IN BILLIONS OF DOLLARS

	1982	1983	1984	1985	1986
Option I					
Employee withholdings	4.3	4.5	4.8	5.3	5.6
Employing agency contributions	3.3	3.5	3.7	4.0	4.3
Payments from off-budget agencies a/	1.8	1.9	2.0	2.2	2.3
General fund appropriations	14.2	15.6	17.2	18.6	20.1
Interest earned on investments and other	7.1	8.4	9.8	11.1	10.6
Total income	30.7	33.9	37.5	41.2	42.9
Option II					
Employee withholdings	4.3	4.5	4.8	5.3	5.6
Employing agency contributions	13.8	14.7	15.7	16.8	17.9
Payments from off-budget agencies a/	5.0	5.2	5.3	6.2	6.3
General fund appropriations	37.1	37.1	37.1	37.1	37.1
Interest earned on investments and other	9.5	14.3	19.4	25.2	31.3
Total income	69.7	75.8	82.3	90.6	98.2
Option III					
Employee withholdings	4.6	5.2	5.8	6.8	7.2
Employing agency contributions	5.7	8.6	11.9	15.7	16.7
Payments from off-budget agencies a/	2.5	3.3	4.2	5.8	5.9
General fund appropriations	37.1	37.1	37.1	37.1	37.1
Interest earned on investments and other	9.0	12.9	17.4	22.8	28.7
Total income	58.9	67.1	76.4	88.2	95.6
Option IV					
Employee withholdings	4.3	4.5	4.8	5.3	5.6
Employing agency contributions	3.3	3.5	3.7	4.0	4.3
Payments from off-budget agencies a/	1.8	1.9	2.0	2.2	2.3
General fund appropriations	13.2	14.2	15.3	16.3	17.2
Interest earned on investments and other	7.5	8.9	10.2	11.7	13.1
Total income	30.1	33.0	36.0	39.5	42.5

SOURCE: Congressional Budget Office.

a/ Includes off-budget agency contributions and amortization payments from the U.S. Postal Service.