CSRS-FERS OPEN SEASON—WHAT ARE THE MERITS?

HEARING

BEFORE THE

SUBCOMMITTEE ON THE CIVIL SERVICE

OF THE

COMMITTEE ON
GOVERNMENT REFORM
AND OVERSIGHT
HOUSE OF REPRESENTATIVES

ONE HUNDRED FIFTH CONGRESS

FIRST SESSION

NOVEMBER 5, 1997

Serial No. 105–119

Printed for the use of the Committee on Government Reform and Oversight

U.S. GOVERNMENT PRINTING OFFICE

48–752 CC WASHINGTON : 1998

For sale by the U.S. Government Printing Office
Superintendent of Documents, Congressional Sales Office, Washington, DC 20402
ISBN 0-16-057164-2

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CSRS–FERS OPEN SEASON—WHAT ARE THE MERITS?

WEDNESDAY, NOVEMBER 5, 1997

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON THE CIVIL SERVICE,
COMMITTEE ON GOVERNMENT REFORM AND OVERSIGHT,
Washington, DC.

The subcommittee met, pursuant to notice, at 10 a.m., in room 2154, Rayburn House Office Building, Hon. John L. Mica (chairman of the subcommittee) presiding.

Present: Representatives Mica, Morella, Norton, Cummings and Ford.

Staff present: George Nesterczuk, staff director; Caroline Fiel, clerk; Ned Lynch, senior research director; Cedric Hendricks, minority counsel; and Ellen Rayner, minority chief clerk.

Mr. MICA. Good morning. I would like to call the meeting of the House Civil Service Subcommittee to order. We do have other Members joining us. There is a conference just concluding, and several other meetings, but I want to go ahead and proceed with this hearing.

The hearing today is on the subject of CSRS-FERS open season, and looking at the recent action of the administration, the potential impact of that proposal.

The other Members, I believe, will be joining us shortly, so I will go ahead and start my opening statement. It is a little bit lengthy, and then we will get into our first panel. With the permission of the ranking member, we will proceed.

On October 16th, President Clinton exercised the line-item veto on section 642 of the Appropriations Act for the Department of Treasury, the Postal Service, and other Government agencies for fiscal year 1998. This $2.1 billion action has been the largest amount vetoed to date under this new Presidential authority known as the line-item veto. I do not believe, however, that this action was well thought out.

Section 642 would have allowed Federal employees who are still covered by the Civil Service Retirement System, the old system that terminated in the mid-1980's, to switch into the newer Federal Employees Retirement System, which we all refer to as FERS.

The President's line-item veto message commented that the provision had been introduced during the House-Senate conference on the bill, and therefore, had not been subject to adequate hearings and debates. Today, we take the first important step in addressing objections raised by the President and his administration. I am concerned that this veto might have been a short-term financial

grandstand that will only worsen a pending potential long-term financial disaster.

An open season to allow Federal employees to switch into FERS is an idea that I believe deserves very serious deliberation. When the new retirement system was created, as I said, back in the mid-1980's, Federal employees under the older system were provided with only one opportunity to consider how the new system might affect their retirement options. Although the Congressional Budget Office expected as many as 40 percent of the Federal employees to switch into the new system, in fact, only 86,000 people took that action. This amounted to only 4 percent of the eligible employees, one-tenth of CBO's projection.

In light of this low rate of switches, bills were introduced in subsequent Congresses to authorize another open season, but in fact, they were never enacted. We now have approximately 1.2 million Federal and Postal employees who remain in the old system, and many of them will soon be eligible to retire. With a $541 billion unfunded liability in the old Civil Service Retirement System and the general Treasury facing future financial shortfalls, annual shortfalls in excess of $100 billion, and the bar chart shows the scale in which those shortfalls are projected. Those figures were provided by OPM and confirmed by others who have looked at this situation in which we are facing some dramatic shortfalls. I believe that we should be exploring every viable option to reduce this long-term burden, which ultimately falls on the American taxpayer.

To make matters worse, the Federal Retirement and Disability Trust Fund, which should contain $375 billion to pay retirement benefits, has no hard cash. Instead, it has turned into a mere bookkeeping entry recorded in nonmarketable certificates of the U.S.'s indebtedness.

This year, the general Treasury and taxpayers paid $30 billion to make up for the borrowed and missing funds to pay Federal retirement benefits. Unfortunately, this situation only gets more dismal as this OPM chart of future shortfalls clearly shows.

In fact, meeting our Federal employees' retirement benefit payments now ranks fourth on the list of entitlement programs, right after Social Security, Medicare, and Medicaid. It is becoming one of our growing general Treasury financial requirements.

Ten years ago, when the previous open season was conducted, Federal employees did not have the benefit of hindsight. There was not the opportunity to review 10 years of performance of our thrift savings plan investments. Ten years ago, Federal employees had not experienced 5 years of workforce reductions, and the benefits associated with a more portable retirement system had less meaning. Also, 10 years ago, Presidential proposals to reduce civil service COLAs were not a recurrent theme, such as we have today.

The President's message explaining his item veto of the CSRS to FERS open season highlighted several substantial differences between the Office of Management and Budget's cost estimate and the cost estimates supplied by the Congressional Budget Office. These conflicting estimates are based upon different expectations in levels of participation, and they deserve public scrutiny before we make a decision about the merits of any proposal.

Even if these cost calculations agreed, however, neither OMB nor CBO paid any attention to the long-term savings that might be achieved by reducing the future liabilities of the Civil Service Retirement System, and also examining what pressures we have taken off the obligations created by the old CSRS system. We need to think seriously beyond the 5- or 10-year projections that provided the basis for the President's actions.

Issues other than money also deserve attention when we address the merits of this proposal. The President questioned whether the open season might have worked against some of the workforce planning initiatives advanced under the Federal Workforce Restructuring Act and the National Performance Review. Large private employers rely on a 10 percent annual turnover as typical for workplace planning purposes. Federal agencies, even with costly separation incentives, rarely experience, at least in the data we have come across, more than a 6 percent annual turnover. If the administration intends to continue efforts to restructure the workforce, any measure that provides incentives to reduce rather than enhance turnover deserves our careful scrutiny.

Finally, there are serious concerns about the Office of Personnel Management's ability to administer another transition between retirement systems. The subcommittee held a hearing to examine the impact on Federal employees placed in the wrong retirement system during the last transition. We have made a firm commitment to see that these mistakes are rectified. We want to be certain that OPM's efforts in correcting past errors are not diverted by the need to administer another open season without adequate preparation and resources.

Our current Federal retirement system is burdened with mistakes from the past. Congress has an obligation to correct these errors, properly fund out retirement trust funds, and reduce the long-term burden on taxpayers. It is my hope that this hearing can shed light on the wisdom or folly of closing the door to long-term Federal employees who have been left in a bankrupt, costly, and outdated retirement system. I picked the term bankrupt, because in fact we have no hard assets in this fund. The only reason this continues in the fashion it does is that we dip into the taxpayers' general Treasury every year.

Those are some of the issues before us today. I think this is an important hearing and an important subject, because it has a tremendous fiscal impact for the future obligations on this country's taxpayers, and we have an obligation to see that we meet our pension obligations to these Federal employees, while we look for ways to lessen the burden that Mr. Cummings and I have inherited.

So with those opening comments, I would like to welcome our ranking member and recognize him for an opening statement.

[The prepared statement of Hon. John L. Mica follows:]

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Opening Remarks of the Honorable John L. Mica
Chairman, Civil Service Subcommittee
Hearing on CSRS-FERS Open Season
November 5, 1997

On October 16, President Clinton exercised the item veto on Section 642 of the Appropriations Act for the Department of Treasury, the Postal Service, and other Government Agencies for Fiscal Year 1998. This $2.1 billion action has been the largest amount vetoed to date under this new presidential authority. I do not believe that this action was well thought out.

Section 642 would have allowed federal employees who are still covered by the Civil Service Retirement System to switch into the newer Federal Employees Retirement System. The President's item veto message commented that the provision had been introduced during the House-Senate Conference on the bill, and therefore had not been the subject of adequate hearings and debates. Today, we take the first important step in addressing objections raised by the President and his Administration. I am concerned that this veto might have been a short-term financial grandstand that will only worsen a pending long-term financial disaster.

An open season to allow federal employees to switch into FERS is an idea that deserves serious deliberation. When the new retirement system was created, federal employees under the older system were provided only one opportunity to consider how the new system might affect their retirement options. Although the Congressional Budget Office expected as many as 40 percent of federal employees to switch into the new system, only 86,000 people did. This amounted to only 4 percent of the eligible employees -- one-tenth of CBO's projection.

In light of this low rate of switches, bills were introduced in subsequent Congresses to authorize another open season, but they were never enacted. We now have about 1.2 million federal and postal employees who remain in the old system, and many of them will soon be eligible to retire. With a $541 billion unfunded liability in the old Civil Service Retirement System and the general Treasury facing future annual shortfalls in excess of $100 billion, we must be exploring every viable option to reduce the long-term burden on taxpayers. To make matters worse, the federal retirement and disability fund -- which should contain $375 billion to pay retirement benefits -- has no cash. Instead, it is a mere bookkeeping entry recorded in nonmarketable certificates of U.S. indebtedness.

This year the general Treasury and taxpayers paid $30 billion to make up for the borrowed and missing funds to pay federal retirement benefits. Unfortunately, this situation only

gets more dismal as this OPM chart of future shortfall data shows. In fact, meeting our federal employees' retirement benefit payments now ranks fourth on the list of entitlement programs, right after Social Security, Medicare, and Medicaid.

Ten years ago, when the previous open season was conducted, federal employees did not have the benefit of hindsight. There was not the opportunity to review ten years' performance of Thrift Savings Plan investments. Ten years ago, federal employees had not experienced five years of workforce reductions, and the benefits associated with a more portable retirement system had less meaning. And, ten years ago, presidential proposals to reduce civil service retirement COLAs were not a recurrent theme.

The President's message explaining his item veto of the CSRS to FERS open season highlighted several substantial differences between the Office of Management and Budget's cost estimate and the cost estimates supplied by the Congressional Budget Office. These conflicting estimates are based upon different expectations in the levels of participation, and they deserve public scrutiny before we make a decision about the merits of the proposal.

Even if these cost calculations agreed, however, neither OMB nor CBO paid any attention to the long term savings that might be achieved by reducing the future liabilities of the Civil Service Retirement System. We need to think seriously beyond the five-year or ten-year projections that provided the basis for the President's decision.

Issues other than money also deserve attention when we assess the merits of this proposal. The President questioned whether the open season might have worked against some of the workforce planning initiatives advanced under the Federal Workforce Restructuring Act and the National Performance Review. Large private employers rely on ten percent annual turnover as typical for workforce planning purposes. Federal agencies, even with costly separation incentives, rarely experience more than six percent turnover. If the Administration intends to continue efforts to restructure the workforce, any measure that provides incentives to reduce rather than enhance turnover deserves careful scrutiny.

Finally, there are serious concerns about the Office of Personnel Management's ability to administer another transition between retirement systems. The Subcommittee held a hearing to examine the impact on federal employees placed in the wrong retirement system during the last transition. We have made a firm commitment to see that these mistakes are rectified. We want to be certain that OPM's efforts in correcting past errors are not diverted by the need to administer another open season without adequate preparation.

Our current federal retirement system is burdened with mistakes from the past. Congress has an obligation to correct these errors, properly fund out retirement trust funds, and reduce the long-term burden on taxpayers. It is my hope that this hearing can shed light on the wisdom or folly of closing the door to long-term federal employees who have been left in a bankrupt, costly, and outdated retirement program.

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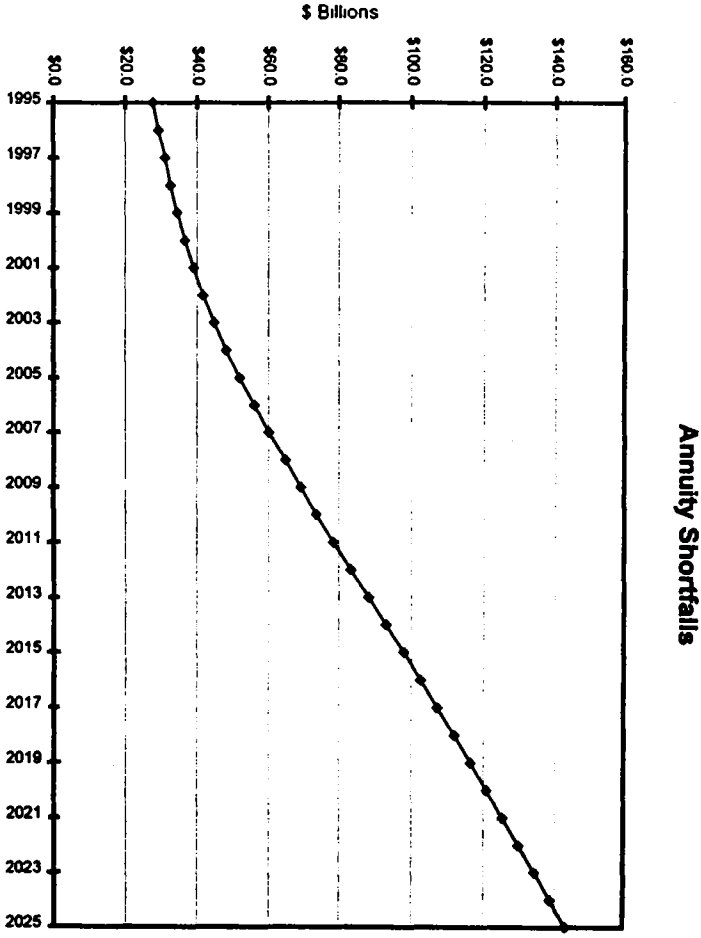
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Mr. CUMMINGS. Thank you very much, Mr. Chairman.

Mr. Chairman, today's hearing examining Senator Ted Stevens' proposal to conduct an open season for Federal employees to switch to the Federal Employees Retirement System is an important one, because it will help to inform our workforce about the merits of such an undertaking.

When the news broke that such a provision had been attached to the Treasury-Postal appropriations bill, a wave of euphoria spread throughout the Government. Many initially believed this was a sure path to significantly enhanced retirement benefits. This view was fueled in large part by the record breaking returns on Thrift Savings Plan investments in the stock market. As the press began providing some analysis of the proposal, it was revealed that not everyone in the old Civil Service Retirement System would benefit from a switch to FERS.

When the President subsequently used his line-item veto authority to cancel the open season provision, there was a wave of disappointment, a feeling that a great opportunity had been lost. The National Treasury Employees Union challenged the President's action by filing a Federal lawsuit. The President stated in his veto message that he took this action because "this hastily conceived undebated provision" will cost agencies $854 million over 5 years. The union contended in its suit, however, that the President exceeded his authority under the line-item veto act by canceling the open season provision and that the act itself was unconstitutional.

The cost issue raised by the President is an important one because Federal agencies would have to absorb it within their available appropriations. No new money is provided to fund this initiative.

The witnesses we will hear from today all have different views on the potential magnitude of the resulting costs and how it could impact agency operations. One possible and unfortunate outcome could be budget-driven reductions in force that would put the jobs of all employees at risk. This would be a terrible outcome of an initiative designed to only benefit a small segment of employees.

Today, this subcommittee will seek to determine what the unintended consequences of a FERS open season might be. We will also seek to clearly establish who would win and who would lose should an open season ever be implemented.

Mr. Chairman, I look forward to the testimony of all of our witnesses, and I thank them in advance for being here. I also thank you for convening this very, very important and timely hearing.

Mr. MICA. I thank the gentleman.

[The prepared statement of Hon. Elijah E. Cummings follows:]

OPENING STATEMENT OF THE HONORABLE ELIJAH CUMMINGS
BEFORE THE SUBCOMMITTEE ON CIVIL SERVICE
HEARING ON THE PROPOSED FERS OPEN SEASON

November 5, 1997

Mr. Chairman, today's hearing examining Senator Ted Stevens' proposal to conduct an open season for federal employees to switch to the Federal Employees Retirement System (FERS) is an important one because it will help to inform our workforce about the merits of such an undertaking. When the news broke that such a provision had been attached to the Treasury Postal Appropriations bill, a wave of euphoria spread throughout the government. Many initially believed this was a sure path to significantly enhanced retirement benefits. This view was fueled in large part by the record breaking returns on Thrift Savings Plan investments in the stock market. As the press began providing some analysis of the proposal, it was revealed that not everyone in the old Civil Service Retirement System (CSRS) would benefit from a switch to FERS.

When the President subsequently used his line item veto authority to

cancel the open season provision, there was a wave of disappointment -- a feeling that a great opportunity had been lost. The National Treasury Employees Union challenged the President's action by filing a federal law suit. The President stated in his veto message that he took this action because "this hastily-conceived undebated provision" would cost agencies $854 million over five years. The union contended in its suit, however, that the President exceeded his authority under the Line Item Veto Act by cancelling the open season provision and that the Act itself was unconstitutional.

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This would be a terrible outcome of an initiative designed to only benefit a small segment of employees.

Today, this subcommittee will seek to determine what the unintended consequences of a FERS open season might be. We will also seek to clearly establish who would win and who would loose should an open season ever be implemented.

Mr. Chairman, I look forward to the testimony of all of our witnesses. I also thank you for convening this very important and timely hearing.

Mr. MICA. I would like to recognize the gentlewoman from Maryland for an opening statement.

Mrs. MORELLA. Thank you, Mr. Chairman. Thanks for holding today's hearing on the CSRS-FERS open season.

I was most disappointed that President Clinton used the line-item veto to negate this provision of the Treasury-Postal appropriations fiscal year 1998 conference report. Although this provision would in no way have made up for the cuts drawn by Federal employees and retirees in the budget, it would have helped a segment of our Federal employees.

I have serious questions about the President's cost estimate of over $2 billion. CBO's cost estimate differed greatly, and I look forward to hearing from today's witnesses to better understand this discrepancy.

Effective December 31, 1983, the Civil Service Retirement System was closed to new Federal employees and replaced by the Federal Employees Retirement System created by Congress in 1986. As we all know, CSRS and FERS differ greatly. Employees under the CSRS accrue benefits as a percentage of their salary, and their annuities are calculated based on the average of the highest 3 years' earnings. FERS, on the other hand, combines Social Security coverage, a defined benefit, which accrues at approximately half of the CSRS rate, and the Thrift Savings Plan.

There was an open season in 1987 during which CSRS employees had the opportunity to convert into FERS. Only about 4.1 percent of those eligible shifted, a number far below the 40 percent that CBO had projected. I understand the employees' reluctance to switch at that time. The TSP was a new plan. The stock market was fluctuating and the TSP was not anticipated to increase at the rate it has over the last 10 years. Now that we have the wisdom of hindsight and a better understanding of FERS, I understand why so many employees would want to switch. In addition, depending on an individual employee's situation, switching to FERS could exempt Federal employees from the public pension offset provisions of the law.

Many questions remain, and although I disagreed with the President's action, he was right on one thing, no legislative hearings had been conducted. So I am glad, Mr. Chairman, that we have the opportunity today to hear from experts on this issue.

I thank you and yield back the balance of my time.

Mr. MICA. I thank the gentlewoman.

[The prepared statement of Hon. Constance A. Morella follows:]

The Honorable Constance A. Morella
Subcommittee on Civil Service
CSRS-FERS Open Season -- What Are the Merits?
November 5, 1997

Mr. Chairman, I want to thank you for holding today's hearing on the CSRS-FERS Open Season. I was angry that President Clinton used the line-item veto to negate this provision of the Treasury-Postal Appropriations FY 1998 Conference Report. Although this provision would have in no way made up for the cuts borne by federal employees and retirees in the budget, it would have helped a segment of our federal employees.

I have serious questions about the President's cost estimate of over $2 billion. CBO's cost estimate differed greatly, and I look forward to hearing from today's witnesses to better understand this discrepancy.

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There was an open season in 1987, during which CSRS employees had the opportunity to convert into FERS. Only about 4.1% of those eligible shifted -- a number far below the 40% that CBO had projected. I understand employees' reluctance to switch at that time. The TSP was a new plan, the stock market was fluctuating, and the TSP was not anticipated to increase at the rate it has over the last ten years. Now that we have the wisdom of hindsight, and a better understanding of FERS, I understand why so many employees would

want to switch. In addition, depending on an individual employee's situation, switching to FERS could exempt federal employees from the Public Pension Offset provisions of the law.

Many questions remain. Although I disagreed with the President's action, he was right about one thing -- no legislative hearings had been conducted, and I am glad we have the opportunity today to hear from experts on this issue.

Mr. MICA. We will proceed now with our first and only panel. We have witnesses today, William E. Flynn, also known affectionately as Ed Flynn, Associate Director of the Retirement and Insurance Service of the Office of Personnel and Management. We have Michael Brostek, Associate Director of the Federal Workforce and Management Issues for the General Accounting Office; and Mr. Paul Van de Water, Assistant Director for Budget Analysis Division of the Congressional Budget Office.

Before we swear you gentlemen in, we have been joined by Mr. Ford. Mr. Ford, did you have any opening comments or remarks?

Mr. FORD. Thank you, Mr. Chairman. Not really. I really am interested in hearing from the panelists, and I thank you, and certainly to my leader on my side of the aisle. Many Members have expressed discontent with the President's decision to line-item veto the FERS open season provision, but I think his actions perhaps were appropriate. It will force us to deal with this issue in a serious way; a way in which we normally deal with issues in this Congress. So I look forward to hearing from the panelists. Thank you again, Mr. Chairman.

[The prepared statement of Hon. Harold E. Ford, Jr., follows:]

HAROLD E. FORD, JR.
9TH DISTRICT, TENNESSEE

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Opening Remarks of Congressman Harold E. Ford, Jr.
Civil Service Subcommittee Hearing
November 5, 1997

Thank you Mr. Chairman and my ranking member Mr. Cummings. Today's hearing will provide this Subcommittee with a valuable opportunity to consider the nature and extent of the costs associated with conducting a FERS Open Season in 1998.

Although many members have expressed discontent with the President's decision to line-item veto the FERS Open Season provision from the 1998 Treasury & General Government Appropriations Act, his actions do allow us the opportunity to study this issue more closely and answer, among other things, the following questions:

- What would be the cost to agencies of holding a FERS Open Season?
- Would a discrete class of federal employees benefit from an Open Season more than the general federal workforce?
- Beyond increased costs, what possible dangers, if any, arise from conducting a FERS Open Season in 1998.

I look forward to hearing the witnesses' testimony and answers to these and other questions.

Mr. MICA. Thank you. As our new witness may not be aware, we are an investigation and oversight panel of Congress, and we swear in all of our witnesses. So if you would please stand and raise your right hands.

[Witnesses sworn.]

Mr. MICA. Our witnesses answered in the affirmative. So far we are batting 1,000.

We will hear first from Ed Flynn. It is good to see you. I wasn't going to bring up the fact that we passed the life insurance reform bill yesterday, even though your offerings, however humble to our subcommittee, were a bit tardy. But we are pleased nonetheless to see you back and work with you. You are recognized on this issue. Thank you.

STATEMENT OF WILLIAM E. (ED) FLYNN, ASSOCIATE DIRECTOR, RETIREMENT AND INSURANCE SERVICE, OFFICE OF PERSONNEL MANAGEMENT

Mr. FLYNN. Thank you, Mr. Chairman. Good morning to you and all the members of the subcommittee.

I am pleased to be able to be here today to discuss the effects of the Federal Employees Retirement System open enrollment period and the effects it might have on a variety of Federal human resource management issues. As you know, the recently canceled Federal Employees Retirement System Open Enrollment Act of 1997 would have allowed employees in the Civil Service Retirement System, including those in the Civil Service Retirement System Offset Plan, a second opportunity to elect coverage under the Federal Employees Retirement System.

Now, in order to appreciate the effects of an open enrollment period, it is first necessary to estimate the number of employees who would switch retirement systems. While no one can know for sure how many of the 1.2 million eligible employees might decide to do so, the administration has assumed that approximately 5 percent of the eligible population would switch, amounting to about 60,000 employees.

Some concern has been expressed about the effect of an open enrollment period on the Government's workforce shaping efforts. Among those who do switch, some employees would clearly possess eligibility to retire at the time of the switch. These employees would likely delay their separation for at least 5 years, effectively removing them from the pool of employees who might otherwise separate voluntarily.

Numbers of this size would not likely materially affect the Government's overall ability to reshape the Federal workforce in ways that are appropriate to the Government's mission. Nonetheless, in certain situations, the result could easily be problematic. Employees' perceptions regarding possible benefit changes can have powerful effects on retirement decisions. Some employees who plan to leave under current buyout programs available in some agencies may have changed their minds when this legislation passed. The emergence of this issue may have detrimental impacts on the effect of agency buyout and early retirement programs now under way as well as those which may occur over the next several years.

We would generally not anticipate that an open enrollment period would have any significant impact on skills mixes within Federal agencies overall, nor would we anticipate any intolerable consequences on Federal managers' abilities to address the broad spectrum of human resource needs and requirements. However, some agencies' unique workforce demographics would certainly pose special challenges.

In terms of the long-term actuarial effect of an open season on the retirement fund, we estimate that transfers would reduce the unfunded liability of the Civil Service Retirement System by less than $2 billion. However, when the Thrift Savings Plan and Social Security benefit costs under the Federal Employees Retirement System are included, the total cost to Government is higher under the Federal Employees Retirement System in both the short and the long term. Taking into account the reduction in the retirement fund liabilities, our estimate is that open season elections would result in net long-term costs to the Government of about $1 billion.

In our opinion, a Federal Employees Retirement System open season would not have a substantial effect on the range of benefits available to Federal employees who switch. However, the relationship between the Civil Service Retirement System, the Federal Employees Retirement System, and Social Security benefit structures will affect individuals differently based on their individual circumstances.

For example, employees may avoid the public pension offset if they have at least 5 years of service under the Federal Employees Retirement System. Employees who believe they will be affected by the public pension offset may find the Federal Employees Retirement System more attractive if they plan to work at least 5 years under that system.

Another area of concern to employees is the Social Security windfall elimination provision which applies to employees who receive a retirement benefit based on service excluded from Social Security coverage and who also qualify for a Social Security benefit. In this area, a Civil Service Retirement System employee with Social Security eligibility based on non-Federal service may be able to reduce or avoid the effect of the windfall elimination provision by electing the Federal Employees Retirement System.

If an open enrollment period were enacted, the Office of Personnel Management would undertake an implementation effort in conjunction with employing agencies similar to that undertaken in 1987. Our transfer handbook is up-to-date. We would produce a new video and a new version of the computer disk enabling employees to make individualized estimates of their benefits under both the old and new systems, including Thrift Savings Plan and Social Security benefit estimates. We would also expect to develop appropriate material for use over the Internet.

As the subcommittee knows, retirement coverage errors that occurred during the period 1984 through 1986 sometimes went undetected during the 1987 open enrollment period, and we have proposed a method for remedying those and other retirement coverage errors. We would do our utmost during this period, should it be enacted, to provide outreach and information to minimize such errors during any future open enrollment period.

Finally, I believe it bears repeating, that an individual's decision depends not only on a financial evaluation of the situation, but on the person's global outlook about his or her future, including circumstances such as the evolution of family needs and lifestyle expectations. Our aim would be to ensure that every employee is given full information about the retirement systems and plenty of time to make a considered judgment.

That concludes my brief statement, Mr. Chairman. I would be happy to answer any questions you or other members of the subcommittee have.

Mr. MICA. Thank you, Mr. Flynn.

[The prepared statement of Mr. Flynn follows:]

STATEMENT OF
WILLIAM E. FLYNN, III, ASSOCIATE DIRECTOR
FOR RETIREMENT AND INSURANCE
OFFICE OF PERSONNEL MANAGEMENT

at a hearing of the

CIVIL SERVICE SUBCOMMITTEE
COMMITTEE ON GOVERNMENT REFORM AND OVERSIGHT
UNITED STATES HOUSE OF REPRESENTATIVES

ON

FEDERAL EMPLOYEES RETIREMENT SYSTEM OPEN ENROLLMENT PERIOD

NOVEMBER 5, 1997

MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE:

I AM PLEASED TO APPEAR TODAY TO DISCUSS THE EFFECTS A FEDERAL EMPLOYEES RETIREMENT SYSTEM OPEN ENROLLMENT PERIOD MIGHT HAVE ON A VARIETY OF FEDERAL HUMAN RESOURCE MANAGEMENT ISSUES. IN ADDITION, I WOULD LIKE TO COMMENT ON THE ADMINISTRATIVE IMPACT SUCH AN OPEN ENROLLMENT PERIOD MIGHT HAVE ON THE OFFICE OF PERSONNEL MANAGEMENT AND FEDERAL EMPLOYING AGENCIES.

FOLLOWING ENACTMENT OF THE FEDERAL EMPLOYEES RETIREMENT SYSTEM ACT OF 1986, THE OFFICE OF PERSONNEL MANAGEMENT, IN

CONJUNCTION WITH AGENCIES ACROSS THE GOVERNMENT, IMPLEMENTED AN OPEN ENROLLMENT PERIOD FROM JULY THROUGH DECEMBER OF 1987. ALL EMPLOYEES IN THE CIVIL SERVICE RETIREMENT SYSTEM WERE ALLOWED TO JOIN THE NEW SYSTEM, AND APPROXIMATELY 4 PERCENT OF THOSE WHO WERE ELIGIBLE SWITCHED TO THE NEW SYSTEM, EVEN THOUGH ESTIMATES OF THE NUMBER WHO WOULD DO SO RAN AS HIGH AS 40 PERCENT. GENERALLY-SPEAKING, THOSE WHO HAD COMPLETED 5 YEARS OF CIVILIAN SERVICE UNDER THE OLD RULES, BEFORE THE ELECTION, BECAME ELIGIBLE FOR A COMBINED BENEFIT. BENEFITS FOR THE SERVICE BEFORE THE ELECTION WOULD BE COMPUTED UNDER CIVIL SERVICE RETIREMENT SYSTEM RULES, AND BENEFITS FOR LATER SERVICE WOULD BE COMPUTED UNDER FEDERAL EMPLOYEES RETIREMENT SYSTEM RULES. EMPLOYEES WHO HAD NOT COMPLETED 5 YEARS OF CIVILIAN SERVICE BEFORE THE ELECTION HAD THEIR ENTIRE BENEFIT COMPUTED UNDER FEDERAL EMPLOYEES RETIREMENT SYSTEM RULES.

THE RECENTLY CANCELLED FEDERAL EMPLOYEES RETIREMENT SYSTEM OPEN ENROLLMENT ACT OF 1997 WOULD HAVE ALLOWED EMPLOYEES IN THE CIVIL SERVICE RETIREMENT SYSTEM, INCLUDING THOSE IN THE CIVIL SERVICE RETIREMENT SYSTEM OFFSET PLAN, A SECOND

OPPORTUNITY TO ELECT COVERAGE UNDER THE FEDERAL EMPLOYEES RETIREMENT SYSTEM. THE OPEN SEASON ENROLLMENT PERIOD WOULD HAVE RUN FROM JULY THROUGH DECEMBER OF 1998. THE ACT WOULD HAVE REQUIRED THE OFFICE OF PERSONNEL MANAGEMENT TO ISSUE REGULATIONS GOVERNING THE OPEN ENROLLMENT PERIOD. THE TREATMENT OF AN ELECTION WOULD BE SIMILAR TO THE TREATMENT OF ELECTIONS UNDER THE FEDERAL EMPLOYEES RETIREMENT SYSTEM ACT OF 1986. THE ACT ALSO WOULD HAVE REQUIRED THE REGULATIONS TO INCLUDE PROVISIONS REQUIRING THAT ELIGIBLE EMPLOYEES BE PROVIDED WITH NOTICE OF THEIR ELECTION OPPORTUNITY AND INFORMATION ABOUT THE EFFECT OF AN ELECTION, INCLUDING A COMPARISON OF BENEFITS.

IN YOUR LETTER OF INVITATION, YOU ASKED A NUMBER OF QUESTIONS ABOUT THE HUMAN RESOURCE MANAGEMENT CONSEQUENCES THAT OPM MIGHT ANTICIPATE IF AN OPEN ENROLLMENT PERIOD WERE AUTHORIZED.

OPM IS AWARE OF THE VARYING ESTIMATES WHICH HAVE BEEN GENERATED RECENTLY REGARDING THE NUMBER OF EMPLOYEES WHO MIGHT SWITCH DURING SUCH A PERIOD. IN ADDITION, WE ARE

MINDFUL OF THE PREDICTIONS MADE TEN YEARS AGO WHEN THE LAST ENROLLMENT PERIOD WAS CONDUCTED. THE PLAIN TRUTH OF THE MATTER IS THAT NO ONE CAN KNOW FOR SURE HOW MANY OF THE 1.2 MILLION ELIGIBLE EMPLOYEES MIGHT DECIDE TO CHANGE THEIR RETIREMENT COVERAGE DURING THE PERIOD CONTEMPLATED. THE ADMINISTRATION HAS ASSUMED THAT APPROXIMATELY 5 PERCENT OF THE ELIGIBLE POPULATION WOULD SWITCH. FIVE PERCENT AMOUNTS TO ABOUT 60,000 EMPLOYEES. WE BELIEVE THAT 5 PERCENT IS A CONSERVATIVE NUMBER GIVEN THAT THERE ARE ROUGHLY 180,000 EMPLOYEES WITH AT LEAST 30 YEARS OF SERVICE, A LARGE NUMBER OF WHOM WE WOULD REASONABLY EXPECT TO SWITCH DURING ANOTHER OPEN SEASON.

SOME ANALYSTS EXPECT THAT RETIREMENTS WOULD DECLINE, THUS MAKING AGENCY EFFORTS TO RESHAPE THE WORKFORCE MORE DIFFICULT. IT IS LIKELY THAT SOME EMPLOYEES WOULD POSSESS ELIGIBILITY TO RETIRE AT THE TIME OF THE SWITCH. HOWEVER, THESE EMPLOYEES WOULD LIKELY DELAY THEIR SEPARATION FOR SOME TIME, PROBABLY AT LEAST 5 YEARS. EFFECTIVELY REMOVING THEM FROM THE POOL OF EMPLOYEES WHO MIGHT OTHERWISE CONSIDER SEPARATING VOLUNTARILY. THAT GROUP WOULD HAVE INCENTIVES

TO STAY LONGER THAN THEY MIGHT OTHERWISE HAD THE ENROLLMENT OPPORTUNITY NOT BEEN AVAILABLE. THIS IS TRUE BECAUSE THEY WOULD GENERALLY WANT SOME TIME TO BUILD ADDED VALUE IN THEIR FEDERAL EMPLOYEES RETIREMENT SYSTEM BENEFIT, PRIMARILY THROUGH PARTICIPATION IN THE THRIFT SAVINGS PLAN. IN ADDITION, PARTICIPATION IN THE FEDERAL EMPLOYEES RETIREMENT SYSTEM PROGRAM FOR 5 YEARS WILL OBVIATE THE IMPACT OF THE PUBLIC PENSION OFFSET ON SPOUSAL SOCIAL SECURITY BENEFITS.

IT IS TRUE THAT NUMBERS OF THIS SIZE WOULD NOT BE LIKELY TO MATERIALLY AFFECT THE GOVERNMENT'S OVERALL ABILITY TO RESHAPE THE FEDERAL WORKFORCE IN WAYS THAT ARE APPROPRIATE TO THE GOVERNMENT'S MISSION. NONETHELESS, IN CERTAIN SITUATIONS, THE RESULTS COULD EASILY BE PROBLEMATIC.

PREVIOUS STUDIES HAVE INDICATED THAT EMPLOYEES' PERCEPTIONS REGARDING POSSIBLE BENEFIT CHANGES CAN HAVE A POWERFUL AFFECT ON RETIREMENT DECISIONS. SOME EMPLOYEES WHO PLANNED TO LEAVE UNDER CURRENT BUYOUT PROGRAMS AVAILABLE IN SOME AGENCIES MAY HAVE CHANGED THEIR MINDS WHEN THIS LEGISLATION PASSED. OTHERS MAY HAVE OPTED TO DELAY PLANNED SEPARATIONS

UNTIL THE MATTER IS FINALLY SETTLED. IN ANY EVENT, THE EMERGENCE OF THIS ISSUE MAY HAVE DETRIMENTAL IMPACTS ON THE EFFECTIVENESS OF AGENCY BUYOUT AND EARLY RETIREMENT PROGRAMS UNDERWAY NOW, AS WELL AS THOSE WHICH MAY OCCUR OVER THE NEXT SEVERAL YEARS.

WE WOULD GENERALLY NOT ANTICIPATE THAT AN OPEN ENROLLMENT PERIOD WOULD HAVE ANY SIGNIFICANT IMPACT ON SKILLS MIXES WITHIN FEDERAL AGENCIES OVERALL, NOR WOULD WE ANTICIPATE ANY INTOLERABLE CONSEQUENCE ON FEDERAL MANAGERS' ABILITY TO ADDRESS THE BROAD SPECTRUM OF HUMAN RESOURCE NEEDS AND REQUIREMENTS. HOWEVER, SOME AGENCIES' UNIQUE WORKFORCE DEMOGRAPHICS WOULD CERTAINLY POSE SPECIAL CHALLENGES.

YOU ASKED US TO EVALUATE THE LONG-TERM ACTUARIAL EFFECT OF AN OPEN SEASON ON THE RETIREMENT FUND. SINCE THE NORMAL COSTS OF THE CIVIL SERVICE RETIREMENT SYSTEM ARE HIGHER THAN THE NORMAL COST OF THE FEDERAL EMPLOYEES RETIREMENT SYSTEM BASIC BENEFIT, AND SINCE FEDERAL EMPLOYEES RETIREMENT SYSTEM BENEFITS ARE FUNDED ON A CURRENT BASIS, THERE WOULD BE SOME BENEFIT TO THE RETIREMENT FUND FROM TRANSFERS FROM THE CIVIL

SERVICE RETIREMENT SYSTEM TO THE FEDERAL EMPLOYEES RETIREMENT SYSTEM. WE ESTIMATE THAT TRANSFERS WOULD REDUCE THE UNFUNDED LIABILITY BY LESS THAN TWO BILLION DOLLARS.

HOWEVER, THAT DOES NOT TAKE INTO ACCOUNT THE ENTIRE COST TO THE GOVERNMENT UNDER THE FEDERAL EMPLOYEES RETIREMENT SYSTEM. WHEN THE THRIFT SAVINGS PLAN AND SOCIAL SECURITY BENEFIT COSTS UNDER THE FEDERAL EMPLOYEES RETIREMENT SYSTEM ARE INCLUDED, THE TOTAL COST TO GOVERNMENT IS HIGHER UNDER THE FEDERAL EMPLOYEES RETIREMENT SYSTEM IN BOTH THE SHORT-TERM AND LONG-TERM. TAKING INTO ACCOUNT THE REDUCTION IN RETIREMENT FUND LIABILITIES, OUR ESTIMATE IS THAT FEDERAL EMPLOYEES RETIREMENT SYSTEM OPEN SEASON ELECTIONS WOULD RESULT IN NET COSTS TO THE GOVERNMENT OF ABOUT A BILLION DOLLARS.

IN OUR OPINION, A FEDERAL EMPLOYEES RETIREMENT SYSTEM OPEN SEASON WOULD NOT HAVE A SUBSTANTIAL EFFECT ON THE RANGE OF BENEFITS AVAILABLE TO FEDERAL EMPLOYEES WHO MAY CONSIDER SWITCHING, AND TO THEIR DEPENDENTS. WE NOTE THAT EMPLOYEES WHO ARE CURRENTLY AT THE MAXIMUM CIVIL SERVICE RETIREMENT

SYSTEM BENEFIT LEVEL (80%) WOULD INCREASE FUTURE RETIREMENT BENEFITS IF THEY TOOK ADVANTAGE OF AN OPPORTUNITY TO SWITCH TO THE FEDERAL EMPLOYEES RETIREMENT SYSTEM. HOWEVER, THE RELATIONSHIP BETWEEN THE CIVIL SERVICE RETIREMENT SYSTEM, FEDERAL EMPLOYEES RETIREMENT SYSTEM AND SOCIAL SECURITY BENEFIT STRUCTURES WILL AFFECT INDIVIDUALS DIFFERENTLY BASED UPON THEIR PERSONAL CIRCUMSTANCES.

FOR EXAMPLE, THE PUBLIC PENSION OFFSET APPLIES TO THE SOCIAL SECURITY BENEFIT A FEDERAL EMPLOYEE MAY RECEIVE AS A SPOUSE, WIDOW, OR WIDOWER. IT DOES NOT APPLY TO THE SOCIAL SECURITY BENEFIT BASED ON THE EMPLOYEE'S OWN WORK HISTORY. THE PUBLIC PENSION OFFSET CAN AFFECT FEDERAL EMPLOYEES WHO QUALIFY FOR BOTH A FEDERAL RETIREMENT BENEFIT AND A SOCIAL SECURITY BENEFIT BASED ON A SPOUSE'S ELIGIBILITY FOR SOCIAL SECURITY. EMPLOYEES WHO ELECT THE FEDERAL EMPLOYEES RETIREMENT SYSTEM AFTER DECEMBER OF 1987 MAY AVOID THE PUBLIC PENSION OFFSET IF THEY HAVE AT LEAST 5 YEARS OF SERVICE UNDER THE FEDERAL EMPLOYEES RETIREMENT SYSTEM. THEREFORE, EMPLOYEES WHO BELIEVE THAT THEY WILL BE AFFECTED BY THE PUBLIC PENSION OFFSET MAY FIND THE FEDERAL EMPLOYEES RETIREMENT SYSTEM TO

BE THE MORE ATTRACTIVE RETIREMENT PLAN IF THEY PLAN TO WORK AT LEAST 5 YEARS UNDER THAT SYSTEM.

ANOTHER AREA OF CONCERN TO EMPLOYEES IS THE SOCIAL SECURITY WINDFALL ELIMINATION PROVISION WHICH APPLIES TO EMPLOYEES WHO RECEIVE A RETIREMENT BENEFIT THAT IS BASED WHOLLY OR PARTIALLY ON SERVICE EXCLUDED FROM SOCIAL SECURITY COVERAGE AND WHO ALSO HAVE ENOUGH SOCIAL SECURITY-COVERED SERVICE TO QUALIFY FOR A SOCIAL SECURITY BENEFIT. THE WINDFALL ELIMINATION PROVISION IS IN THE LAW BECAUSE THE LIFETIME AVERAGE EARNINGS UPON WHICH SOCIAL SECURITY BENEFITS ARE BASED IS ARTIFICIALLY LOW FOR RETIRED PUBLIC EMPLOYEES WITH EARNINGS NOT COVERED BY SOCIAL SECURITY.

A CIVIL SERVICE RETIREMENT SYSTEM OFFSET EMPLOYEE IS ALREADY SUBJECT TO SOCIAL SECURITY AND AN ELECTION OF THE FEDERAL EMPLOYEES RETIREMENT SYSTEM WOULD HAVE NO ADDITIONAL EFFECT ON THE SOCIAL SECURITY BENEFIT. HOWEVER, A CIVIL SERVICE RETIREMENT SYSTEM EMPLOYEE WITH SOCIAL SECURITY ELIGIBILITY BASED ON NON-FEDERAL SERVICE MAY BE ABLE TO REDUCE OR AVOID THE EFFECT THE WINDFALL ELIMINATION PROVISION WOULD HAVE ON

HIS OR HER FUTURE SOCIAL SECURITY BENEFIT BY ELECTING THE FEDERAL EMPLOYEES RETIREMENT SYSTEM.

IMPLEMENTATION OF AN OPEN ENROLLMENT PERIOD WOULD HAVE REQUIRED THE OFFICE OF PERSONNEL MANAGEMENT TO UNDERTAKE A SIGNIFICANT EFFORT SIMILAR TO THE ONE UNDERTAKEN IN 1987. IN ADDITION TO THE TASK OF INTERPRETING THE NEW LAW AND ISSUING A LARGE NUMBER OF IMPLEMENTING REGULATIONS FOR AN ENTIRE NEW RETIREMENT SYSTEM, THE OFFICE OF PERSONNEL MANAGEMENT PERFORMED A VARIETY OF TASKS AIMED AT ENSURING THAT THE ELIGIBLE WORK FORCE HAD AVAILABLE THE TOOLS NEEDED TO MAKE AN INFORMED ELECTION. THE OFFICE'S FEDERAL EMPLOYEES RETIREMENT SYSTEM TASK FORCE CREATED A 124-PAGE TRANSFER HANDBOOK--A GUIDE TO MAKING YOUR DECISION, WHICH WAS DISTRIBUTED TO OVER 2 MILLION EMPLOYEES THROUGH THEIR EMPLOYING AGENCIES. THE TASK FORCE ALSO CREATED A TRAINING COURSE AND MANUAL TO TRAIN THE TRAINERS WHO WOULD INSTRUCT PERSONNEL IN EACH FEDERAL AGENCY ON HOW TO COUNSEL EMPLOYEES WHO NEEDED ASSISTANCE IN MAKING THEIR DECISION. IN ADDITION, THE TASK FORCE PRODUCED A VIDEO AIMED AT HELPING EMPLOYEES GET A CONCISE VIEW OF THE NEW THREE-TIERED

RETIREMENT SYSTEM, AND A COMPUTER DISK THAT ALLOWED ELIGIBLE EMPLOYEES TO MAKE INDIVIDUALIZED ESTIMATES OF THEIR BENEFITS UNDER THE OLD AND NEW SYSTEMS, INCLUDING THRIFT SAVINGS PLAN AND SOCIAL SECURITY BENEFIT ESTIMATES.

IN THE EVENT OF A NEW OPEN ENROLLMENT PERIOD, THE OFFICE OF PERSONNEL MANAGEMENT WOULD UNDERTAKE A SIMILAR IMPLEMENTATION EFFORT. OUR TRANSFER HANDBOOK, WHICH IS STILL USED FOR EMPLOYEES WHO HAVE A 6-MONTH ELECTION OPPORTUNITY FOLLOWING A BREAK IN SERVICE, IS UP-TO-DATE. WE WOULD EXPECT TO PRODUCE A NEW VIDEO AND A NEW VERSION OF THE COMPUTER DISK USING UPDATED TECHNOLOGY. WE WOULD ALSO DEVELOP APPROPRIATE MATERIAL FOR INTERNET APPLICATION. BOTH OUR WRITTEN AND ELECTRONIC TOOLS WOULD MAKE USE OF INFORMATION ABOUT THE THRIFT SAVINGS PLAN AND SOCIAL SECURITY BENEFITS THAT AN EMPLOYEE COULD EXPECT UNDER VARYING SCENARIOS, INCLUDING THE EFFECT THAT AN ELECTION OF FEDERAL EMPLOYEES RETIREMENT SYSTEM COVERAGE WOULD HAVE ON SOCIAL SECURITY BENEFITS DUE TO THE WINDFALL ELIMINATION AND THE PUBLIC PENSION OFFSET PROVISIONS OF THE SOCIAL SECURITY ACT.

THE OFFICE OF PERSONNEL MANAGEMENT WOULD ALSO LEAD EMPLOYING AGENCIES IN THE SIGNIFICANT TASK OF ENSURING THAT ALL ELIGIBLE EMPLOYEES--ABOUT 1.2 MILLION PEOPLE--ARE NOTIFIED OF THE ELECTION OPPORTUNITY, THAT THEY RECEIVE BENEFIT COMPARISONS, AND THAT THEIR QUESTIONS RECEIVE FULL AND CORRECT ANSWERS. AS THE SUBCOMMITTEE KNOWS, RETIREMENT COVERAGE ERRORS THAT OCCURRED FROM 1984 THROUGH 1986 SOMETIMES WENT UNDETECTED IN THE 1987 OPEN ENROLLMENT PERIOD, AND WE HAVE PROPOSED A METHOD OF REMEDYING THOSE AND OTHER RETIREMENT COVERAGE ERROR CASES. WE WOULD DO OUR UTMOST, BY OUTREACH AND INFORMATION EFFORTS THROUGH EMPLOYING AGENCIES, TO MINIMIZE SUCH ERRORS DURING ANY FUTURE OPEN ENROLLMENT PERIOD.

FINALLY, I BELIEVE IT BEARS REPEATING THAT AN INDIVIDUAL'S ELECTION OF A RETIREMENT PLAN DEPENDS NOT ONLY ON A FINANCIAL EVALUATION OF HIS OR HER SITUATION, BUT ON THE PERSON'S GLOBAL OUTLOOK ABOUT THE FUTURE, INVOLVING A PERSONAL APPRAISAL OF CIRCUMSTANCES SUCH AS THE EVOLUTION OF FAMILY NEEDS AND LIFE-STYLE EXPECTATIONS. OUR AIM IN IMPLEMENTING AN OPEN ENROLLMENT PERIOD WOULD BE TO ENSURE THAT EVERY EMPLOYEE

ELIGIBLE TO MAKE AN ELECTION IS GIVEN FULL INFORMATION ABOUT THE RETIREMENT SYSTEMS IN PLENTY OF TIME TO MAKE A CONSIDERED JUDGMENT.

IN CONCLUSION, MR. CHAIRMAN, I THANK YOU FOR INVITING THE OFFICE OF PERSONNEL MANAGEMENT TO TESTIFY ON THIS MATTER. I WILL BE GLAD TO ANSWER ANY QUESTIONS YOU MAY HAVE.

Mr. MICA. We will hear now from GAO, Mr. Brostek. You are recognized, sir.

STATEMENT OF MICHAEL BROSTEK, ASSOCIATE DIRECTOR, FEDERAL WORKFORCE AND MANAGEMENT ISSUES, GENERAL ACCOUNTING OFFICE

Mr. BROSTEK. Good morning, Mr. Chairman and members of the committee. I am pleased to be here today to discuss factors associated with predicting——

Mr. MICA. Could you pull that mic up? There is going to be a vote, but we will try to do Mr. Brostek, and then we will recess. We will go ahead and hear from you. There will be the swearing in and a rule vote after that. We will come back to Mr. Van de Water. We will probably recess the hearing until about 20 to 25 after the hour and then come back and finish yours Mr. Van de Water and do questions.

Mr. Brostek, you go ahead.

Mr. BROSTEK. I think this one is working.

Good morning, Mr. Chairman, and members of the subcommittee. I am pleased to be here today to discuss factors associated with predicting who might take advantage of a FERS open season, the amount by which agencies' retirement costs could increase if various portions of CSRS employees did transfer, and whether agencies would face difficulties in coping with the increased costs.

I will summarize my testimony and ask that the full text be inserted in the record.

Mr. MICA. Without objection it will be made part of the record.

Mr. BROSTEK. Turning first to the difficulty of predicting how many employees might transfer, we looked at the experience of the 1987 open season. About 4 percent of eligible employees transferred compared to an estimate of up to 40 percent who would transfer. We found that employees had both economic and noneconomic reasons for their decisions. These included difficulties understanding FERS, concern that they could not afford to make Thrift Savings Plan contributions, belief that CSRS provided greater benefits than FERS for career employees, and distrust of such things as the viability of the Social Security system and the future stability of FERS itself.

With more than a decade of experience since the initial open season, some of these reservations about joining FERS may be less relevant. For instance, employees are now likely to have a greater understanding of FERS and have experience with the stability of that system. Currently, a complex mix of economic and noneconomic factors are likely to affect employees' decisions about whether to transfer. For example, one factor that might motivate employees to transfer is the opportunity to participate more fully in the Thrift Savings Plan. Thrift Savings Plan participation rates have risen steadily among all workers with Thrift Savings Plan participation rates now approaching 50 percent for the lowest-paid employees and nearly 100 percent among the highest paid employees. Many CSRS employees are making the maximum contribution that they are allowed.

Some CSRS participants might also be attracted to FERS to escape the Government pension offset for spousal benefits under So-

cial Security, as Mr. Flynn suggested. Five years of FERS participation would eliminate the spousal benefit reduction.

Some factors that might dissuade employees from transferring to FERS include continuing concerns as shown in public opinion polls about the future viability of the Social Security system. In those cases where the advantage of transferring would take employees beyond their planned retirement date, there is also an issue of whether the additional retirement income would outweigh for employees the shorter period of actual retirement that they would enjoy. Clearly, the ultimate decisions about whether to transfer would be highly dependent on the personal circumstances and the situations of the thousands of potentially eligible workers.

Despite the uncertainty over how many employees would transfer, we do know that agencies' retirement costs would increase for each transferee. The increase is an inevitable by-product of how CSRS and FERS are funded. Retirement system costs are best measured by the full accruing costs of pension benefits as they are earned. OPM actuaries estimate these costs for both the CSRS and FERS systems. Although these costs are calculated, agencies are not charged the difference between the full accruing costs of benefits under CSRS and employee contributions. Instead, some of these costs are paid by others and some are deferred.

In contrast, agencies are charged the difference between employee contribution and the full accruing costs of FERS benefits—as the benefits are earned. Due to these funding differences and the costs that would be incurred for Government-matching contributions to new FERS participants, agencies could face increased costs equal to about 12.4 percent of each transferring employee's pay.

Given uncertainty about how many employees might transfer, it is prudent to consider various scenarios for planning purposes. We estimated the increased retirement costs that agencies might face if 1, 5 and 10 percent of their general scheduled employees transferred. We did this first assuming that transfers would be spread evenly among all general schedule and grade levels, and second, assuming 75 percent of the transfers would be at the higher paid grades of GS 13 through 15.

Assuming equal transfer rates among all GS grades, we found that agencies' retirement costs could increase by about $24 million at the 1 percent transfer rate, $122 million at the 5 percent rate, and about $244 million at the 10 percent rate. If three-quarters of the transferees were concentrated in the higher paid grades, the agencies' retirement costs could increase more. At the 1 percent transfer rate, the costs could be $32 million; at 5 percent, $160; and at 10 percent, $320 million.

The difficulties, if any, that agencies would face due to such increases are also problematic to gauge. Even the largest increase that we estimated would only represent about a 1 percent increase in the total pay and benefits already paid for agencies' general scheduled employees. However, in specific instances, for example where personnel costs are a substantial part of an agencies' budget, or where high numbers of higher graded employees might transfer, absorbing the increased costs could be more challenging. In gen-

eral, agencies would need to absorb these costs, given the existing caps on discretionary spending.

Thank you, Mr. Chairman. That concludes my statement, and I would be pleased to answer questions later.

Mr. MICA. Thank you. We will withhold questions.

[The prepared statement of Mr. Brostek follows:]

THE FEDERAL EMPLOYEES RETIREMENT SYSTEM:
POTENTIAL CHANGES IN AGENCY RETIREMENT COSTS FOLLOWING AN OPEN SEASON

SUMMARY OF STATEMENT BY
MICHAEL BROSTEK
ASSOCIATE DIRECTOR, FEDERAL MANAGEMENT AND WORKFORCE ISSUES
GENERAL GOVERNMENT DIVISION

The Federal Employees Retirement System (FERS) was implemented in 1987 and generally covers those employees who first entered federal service after 1983. When FERS began, employees covered by the Civil Service Retirement System (CSRS) were provided an opportunity to transfer to FERS during a 6-month open season that ended in December 1987. The Federal Employees Retirement Open Season Act of 1997, passed by Congress but vetoed by the President, would have allowed employees currently enrolled in CSRS or the CSRS Offset program a second chance to transfer. Transferees under the act would have received substantially the same coverage and benefits that were provided to those who transferred during the first open season.

GAO was asked to examine the potential impact of a new FERS open season on agency retirement costs. GAO developed illustrations that estimated the effect if differing proportions of about 500,000 permanent general schedule CSRS and CSRS Offset Plan employees (excluding employees of the Postal Service and certain other groups such as Wage Grade employees) decided to switch. GAO used information on current retirement practices and work it had performed on the early implementation of FERS to provide perspective on the difficulty of predicting how many employees might switch. GAO applied different assumptions about the portion of eligible employees who might switch and their salary levels and calculated the resulting differences in agency retirement costs.

GAO found that:

- It is difficult to predict who among the eligible employees would switch. GAO's review of the first FERS transfer program in 1987 showed that although eligible employees were provided the information and counseling that they would need to make a decision, about 4 percent of the eligible employees transferred to FERS. The review suggested that employee decisions can be based on situational factors that are economic as well as noneconomic.

- Assuming some employees opt to switch, agency retirement costs would increase following an open season because of differences in the way CSRS and FERS are funded. The amount of any cost increase would critically depend on the number of employees who switch and their salary levels. For example, assuming (1) a 10 percent switch rate–which would be twice the largest percentage of employees who transferred in 1987 in the agencies GAO reviewed–and (2) that employees earning higher salaries would be most likely to switch, agency costs for the period January 1997 through December 1997 would have been an additional $332 million.

- Given the uncertainty regarding how many employees might transfer, it is correspondingly difficult to estimate whether agencies would have a difficult time absorbing the cost increases. Although the largest increase in retirement costs GAO calculated–$332 million–would appear small in proportion to the cost of personnel benefits governmentwide some agencies might find the costs difficult to absorb, depending on their different circumstances. Regardless of the size of the increases in costs, under the budget process discretionary spending is capped, and Congress may choose not to provide agencies extra funding to cover their increased retirement costs.

Enostick

Dear Mr. Chairman and Members of the Subcommittee:

I am pleased to be here today to discuss the potential impact on agency retirement costs of a retirement system open season in which anyone who is a general civilian employee of the federal government and is participating in the Civil Service Retirement System (CSRS) or the CSRS Offset plan would be allowed to transfer to the Federal Employees Retirement System (FERS).[1] As you requested, the focus of our testimony is on the potential changes in retirement costs charged to federal civilian agencies that might follow such a transfer program. Because agencies would be responsible for paying any additional costs, information about changes in retirement costs could be important for workforce planning and management.

My testimony has three main points. First, it is difficult to predict the number and salary levels of those eligible employees who would switch. Our review of the original FERS open season suggested that employee decisions can be based on situational factors that are economic as well as noneconomic. Second, assuming that some employees opt to switch, agency retirement costs would increase following an open season because of differences in the way CSRS and FERS are funded. The amount of any such increase in agency retirement costs would depend on the numbers of employees who switch and

[1]Typically, the CSRS Offset plan covers employees who (1) had a break in service that exceeded 1 year and ended after 1983 and (2) had 5 years of creditable civilian service on January 1, 1987. CSRS Offset plan coverage is described in greater detail in Federal Retirement: Federal and Private Sector Retirement Program Benefits Vary (GAO/GGD-97-40, April 7, 1997).

their salary levels. Finally, given the uncertainty regarding how many employees might transfer, it is correspondingly difficult to estimate whether agencies would have a difficult time absorbing such an increase. Although the largest increases in retirement costs that we calculated could appear small in proportion to the costs of personnel benefits governmentwide for the employees included in our analysis, some agencies might find the costs difficult to absorb, depending on their individual circumstances. Regardless of the size of the cost increase, under the budget process discretionary spending is capped, and Congress may choose not to provide agencies extra funding to cover their increased retirement costs.

The Federal Employees' Retirement Open Season Act of 1997 passed by Congress but vetoed by the President, would have allowed employees currently enrolled in CSRS or the CSRS Offset program to transfer to FERS. Under the act, an open season for transfers would have begun on July 1, 1998, and run through December 31, 1998. Transferees under the act would have received substantially the same coverage and benefits that were provided to those who transferred during the first FERS open season. Those who transferred would have received a single annuity upon retirement. That annuity would have included a CSRS component, calculated on the basis of the employee's final high-3 average salary and his or her years of CSRS service, and a FERS component using the same high-3 salary and based on the employee's years of FERS service. In addition, transferees would have received Thrift Savings Plan (TSP) and Social Security benefits from their FERS service.

Because of the Committee's interests, our analysis was only of the potential changes in agency retirement costs that would affect agencies' workforce and management decisions. We did not examine the change in the total or the government's share of normal costs of the CSRS and/or FERS programs, which is OPM's responsibility, or the budgetary effects on discretionary and direct spending, which are the responsibility of the Congressional Budget Office. It is worth noting that any comparison of the total budgeted costs for CSRS and FERS is driven by the fact, as discussed later in this statement, that the costs are recorded in the budget on a different basis. Had we examined the costs on a governmentwide basis the results may have been different.

To assess the potential impact on agency retirement costs of a new FERS open season, we developed several illustrations that show the estimated effects if differing proportions of the eligible employees included in our analysis decide to switch. We used information from work that we performed 10 years ago when we examined the early implementation of FERS, including the first FERS open season and employee decisions related thereto, and our knowledge of current retirement practices to provide perspective on the difficulty of predicting how many employees might switch to FERS.[2] In developing our illustrations of the potential costs to agencies of a new open season, we used benefit assumptions reflected in the recently vetoed Federal Employees' Retirement System Open Enrollment Act of 1997–that transferees would receive substantially the same coverage and benefits

[2]Federal Personnel: Views From Two Agencies on Why More Employees Did Not Join the New Retirement System (GAO/GGD-88-52FS, Mar. 11, 1988); and Federal Retirement: Implementation of the Federal Employees Retirement System (GAO/GGD-88-107, Aug. 4, 1988).

as those provided to employees who transferred during the first FERS open enrollment. To illustrate the range of changes in civilian agency retirement costs that might occur, we applied different assumptions about the portion of eligible employees who might switch and their salary levels, and calculated the resulting differences in agency retirement costs. We developed two sets of illustrative examples, each assuming that 1, 5, or 10 percent of the eligible employees would transfer.[3] In making our calculations, we used the most recent available data from the Federal Retirement Thrift Investment Board on agency TSP payments, which were 1996 data. We used 1997 Office of Personnel Management (OPM) data on the number of nonpostal permanent civilian employees of the federal government at the various grade levels[4] and 1996 OPM data on the share of CSRS and FERS normal cost percentages charged to agencies for their CSRS and FERS employees. As described in greater detail later in this statement, normal cost is the term used to describe costs

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[3]We selected 1 percent because it was the percentage used by the Congressional Budget Office in making its preliminary cost estimate of the vetoed Federal Employees' Retirement System Open Enrollment Act of 1997. We selected 5 percent because it represented about the largest percentage of employees who actually transferred in the agencies we visited during our review of the first FERS open enrollment. We added a 10-percent calculation to our analysis because some observers have speculated that large numbers of eligible employees would switch.

[4]OPM's Central Personnel Data File (CPDF) contains general schedule employees, members of the Senior Executive Service (SES), blue collar employees, and others. Of those employees in the CPDF, about 1.3 million are covered by the general schedule pay plan. Because the methodology for our calculations used general schedule salaries for calculating per employee increases in agency retirement costs, we identified 1,042,112 permanent general schedule employees in Career, Career-Conditional, Schedule A, and Schedule B appointments. Of the general schedule employees who we used in our analysis, 548,377 were covered by FERS, 457,084 were covered by CSRS, and 6,651 employees were covered by the CSRS Offset plan. Had we analyzed changes in agency retirement costs for non-general schedule employees (e.g., postal service employees, blue collar, and SES), our combined estimate of these increases would have been higher.)

that are calculated to reflect the cost of pension benefits as these benefits are earned, rather than as they are paid. Our illustrations show how agencies' retirement costs could have changed for the period from January 1, 1997, through December 31, 1997, if all of the transferring employees in each illustration were in FERS for the full year.

CSRS AND FERS ARE DESIGNED AND FUNDED DIFFERENTLY

CSRS and FERS are the two largest retirement programs for federal civilian employees. At the beginning of fiscal year 1995, these programs covered about 2.8 million federal employees, or 90 percent of the civilian workforce, including postal employees. OPM administers CSRS and FERS. CSRS and FERS pension benefits are financed partly by federal agency and employee contributions and partly by other government payments to the Civil Service Retirement and Disability Fund (CSRDF).[5]

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[5]The Department of the Treasury also makes annual payments that are to cover interest on CSRS unfunded liability, payments for spouse equity, and amortization payments to finance supplemental liabilities for FERS, including those attributable to CSRS service for employees who elected FERS. The Treasury Department's FERS payments are quite small as a share of total normal costs. According to OPM actuarial reports, in 1996 these payments were about $48 million, which represents $1 in Treasury payments for each $138 in agency and employee contributions. Thus, for all practical purposes, agency and employee contributions cover the full normal cost of FERS benefits.

Program Design Differences

Although CSRS and FERS both provide pensions, the programs are designed differently. CSRS was established in 1920 and predates the Social Security system by 15 years. When the Social Security system was established, Congress decided that employees in CSRS would not be covered by Social Security through their federal employment. CSRS is a stand-alone pension program that provides an annuity, determined by a formula, as well as disability and survivor benefits. The program was closed to new entrants after December 31, 1983. According to OPM actuaries, the program is estimated to end in about 2070, when all covered employees and survivor annuitants are expected to have died.

FERS was implemented in 1987, and generally covers those employees who first entered federal service after 1983 as well as those who transferred from CSRS to FERS. The primary impetus for the new program was the Social Security Amendments of 1983, which required that all federal employees hired after December 1983 be covered by Social Security. FERS is a three-tiered retirement program that includes Social Security and TSP benefits in addition to a pension. Like CSRS, FERS provides disability and survivor benefits.

Differences in Program Funding

CSRS and FERS also are funded differently. The costs of FERS retirement benefits are paid by agencies and participating employees as these benefits are earned, but some of the government's CSRS pension costs are deferred.

To better appreciate how this occurs and the impact that the two programs' different funding approaches have on agency retirement costs, it is useful to understand differing methods for measuring retirement program costs. The cost of a retirement plan is generally not well measured by annual cash expenditures, because annual cash expenditures simply cover the payments to existing beneficiaries in any given year. An alternative measure of retirement costs assumes that funds are set aside in roughly equal payments over the working life of the employee to cover current and future liabilities for benefit payments. "Normal cost" is the term used to describe costs calculated in this manner; it measures the costs of pension benefits, which are earned during an employee's working years but paid during retirement, on an accrual rather than a cash basis. If resources including interest amounts are set aside that are sufficient to fully fund employees' retirement benefits as measured by normal cost (including the pay increases for employees and cost of living adjustments for annuitants), the retirement plan is said to be fully funded on a dynamic normal cost basis.

It has long been our position that the appropriate way to calculate and fund retirement costs is as the benefits are accruing.[6] When done properly, recognizing retirement costs as they are being earned reflects the full cost of providing these benefits to federal personnel at the time their service is rendered. The annual normal cost of CSRS, which is a much older program than FERS and predates modern financing methods (which attempt to finance pension plans on an actuarial basis),[7] is calculated for CSRS by OPM, but these costs are not fully funded from agency and employee contributions. According to OPM, when CSRS costs were estimated in this way, the normal cost for fiscal year 1996 was 25.14 percent for CSRS. For that year, the combined contributions of agencies and employees was 14 percent, or about 11 percent less than the full normal cost. Beginning in fiscal year 1998, agencies will pay an additional 1.51 percent of pay towards their CSRS employees' retirement costs. Employees covered by CSRS as well as those covered by

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[6]Overview of Federal Retirement Programs (GAO/T-GGD-95-172, May 22, 1995) ; and Federal Retirement System Financing (GAO/T-GGD-95-197, June 28, 1995)

[7]In establishing a defined benefit pension plan, an employer is promising to pay benefits that will come due in the future. Generally the money used to pay these benefits is obtained in one of two ways, either through pay-as-you-go financing or through reserve funding. The pay-as-you-go method would pay the pension benefits to retired employees as these benefits come due out of appropriations. Under the reserve funding method, contributions are made as benefits are earned based on actuarial estimates of the value of the benefits. CSRS was originally funded on a pay-as-you-go basis, and as a consequence, built up an actuarial unfunded liability. Regarding federal government pension plan liabilities, Public Law 95-595, 31 U.S.C. 9501-9504, enacted in 1978, established financial and actuarial reporting requirements to such plans and required the plans to report financial and actuarial information regarding plan liabilities in annual reports. According to our summarization of these reports in 1996, most of the 34 plans that we examined were underfunded on a dynamic cost basis. However, FERS is fully funded, and statutory provisions for the future elimination of the unfunded benefit obligations of CSRS and the Military Retirement System have already been enacted. See Public Pensions: Summary of Federal Pension Plan Data (GAO/AIMD-96-6 Feb. 16, 1996).

FERS will also pay an additional .25 percent in 1999, another 0.15 percent in 2000, and a final extra 0.1 percent in 2001. Payment of a portion of the difference between the full normal cost and agency and employee contributions is funded through various means, and the remainder is deferred.[8] When Congress established FERS in 1986, it adopted our recommendation to charge agencies for all accruing retirement costs not covered by employee contributions.

Agency Costs for CSRS and FERS Differ

Because of these differences in the way in which CSRS and FERS are designed and funded, agencies are charged more as a percentage of pay for employees who are covered under FERS compared to their employees who are covered under CSRS. As shown in table 1, when the three components of the FERS benefit package are combined, beginning in 1999, agencies could contribute a total of 20.9 percent of pay for their FERS

[8]The funded portion is covered by other government contributions to the retirement fund. OPM makes annual contributions to the fund from its appropriation to amortize the liabilities created by employee pay raises, once enacted, and other benefit improvements when they are made; the Postal Service makes contributions to the fund to cover retirement system liabilities resulting from collective bargaining agreements with its employee unions and COLAS postal retirees receive; and the Treasury pays the cost of benefits attributable to military service and interest on the system's unfunded liability as if it were funded. No provision exists to fund COLAs received by nonpostal retirees. The remainder is addressed in the FERS statute (Public Law 99-335) approved June 6, 1986 which requires that when the budget authority in the retirement fund for CSRS benefits is exhausted, automatic annual appropriations will be made to amortize the shortfall over 30 years.

employees, compared with 8.5 percent for their CSRS employees.[9] Under these assumptions, agencies would pay a higher percentage of pay for each employee who transfers from CSRS to FERS than is currently paid. This is because agencies would need to contribute 2.2 percent more for the FERS pension benefit, plus an additional 6.2 percent for the employer's share of the Social Security benefit up to a maximum salary of $65,400, and about 4 percent for the TSP benefit.[10] As the table also shows, the percentage increase in agency costs per transferring employee would be smaller in the case of employees under the CSRS Offset plan.

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[9]The CSRS Offset percentage is 14.7. The figures presented in figure 1 and used for our analysis are only designed to illustrate the potential changes in agency retirement costs. As noted earlier in this statement, in 1996, agencies actually contributed 7 percent for the CSRS defined benefit and will continue to contribute this percentage through fiscal year 1997. Also in this regard, in 1996, agencies contributed 11.4 percent for the FERS defined benefit, although as noted elsewhere in this statement and as used by CBO in its cost estimate of the budgetary impacts of an open season, the most recent OPM estimate of this cost is 10.7 percent.

[10]With respect to the pension benefit, agencies are to pay the difference between employee contributions of 0.8 percent and the full dynamic normal cost. According to the most recent OPM actuarial estimates, this difference is 10.7 percent. With respect to TSP, the maximum employer potential cost, or liability, for contributions for FERS-covered employees is 5 percent of pay—consisting of up to 4 percent in matching contributions, plus 1 percent in nonmatching contributions. In 1996, the most recent year for which data were available, the Thrift Board reported that agencies contributed about $2 billion to FERS employees' TSP accounts. According to OPM actuaries, the dynamic normal cost of TSP benefits has been rising and is now estimated to be about 4 percent of pay.

Table 1: Comparison of the Percentages of Pay Agencies Contribute for Employees Covered By the FERS, CSRS, and CSRS Offset Retirement Plans

	Federal retirement plans		
	FERS	**CSRS**	**CSRS Offset**
Defined benefit	10.7%	8.5%	8.5%
Social Security[a]	6.2%		6.2%
TSP (average match)	4.0%		
Agencies' total contribution percentages	**20.9%**	**8.5%**	**14.7%**
Percentage increase in agencies' costs if employees transfer to FERS		12.4%	6.2%

[a]As is true for private employers, this shows the employer contribution to Social Security, not the full actuarial cost of the system. See Retirement Income: Implications of Demographic Trends for Social Security and Pension Reform (GAO/HEHS-97-81, July 11, 1997).

Source 1997 OPM actuarial data.

Although agency costs generally could rise by 12.4 percent of pay for each employee who transferred to FERS during the open season, the actual dollar impact of each such transfer would vary depending on employees' salaries, with the most highly compensated transferring employees causing the greatest increase in agency retirement costs. Table 2 provides the range of these dollar increases for general schedule (GS) employees and shows that the smallest increase would be $1,571 per employee, and the greatest would be about $9,769. Our results for the CSRS Offset plan participants ranged from a low of $785 to a high of $5,714 and are presented in appendix I.

Table 2: Comparison of Agency Cost Increases for Each CSRS General Schedule Employee Who Transfers to FERS, by Grade and Step

	Steps									
Grades	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**
GS-1	$1,571	$1,623	$1,675	$1,728	$1,780	$1,811	$1,862	$1,914	$1,916	$1,965
GS-2	1,766	1,808	1,867	1,916	1,938	1,995	2,052	2,109	2,166	2,223
GS-3	1,927	1,991	2,056	2,120	2,184	2,248	2,313	2,377	2,441	2,505
GS-4	2,163	2,236	2,308	2,380	2,452	2,524	2,596	2,669	2,741	2,813
GS-5	2,420	2,501	2,582	2,663	2,743	2,824	2,905	2,986	3,066	3,147
GS-6	2,698	2,788	2,878	2,968	3,058	3,147	3,237	3,327	3,417	3,507
GS-7	2,998	3,098	3,198	3,298	3,398	3,498	3,598	3,698	3,798	3,898
GS-8	3,320	3,431	3,542	3,653	3,763	3,874	3,985	4,095	4,206	4,317
GS-9	3,668	3,790	3,912	4,034	4,157	4,279	4,401	4,523	4,646	4,768
GS-10	4,039	4,173	4,308	4,443	4,577	4,712	4,847	4,981	5,116	5,251
GS-11	4,437	4,585	4,733	4,881	5,029	5,177	5,325	5,473	5,621	5,769
GS-12	5,318	5,496	5,673	5,850	6,028	6,205	6,382	6,560	6,737	6,914
GS-13	6,324	6,535	6,746	6,957	7,168	7,378	7,589	7,800	8,011	8,166
GS-14	7,473	7,723	7,972	8,165	8,290	8,414	8,539	8,663	8,788	8,913
GS-15	8,450	8,597	8,743	8,890	9,036	9,183	9,329	9,476	9,622	9,769

Source: GAO analysis of OPM data.

IT IS DIFFICULT TO PREDICT THE NUMBER OR SALARY LEVEL OF EMPLOYEES WHO WOULD TRANSFER TO FERS

Because each transferring employee would add to an agency's retirement costs, assessing the effect of an open season on agencies' retirement costs is critically dependent on the number of employees who would switch and their salary levels. Exclusive of the Postal Service, about 457,000 permanent civilian GS employees covered by CSRS and about 37,000 covered by the CSRS Offset plan would be eligible and could transfer to FERS

during a new open season. Given the potential range of impacts on agency retirement costs and the difficulty of making a precise estimate of these costs, it is useful to consider what factors employees might consider in making their decisions and the salary levels of those who might be most likely to switch.

When FERS was created, Congress asked us to evaluate the act's initial implementation. During the course of our work, we developed information on the reasons why eligible employees chose not to transfer to FERS. One lesson from this work was that it is difficult to predict whether an individual employee will decide to change his or her retirement coverage. For example, at the time of the initial open season in 1987, the Office of Management and Budget estimated that as many as 40 percent of eligible employees would transfer to FERS, while after the open season ended in January 1988, OPM confirmed that about 86,000 CSRS employees (about 4 percent) actually transferred..

Also, transfer rates during the first FERS open season varied across the agencies that we reviewed. At sites we visited, we found that transfer rates ranged from less than 1 percent to more than 4 percent, which translates into a fourfold difference in the increases in the agencies' retirement costs.[11]

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[11]We visited 23 Department of the Army and Veterans Administration field activities. We selected two large agencies, one military and one civilian. Both employed a large number of civilian employees and had numerous field activities widely dispersed throughout the country. However, because we did not randomly select the agencies or their field locations, the information we obtained could not be projected to portray the implementation of FERS throughout the Army, Veterans Administration, or the government.

During our 1987 work, we also examined the manner in which agencies fulfilled their implementation responsibilities during the open season, in part to understand the role that information provided to employees may have played in their decisions. We found that although fewer eligible employees than expected actually transferred, there were no underlying deficiencies in the implementation of the transfer program that might have accounted for the low percentages. FERS information was widely available and distributed. Advisors who were to provide individual counseling were trained by OPM, and these advisors were available to assist employees. Computer models were also widely available, and analyses and estimates were generally provided to employees who requested them. Notwithstanding such agency efforts, briefings at the sites we visited were not well attended. Also, only a small percentage of employees requested computer estimates of their potential retirement benefits.

We interviewed personnel officials and advisors who were responsible for counseling employees during 1987 on the advantages and disadvantages of transferring to FERS. On the basis of the views of advisors and personnel officials at the sites we visited, we identified four primary reasons why employees decided not to transfer to FERS. The reasons–both economic and noneconomic–were as follows:

- Employees regarded FERS as too complex to understand.
- Employees believed they could not afford to contribute to TSP.
- Employees planned to make the federal government their career and believed that CSRS provided greater benefits for career employees than FERS.

- Employees did not trust various aspects of the design or stability of FERS, including the viability of the Social Security system and potential for future changes in FERS benefit levels.

In contemplating the relevance of employees' 1987 reasoning for a new open season, it is worth noting that much has changed in the past decade. For instance, although the number of FERS retirees is still small relative to CSRS retirees, FERS is no longer an unknown or fledgling retirement program. The benefits available from participation in FERS likely are better understood today than in 1987 when the program was created. Of particular importance may be a general improvement in public understanding of 401(k) plans and the role that they now play in retirement savings. Although the growth of these plans may be due in part to their popularity with employers, the plans also enjoy increased employee popularity because they are seen as an important element of retirement income and as having the advantage of portability. Also, notwithstanding the recent volatility of stock markets worldwide, sustained economic growth has boosted plan earnings and increased total assets substantially over the past decade, including those of the TSP C fund. On the other hand, should the U.S. economy falter or market gains abate or turn to losses, TSP might seem less attractive to those employees who are considering whether to change their retirement coverage.

As to the TSP affordability issue cited by employees, CSRS participants--who are allowed to contribute up to 5 percent of pay on a tax-deferred basis to their own TSP accounts--are doing so in large numbers. In 1996, more than half of the CSRS-covered employees in

civilian agencies contributed to TSP. Participation rates ranged from a low of about 42 percent at the Postal Service to a high of about 75 percent at the Education Department. Also, more than 70 percent of CSRS employees who were contributing to TSP in 1996 contributed the maximum allowed.

In part, because 10 years have elapsed since the last open season, individual employees' personal circumstances could be considerably different. In general, more CSRS employees would be closer to retirement eligibility, many may have moved to higher salary levels, and still others' family responsibilities may have changed–either by increasing or decreasing.

It is reasonable to expect that such economic considerations would play an important role in employees' decisions about transferring to FERS. Given such changes, some employees might find a financial advantage in changing their retirement coverage now who did not in 1987. For example, some economic incentives to switch include the following:

- Changes in personal circumstances such as advancing to higher salary levels could be contributing to the increased CSRS employee participation in TSP. For example, as shown in figure 1, about 80 percent of CSRS employees earning between $60,000 and $65,000 contributed the maximum 5 percent of their salaries into TSP. Some of these employees might be attracted to FERS to take advantage

of the opportunity to put up to 10 percent of their salaries, which would result in a 5-percent contribution by the government.

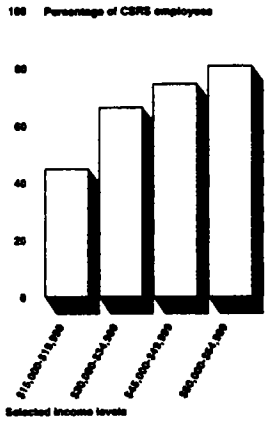
- After a 5-year period of FERS participation, any CSRS employee who switched would become eligible upon retirement for the full spousal benefit provided under Social Security. CSRS retirees have these benefits partially or entirely offset by their CSRS pensions.

- The approximately 4,000 CSRS employees who have worked long enough to qualify for the maximum retirement benefit of 80 percent of their high-3 average salary could earn greater retirement benefits by transferring to FERS, because they would qualify for agency matching contributions to TSP, Social Security, and other benefits. The pensions that they would receive as transferees would include the maximum allowable CSRS benefit, plus the additional FERS annuity.

- Lower-salaried employees may fare well under FERS, because Social Security benefits are weighted toward lower income workers. Although employees who participate in CSRS do not receive Social Security benefits from their federal service, those participants who transfer to FERS would receive pensions combining CSRS and FERS benefits, and they would be eligible to receive Social Security benefits from their federal service. However, this advantage to low wage earners could be considerably reduced by the Windfall Elimination provision, which would

significantly reduce Social Security benefits for transferees who do not have at least 21 years of substantial Social Security coverage.

Figure 1: Percent of CSRS Participants Who Contributed 5 Percent of Income in 1996, by Selected Salary Brackets



Source: Federal Retirement Thrift Investment Board data.

On the other hand, concerns about economic risks or uncertainty could dissuade some employees from transferring. As noted above, concern about the reliability of Social Security benefits was an important factor in employee decisions during the first open enrollment season. Current opinion polls suggest that many Americans remain concerned about whether these benefits will be a reliable source of retirement income. Our review of the last open season also suggests that factors such as the perceived complexity of the

FERS program and its attendant risks also can play important roles in employees' decisions. For example, some employees have less than 40 years of service and thus have not reached the maximum CSRS benefit. These employees might not want to exchange the larger annuities that additional CSRS service would provide for smaller FERS annuities that are coupled with the risk of losses from TSP investments that could result an overall lower retirement income.[12]

Finally, although economic factors logically would play an important role in employee decisions, noneconomic considerations could also play a significant role. Choices about when is the right time to retire are very personal and reflect individual values and circumstances as well as economic considerations. Thus, these decisions could be based on factors that are hard, if not impossible, to quantify. Upon transferring to FERS, for example, employees would need to work an additional 5 years to avoid the public pension offset rules that apply to CSRS employees. However, working the additional 5 years might take some individuals beyond the date at which they had planned to retire, and the trade-off between additional retirement income and a shorter retirement would be a difficult personal decision In the final analysis, much like employee decisions to take or forego recent early-out opportunities, it may be possible to estimate who would benefit from a FERS open season transfer on economic grounds, but the deciding factors might in fact be known only to the employees.

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[12]The amount of the reduction in annuity benefits would depend on the number of years of FERS service that would be applied to the employee's eventual annuity calculation.

AGENCY RETIREMENT COST INCREASES WOULD DEPEND ON THE NUMBER AND SALARY LEVELS OF EMPLOYEES WHO TRANSFER

Given the difficulty of predicting the number and characteristics of the employees who ultimately might transfer to FERS, we developed two sets of examples to illustrate the range of increases in retirement costs that agencies could face following a new FERS open season. Using two different sets of assumptions, we calculated the increase in agency retirement costs if 1, 5, and 10 percent of the eligible employees transferred to FERS. For the first set of calculations, we assumed that the distribution of transferring employees for each GS pay grade matched their actual distribution, governmentwide. That is, if 2.2 percent of the eligible CSRS employees were in grade GS-4, then 2.2 percent of the employees included in the 1-, 5-, and 10-percent calculations would also be in grade GS-4. For the second set of calculations, we assumed that a larger proportion of the transferring employees would be earning salaries at higher GS grades. This assumption helps to illustrate the sensitivity of the agency retirement cost increases to the salary level of transferring employees and may be especially pertinent if employees nearing the end of their careers, or those who wish to take advantage of the FERS TSP higher maximum contribution rate are most likely to transfer.

Table 3 illustrates the potential increases in agency retirement costs if 1, 5, and 10 percent of the eligible employees covered by CSRS transferred to FERS, assuming that the transfer rates across the GS grades would match the current distribution of employees by grade and step. As the table shows, under these assumptions the increase in agency

costs for the full calendar year 1997 would have ranged from about $24 million more if 1 percent of the employees transferred to about $244 million more if 10 percent transferred. Our results for CSRS Offset plan participants ranged from less than $1 million to about $8 million and are presented in appendix I.

Table 3: Comparison of the Estimated Increase in Agency Costs for General Schedule Employees Covered by CSRS

Grades	Total cost of selected rates of transfer		
	1 percent	5 percent	10 percent
GS-1	$133[a]	$663	$1,326
GS-2	2,694	13,472	26,944
GS-3	39,971	199,856	399,711
GS-4	268,896	1,344,478	2,688,957
GS-5	850,251	4,251,255	8,502,510
GS-6	806,650	4,033,250	8,066,499
GS-7	1,389,418	6,947,090	13,894,179
GS-8	687,775	3,438,877	6,877,753
GS-9	2,017,484	10,087,421	20,174,842
GS-10	319,857	1,599,285	3,198,569
GS-11	4,321,219	21,606,095	43,212,189
GS-12	6,483,941	32,419,705	64,839,410
GS-13	4,273,407	21,367,034	42,734,067
GS-14	1,985,738	9,928,692	19,857,384
GS-15	945,820	4,729,099	9,458,198
Total	$24,395,340	$121,965,721	$243,931,442

Note 1: For this table, we estimated the total costs associated with each selected rate of transfer by assuming that the proportion of CSRS employees who transfer would match the actual distribution of these employees across GS grades governmentwide.

Note 2: Due to rounding, totals may not equal the transfer rate percentages shown above.

[a]Because only seven of the CSRS employees whom we included in our analyses were in grade GS-1, 1 percent of these seven represents the cost difference for less than one person.

Source: GAO analysis of OPM data.

Table 4 shows the increase in agency costs if 1, 5, or 10 percent of the eligible employees covered under CSRS transferred to FERS under the different assumption that transfer rates would be higher for employees in grades GS-13 through GS-15. Following this logic, the calculations assume that 75 percent of the total number of employees who would transfer would be in grades GS-13 through GS-15, and the remaining 25 percent of the transferring employees would be in grades GS-1 through GS-12. Under these assumptions, the 1 year agency costs would range from a low of about $32 million if 1 percent of the employees transferred to a high of $320 million if 10 percent transferred. Our results for CSRS Offset plan participants ranged from about $1 million to about $13 million and are presented in appendix I.

Table 4. Comparison of the Estimated Increase in Agencies' Costs for General Schedule Employees Covered by CSRS if the Concentration of Those Transferring to FERS Were at the Higher Grade Levels.

	Total cost of selected rates of transfer		
Grades	**1 percent**	**5 percent**	**10 percent**
GS-1 to GS-12	$ 5,393,886	$26,964,573	$ 53,934,002
GS-13 to GS-15	26,585,497	132,919,510	265,831,044
Total	$31,979,383	$159,884,083	$ 319,765,046

Note 1: For this table, we estimated the total costs associated with each selected rate of transfer by assuming that 75 percent of CSRS employees who transfer would be in grades GS-13 through GS-15, and 25 percent of the employees would be in grades GS-1 through GS-12.

Note 2: Due to rounding, totals may not equal the transfer rate shown.

Source: GAO analysis of OPM data.

AGENCIES MIGHT HAVE TO PAY ANY ADDITIONAL RETIREMENT WITHOUT ADDITIONAL RESOURCES

Regardless of how large the increase in agencies' retirement costs may be, the way in which agencies' budget resources are controlled under the current budget process suggests that agencies might have to absorb any increase. Agency spending to pay retirement costs is discretionary spending. Under the current process, discretionary spending is subject to fixed-dollar caps that are implemented through the budget and appropriations processes.[13] As a consequence, unless Congress chose to provide additional resources to fund the added retirement costs that agencies could be charged, agencies would need to absorb any increases, within the limits of their annual appropriations.[14]

Given the uncertainty regarding how many employees might transfer to FERS during an open season, it is correspondingly difficult to estimate whether agencies would have a difficult time absorbing such an increase. By one measure--the percentage that the

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[13]In particular, as noted in Budget Policy: Issues in Capping Mandatory Spending (GAO/AIMD-94-155, July 18, 1994), congressional budget resolutions set totals by budget function and accompanying statements to the conference reports allocate funds to the appropriations committees for discretionary programs. House and Senate appropriations committees subsequently allocate these totals among their subcommittees. OMB keeps score by tracking congressional actions, and Congress has established spending levels in each congressional budget resolution. Should appropriations exceed the discretionary cap, the Budget Enforcement Act provides for eliminating the overage through the sequestration of discretionary spending. Policymakers vote annually on these discretionary program appropriations.

[14]To provide additional appropriations for this purpose would likely require an increase in the discretionary caps.

increase in retirement costs might be of agencies' total expenditures for salaries and benefits–the increased retirement costs do not look imposing. For example, our highest estimate of increased governmentwide costs, about $332 million, would represent approximately 1 percent increase in expenditures for salaries and benefits for the employees used in our analysis, based on fiscal year 1997 figures. Of course, depending on how "personnel-intensive" specific agencies' operations may be or what other cost increases may arise from other sources, even such a small overall percentage increase could be difficult to absorb in certain situations, and might, for example, result in reductions in staff levels or capital spending. Finally, agencies would be affected differently, depending on their particular grade structure. For example, an agency with a relatively larger share of highly salaried employees who opt to transfer would experience larger increases in its retirement costs compared to an agency with a smaller share, assuming that both agencies experienced the same transfer rates.

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That concludes my prepared statement. I would be pleased to answer any questions you or other Members of the Committee may have.

Table I.1. Comparison of Agency Cost Increases for Each CSRS Offset Employee Who Transfers to FERS, by Grade and Step

	Steps									
Grades	1	2	3	4	5	6	7	8	9	10
GS-1	785	812	838	864	890	905	931	957	958	[illegible]
GS-2	883	904	933	958	969	997	1.026	1.054	1.083	[illegible]
GS-3	964	996	1.028	1.060	1.092	1.124	1.156	1.188	1.221	1.253
GS-4	1.082	1.118	1.154	1.190	1.226	1.262	1.298	1.334	1.370	1.406
GS-5	1.210	1.251	1.291	1.331	1.372	1.412	1.452	1.493	1.533	1.573
GS-6	1.349	1.394	1.439	1.484	1.529	1.574	1.619	1.664	1.709	1.754
GS-7	1.499	1.549	1.599	1.649	1.699	1.749	1.799	1.849	1.899	1.949
GS-8	1.660	1.716	1.771	1.826	1.882	1.937	1.992	2.048	2.103	2.158
GS-9	1.834	1.895	1.956	2.017	2.078	2.139	2.201	2.262	2.323	2.384
GS-10	2.019	2.087	2.154	2.221	2.289	2.356	2.423	2.491	2.558	2.625
GS-11	2.219	2.293	2.367	2.441	2.515	2.589	2.663	2.736	2.810	2.884
GS-12	[illegible]	2.748	2.837	2.925	3.014	3.102	3.191	3.280	3.368	3.457
GS-13	3.162	3.268	3.373	3.478	3.584	3.689	3.795	3.900	4.005	4.111
GS-14	3.737	3.861	3.986	4.110	4.235	4.360	4.484	4.609	4.733	4.858
GS-15	4.395	4.542	4.688	4.835	4.981	5.128	5.274	5.421	[illegible]	5.714

Source: GAO analysis of OPM data.

Table I.2. Comparison of the Estimated Increase in Agency Costs for General Schedule Employees Covered by the CSRS Offset Plan

Grades	Total cost of selected rates of transfer		
	1 percent	5 percent	10 percent
GS-1[a]	$0	$0	$0
GS-2	156	779	1,558
GS-3	4,310	21,550	43,101
GS-4	29,292	146,459	292,919
GS-5	76,991	384,957	769,914
GS-6	68,269	341,346	682,692
GS-7	91,249	456,245	912,491
GS-8	32,855	164,273	328,547
GS-9	77,874	389,370	778,741
GS-10	8,232	41,160	82,321
GS-11	118,355	591,774	1 183,547
GS-12	144,041	720,203	1 440,406
GS-13	92,328	461,639	923,277
GS-14	39,548	197,742	395,484
GS-15	22,982	114,910	229,820
Total	$806,661	$4,033,305	$8,064,370

Note 1: For this table, we estimated the total costs associated with each selected rate of transfer by assuming that the proportion of CSRS Offset employees who transfer would match the actual distribution of these employees across GS grades governmentwide. That is, because 6.1 percent of the eligible CSRS employees were in grade GS-4, 6.1 percent of the CSRS Offset employees included in the 1-, 5-, and 10-percent cost estimates were also in grade GS-4.

Note 2: Due to rounding, totals may not equal the transfer rate percentages shown above.

[a]Because no CSRS Offset employees were in grade 1, the cost difference is $0.

Source: GAO analysis of OPM data.

Table I.3. Comparison of the Increase in Agency Costs for GS Employees Covered by the CSRS Offset Plan if the Concentration of Those Transferring to FERS Were at the Higher Grade Levels.

	Total cost of selected rates of transfer		
Grades	**1 percent**	**5 percent**	**10 percent**
GS-1 to GS-12	$182,590	$912,951	$1,825,901
GS-13 to GS-15	1,079,569	5,397,844	10,791,690
Total	$1,262,159	$6,310,795	12,617,591

Note 1: For this table, we estimated the total costs associated with each selected rate of transfer by assuming that 75 percent of CSRS Offset employees who transfer would be in grades GS-13 through GS-15, and 25 percent of the employees would be in grades GS-1 through GS-12.

Note 2: Due to rounding, totals may not equal the transfer rate percentages shown.

Source: GAO analysis of OPM data.

(410225)

Mr. MICA. We will also hear from Mr. Van de Walter after the vote. Everyone should be back at 11:25. We will recess until that time.

[Brief Recess.]

Mr. MICA. I said we would start at 25 after, and in typical political fashion, I can't believe that we are going to start early.

The vote on the rule will not be for another hour, so I would like to reconvene our Civil Service Subcommittee hearing if we could. If you are ready, Mr. Van de Water, we would like to hear your testimony at this time. And you are with the Congressional Budget Office. You are recognized, sir.

STATEMENT OF PAUL VAN de WATER, ASSISTANT DIRECTOR FOR BUDGET ANALYSIS, CONGRESSIONAL BUDGET OFFICE

Mr. VAN DE WATER. Thank you, Mr. Chairman. I am pleased to be here this morning to discuss the Congressional Budget Office's [CBO's] estimate of the budgetary effects of holding a new open season, during which Federal employees covered under the Civil Service Retirement System [CSRS] could switch to the Federal Employees Retirement System [FERS].

CBO has estimated that few CSRS employees—about 11,500, or only 1 percent—would switch to FERS. That estimate is based on the patterns observed in the first open season—in 1987—and an assessment of the characteristics of the employees who would be eligible to switch. In general, CBO assumed that employees would switch at half of the rate observed in 1987. For example, in 1987, 1.0 percent of CSRS employees with 30 years or more of service switched to FERS. The rate assumed in CBO's estimate is 0.5 percent.

Table 1 in the cost estimate appended to my prepared statement displays the effect of the proposed open season on the Federal budget. In total, CBO estimates that the proposal would raise net Federal costs by approximately $250 million over the next 10 years. Most of the increase in cost represents additional agency contributions to the Thrift Savings Plan [TSP]. Otherwise, the proposal would have little net effect on the budget over the next decade.

As Mr. Flynn has indicated, the administration's estimate was based on the assumption that 60,000 workers, or 5 percent of those eligible, would take advantage of a new opportunity to switch retirement plans. In particular, the administration assumed that all CSRS workers with at least 37 years of Federal service would switch. If CBO had used the same assumption of 60,000 workers switching plans, our estimate would have been similar to the administration's.

Although the number of workers who change plans is five times larger in the administration's estimate than in CBO's, it is certainly not implausible. As you noted in your opening statement, Mr. Chairman, analysts estimated in 1987 that up to 40 percent of workers would have found it advantageous to switch to FERS. Only 4 percent did so, however. CBO assumes that because today's CSRS employees all chose not to switch 10 years ago, they would switch at a lower rate than in 1987.

Turning to the long run, whether a new open season will increase or decrease Federal costs is uncertain, because it depends on

the characteristics of the workers who would choose to switch retirement plans. As both Mr. Flynn and Mr. Brostek have pointed out, that choice would be based on more than financial considerations.

Two groups of employees would clearly cost the taxpayer more if they switched to FERS than if they remained in CSRS. Workers who have earned the maximum CSRS benefit are among those most likely to switch plans. They could begin to accrue additional retirement benefits from FERS, take advantage of the Government's matching contributions to TSP, and avoid Social Security's Government pension offset if they worked for 5 more years. They would also receive a tax cut if their earnings were above the maximum taxable wage for Social Security. For them, Federal pension benefits, agency contributions to TSP, and perhaps Social Security benefits all would be higher.

The second group of employees most likely to benefit from switching plans is composed of workers who might be eligible for modest CSRS benefits but who are precluded from receiving a significant Social Security benefit by the Government pension offset. For such people, the reduction in their Federal employee pension would be more than offset by higher benefits from Social Security and TSP.

Two other categories of workers might consider switching to FERS even though they would accrue retirement benefits at a lower rate than under CSRS. Some might want to switch primarily because they are attracted by the market rates of return available in the Thrift Savings Plan, and some might switch because they are risk-averse and fear continued Federal downsizing and reductions in force.

The long-run Federal cost of a new open season depends on the relative sizes of those groups of employees and on the accuracy of their retirement planning. On balance, however, we agree with Mr. Flynn's assessment that Federal costs would rise in the long run—primarily because of higher Social Security benefits and higher Government contributions to the Thrift Savings Plan.

That concludes my oral remarks, Mr. Chairman.

[The prepared statement of Mr. Van de Water follows:]

Van de Water

Mr. Chairman and Members of the Subcommittee, I am pleased to be here this morning to discuss the Congressional Budget Office's (CBO's) estimate of the budgetary effects of holding a new open season, during which federal employees covered under the Civil Service Retirement System (CSRS) could switch to the Federal Employees Retirement System (FERS). Among the issues I will cover in this statement are:

- The major features of each retirement system,
- CBO's estimate of the budgetary effects of the proposed open season,
- The sources of differences between CBO's estimate and the Administration's, and
- The long-term budgetary implications of the proposal.

MAJOR FEATURES OF CSRS AND FERS

CSRS is a defined-benefit retirement plan under which employees earn benefits based on their age, years of service, and earnings. Those employees are generally not covered by Social Security, but they may participate in the Thrift Savings Plan (TSP)

with their own voluntary contributions—up to 5 percent of earnings. Such contributions are not matched by any government payment. Workers covered by CSRS and their employing agency each make matching retirement contributions —generally 7.0 percent of earnings, although the Balanced Budget Act increased both rates for the 1999-2002 period. After retirement, benefits are indexed annually by the increase in the consumer price index (CPI).

FERS, which went into operation in 1987, is designed to give workers similar coverage to pension plans in the private sector: Social Security provides a base of retirement income, supplemented by a smaller defined-benefit plan (FERS) and a defined-contribution plan (TSP). The employing agency contributes 1 percent of earnings to TSP for all FERS employees and matches employee contributions up to 5 percent of earnings. Employees may contribute an additional 5 percent of earnings to TSP, but those contributions receive no government match. FERS benefits are not indexed for inflation before the annuitant reaches age 62. After age 62, benefits are adjusted annually by the rate of increase in the CPI minus 1 percentage point.

In general, covered employees pay 0.8 percent of their salary to FERS, and agencies pay 10.7 percent of covered payroll. In addition, both the worker and the agency pay 6.2 percent of wages to Social Security (up to a maximum earnings level of $65,400 in 1997). All contributions to TSP are deposited in a nonbudgetary account for which the federal government's responsibility is purely fiduciary.

CBO'S ESTIMATE FOR A NEW OPEN SEASON

CBO estimates that relatively few CSRS employees—about 11,500, or only 1 percent—would switch to FERS if given the opportunity. That estimate is based on the patterns observed in the first open season (in 1987) and an assessment of the characteristics of the employees who would be eligible to switch. In general, CBO assumed that employees with a certain number of years of service would switch at half of the rate observed in 1987. For example, 1.0 percent of CSRS employees with 30 or more years of service switched to FERS in 1987; the rate assumed in CBO's estimate is 0.5 percent.

Table 1 in the cost estimate appended to this statement displays the effect of the proposed open season on the federal budget. In total, CBO estimates that the proposal would raise net federal costs by approximately $250 million over the next 10 years. That figure reflects increases in discretionary spending and decreases in direct spending and revenues.

First, CBO estimates that the proposal would cost federal agencies $660 million over the next decade for additional contributions to retirement trust funds and the Thrift Savings Plan. For the most part, those costs would be paid out of agency appropriations and would be subject to the statutory limits on total discretionary appropriations.

In addition, the open season would reduce direct spending by $434 million during the 1998-2007 period, primarily as a result of agencies' increased retirement contributions, which are recorded in the budget as offsetting receipts. The Social Security trust funds would receive additional contributions of $288 million, and the CSRS trust fund would receive an extra $141 million. In total, benefit payments of CSRS, FERS, and Social Security would change little over that period.

Finally, total federal revenues would fall by about $25 million over the period because the additional employee contributions to the Thrift Savings Plan would not be subject to income tax in the year in which they were made. Allowing workers to switch from CSRS to FERS would also result in a small reallocation of revenues from the CSRS trust fund (an on-budget account) to Social Security (an off-budget account). Total retirement contributions by employees would remain essentially unchanged, although a negligible loss would occur for workers with earnings above the maximum taxable wage for Social Security.

COMPARISON WITH THE ADMINISTRATION'S ESTIMATE

In the President's cancellation notice and veto message, the Administration estimated that a new open season would reduce revenues for the CSRS trust fund by $854 million over the 1998-2002 period and result in additional costs to federal

agencies of $1.3 billion. CBO estimated the decline in CSRS revenues over that period to be $139 million and the increase in agency costs (excluding the Postal Service) to be $262 million. The President's announcements contained no mention of the effects of the provision on direct spending or Social Security.

According to the Office of Management and Budget, the Administration's estimate was based on the assumption that 60,000 workers, or 5 percent of the eligible workforce, would take advantage of a new opportunity to switch retirement plans. In particular, all CSRS workers with at least 37 years of federal service (30,000 workers) were assumed to switch. If CBO had used the same assumption of 60,000 workers switching plans, our estimate would have been similar to the Administration's. We would have projected a $725 million decline in CSRS revenues over the 1998-2002 period and a $1.4 billion increase in retirement costs for federal agencies.

Although the number of workers who change plans is five times larger in the Administration's estimate than in CBO's, it is certainly not implausible. Employees would decide to switch based on a number of factors that are specific to them as individuals—for example, the degree to which they are willing to be exposed to various risks (such as longevity, inflation, and fluctuations in the stock market), their potential amount of Social Security spousal benefits, and the expected length of their career with the federal government. Back in 1987, analyses by the Office of

Personnel Management and Congressional support agencies indicated that 30 percent to 40 percent of workers would have found it financially advantageous to switch to FERS. Only 4 percent did so, however. Some analysts argue that the remaining CSRS employees would be more likely to move to FERS today because of the strong performance of the stock market, the downsizing of federal agencies, and the familiarity developed with FERS over the decade since the last open season But CBO assumes that because today's CSRS employees all chose not to switch 10 years ago, they would switch at a lower rate than in 1987.

LONG-TERM BUDGETARY IMPLICATIONS

Whether a new open season would increase or decrease federal costs in the long run is uncertain, because it depends on the characteristics of the workers who would change retirement plans. For some categories of employees, the answer is obvious; for others, it is not so clear.

Two groups of employees would clearly cost the taxpayer more if they switched to FERS than if they remained in CSRS. Workers who have earned the maximum CSRS benefit—generally reached after 42 years of service—are among those most likely to switch plans. They could begin to accrue additional retirement benefits from FERS, take advantage of the government's matching contributions to

TSP, and avoid Social Security's government pension offset if they worked for five more years. They would also receive a tax cut if their earnings were above the maximum taxable wage for Social Security. For them, federal pension benefits, agency contributions to TSP, and perhaps Social Security benefits all would be higher.

The other group of employees most likely to benefit from switching plans is workers who might be eligible for modest CSRS benefits but who could escape Social Security's government pension offset by working for five years under FERS. The government pension offset reduces the Social Security spousal benefit by two-thirds of the amount of any government pension received based on employment not covered by Social Security. For example, a widow who receives a monthly CSRS payment of $1,200 would not be entitled to any Social Security benefits based on her deceased husband's earnings if those benefits were $800 or less. CSRS workers who are precluded from receiving a significant Social Security benefit by the government pension offset might find it beneficial to switch to FERS. For such people, the reduction in their federal employee pension would be more than offset by higher benefits from Social Security and TSP.

Two categories of workers might consider switching to FERS even though they would accrue retirement benefits at a lower rate than under CSRS. Some might want to switch primarily because they are attracted by the market rates of return

available in TSP. Transferring to FERS would provide them with the government's matching contribution as well as the opportunity to contribute up to 10 percent rather than 5 percent of their salary. The extraordinary returns in the stock market in recent years may have led them to conclude that TSP would perform well enough to offset any reduction in their pension. Thus, although the government would pay less in retirement benefits for those employees, their expected income could still increase.

Still other workers might choose to switch because they are risk-averse and fear continued federal downsizing and reductions in force. Those workers may consider it prudent to obtain Social Security coverage and build a larger TSP balance as insurance against losing their job or being stuck in an undesirable job.

The long-run federal cost of a new open season depends on the relative sizes of those groups of employees and the accuracy of their retirement planning. On balance, however, it seems likely that federal costs would rise—primarily because of higher Social Security benefits.

APPENDIX

CONGRESSIONAL BUDGET OFFICE
PAY-AS-YOU-GO ESTIMATE

October 28, 1997

Public Law 105-61
Treasury and General Government Appropriations Act, 1998

As cleared by the Congress on October 1, 1997

SUMMARY

The Treasury and General Government Appropriations Act for fiscal year 1998 includes a provision that would provide an open season for federal employees covered by the Civil Service Retirement System (CSRS) to switch into the Federal Employees' Retirement System (FERS). Under this provision, the open season would run from July 1, 1998, to December 31, 1998.

CBO estimates that, if this provision takes effect, federal agencies would bear costs totaling $660 million over the next ten years for additional contributions to retirement trust funds and to the Thrift Savings Plan (TSP) for federal employees. These costs would be paid out of agency appropriations and would be subject to limits in law on aggregate discretionary appropriations. We estimate that the open season provision would reduce direct spending by $434 million over the 1998-2007 period primarily because of increased agency retirement contributions to the Civil Service and Social Security trust funds, which would be reflected in the budget as an increase in offsetting receipts. Finally, we estimate that increased participation in the TSP would reduce revenues by $25 million over the same period.

CBO believes that the effects of this provision on the pay-as-you-go scorecard should be limited to the changes in on-budget revenues. CBO estimates that such revenues would decline by $151 million over the 1998-2002 period and by $312 million over the 1998-2007 period.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

Table 1 displays CBO's estimate of the budgetary effects of the retirement provision of Public Law 105-61 through fiscal year 2007. Including discretionary appropriations, we project that this provision would have a net cost of $251 million over the next 10 years.

BASIS OF ESTIMATE

Number of Employees Switching

CSRS employees had a previous opportunity to switch to FERS during a six-month open season in 1987. About 86,000 employees—4.1 percent of all eligible employees—switched to FERS during this first open season. CBO estimates that approximately 11,500 people—fewer than one percent of all CSRS employees—would take advantage of this new opportunity to switch to FERS. This estimate is substantially lower than the 1987 figure for three reasons. First, it reflects the assumption that those CSRS employees who were most likely to switch to FERS did so in 1987. CBO assumed that "switch rates" in each year of service category (15 to 19 years, 20 to 24 years, etc.) for the 1998 open season would be half of the 1987 rates. Second, CSRS employees now typically have at least 14 years of service, and switch rates in 1987 were highest for CSRS employees with fewer than 10 years of service. Finally, the total number of CSRS employees, including Postal Service employees, is much lower now than in 1987 (1.2 million compared to 2.1 million).

The 1998 open season would extend from the last quarter of fiscal year 1998 to the first quarter of fiscal year 1999. CBO assumed that employees would apply to switch at a uniform rate—that is, about 2,000 applications would be submitted each month. In 1987 an employee's switch to FERS became effective in the first pay period after his application to switch was received; CBO assumed that applications for the 1998 open season will be processed similarly. Thus the transfers would occur roughly equally in fiscal years 1998 and 1999, and fiscal year 2000 would be the first full year under FERS for all of the switching employees.

Effects on Discretionary Spending

Increased Employer Contributions. CBO estimated the aggregate salary base for switching employees by multiplying the number of people switching in each service category by the average salary for CSRS employees in that category. Agency retirement contributions for most employee groups are currently 8.51 percent of employee pay for CSRS workers and 10.7 percent for FERS employees. Employing agencies would thus have to contribute an additional 2.2 percent of employee pay for workers who switch to FERS. This amount

TABLE 1. BUDGETARY EFFECTS OF NEW OPEN SEASON PROVISION IN PUBLIC LAW 105-61
(By fiscal year, in millions of dollars)

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Spending Subject to Appropriations (Outlays)										
Agency Retirement Contributions	6	44	47	48	48	55	49	46	43	42
Agency Thrift Savings Plan Contributions	3	26	28	28	28	28	25	23	22	21
Total Discretionary Outlays	9	70	75	75	76	83	74	69	65	64
Direct Spending (Outlays)										
On-Budget										
Agency Contributions (non-Postal)	-1	-10	-11	-11	-11	-18	-16	-15	-14	-14
Agency Contributions (Postal)	-0	-2	-3	-3	-3	-3	-2	-2	-2	-2
FERS Pension Payments	0	0	0	0	0	0	4	6	8	10
CSRS Pension Payments	0	0	0	0	0	-1	-7	-13	-18	-21
Subtotal	-2	-12	-13	-13	-14	-21	-22	-24	-26	-27
Off-Budget										
Agency Payments to Social Security										
Non-Postal	-4	-28	-30	-30	-30	-30	-27	-25	-24	-23
Postal	-1	-4	-4	-4	-4	-4	-4	-4	-4	-4
Social Security Benefits	0	0	0	0	0	0	4	6	7	8
Subtotal	-4	-32	-34	-34	-35	-35	-27	-23	-20	-18
Total Direct Spending Outlays	-6	-44	-47	-48	-48	-55	-49	-47	-45	-45
Revenues										
On-Budget										
Income Tax Payments by Employees	0	-3	-3	-3	-3	-3	-3	-3	-2	-2
Employee Contributions to Retirement	-4	-32	-34	-34	-35	-35	-31	-29	-27	-26
Off-Budget										
Social Security Taxes Paid by Employees	4	32	34	34	35	35	31	29	27	26
Total Revenues	0	-3	-3	-3	-3	-3	-3	-3	-2	-2
Net Deficit Effect										
Increase or Decrease (-) in Deficit from:										
Direct Spending and Revenues	-5	-41	-44	-45	-45	-52	-46	-44	-43	-43
All Spending and Revenues	4	29	31	31	31	31	28	25	22	21

Note: Components may not sum to totals because of rounding.

would rise to 3.7 percent in calendar year 2003 because employer contributions for most CSRS workers will decrease to 7.0 percent under provisions in the Balanced Budget Act of 1997. Thus, the increase in agencies' retirement contributions was calculated as 2.2 percent of the aggregate salary base through calender year 2002 and 3.7 percent thereafter, totaling an estimated $141 million over 10 years.

In addition to the increase in contributions to the retirement trust fund, agencies would also have to pay 6.2 percent of the salaries of the new FERS enrollees (up to the $68,400 maximum taxable salary) to the Social Security trust fund. CBO estimates that these payments would total $287 million over the 1998-2007 period.

Increased TSP Contributions. CSRS workers may wish to switch to FERS in order to expand their participation in the Thrift Savings Plan. CSRS employees currently do not receive government matching funds on their TSP contributions and cannot contribute more than 5 percent of their pay. CBO assumed that TSP contributions for switching employees would rise from 4 percent (the current average for CSRS employees who participate in TSP) to 7 percent. Although employee contributions to TSP are not reflected in the federal budget, the switching employees would become eligible for the full 5 percent government match. CBO estimates that the government's outlays for these additional matching payments, calculated as 5 percent of the aggregate salary base for switching employees, would total $232 million over 10 years.

Including contributions to the Civil Service retirement fund, the Social Security trust fund, and the Thrift Savings Plan, the bill would increase federal agencies' costs on behalf of each employee who switched to FERS by more than 13 percent of the employee's salary, or an average of about $6,500 per employee in 2000. In total, agencies' costs for these employees would increase by $9 million in fiscal year 1998 and $660 million over the 1998-2007 period. Such outlays are classified as discretionary spending, which is capped through 2002 by the Balanced Budget Act of 1997. Under these caps, agencies would be required to cut back on their personnel or other spending in order to pay for the increased costs for employees switching to FERS.

Effects on Direct Spending and Revenues

Receipts to Trust Funds. The increases in agency contributions—other than to TSP—would be reflected in the budget both as additional agency outlays and as offsetting receipts to the trust funds Thus, receipts to the Civil Service trust fund would increase by $141 million over 10 years, and receipts to the Social Security trust fund would increase by $287 million over that period.

FERS and CSRS Pension Payments. CBO's estimate assumes that few of the employees switching to FERS would retire within the next five years. This assumption is based on two factors: (a) few of the employees switching would have more than 30 years of service, and (b) employees switching to FERS to avoid the Social Security government pension offset must first work at least five years under FERS. CBO assumed that switching workers would begin to retire at the very end of fiscal year 2003, with the first substantial pension payments taking place in 2004. The government's outlays for FERS benefits for switching workers would be less—by an estimated $32 million through 2007—than the reduction in payments for CSRS benefits. This savings reflects the differing accrual rates for annuity payments under CSRS (2 percent per year) and FERS (1 percent per year).

Social Security Benefits. Employees who switch to FERS and work at least five years under that system will not be affected by Social Security's government pension offset and may receive a spousal benefit. In addition, workers may also be eligible for survivor benefits. CBO assumed that retiring workers would receive an average Social Security benefit of approximately $250 a month beginning in fiscal year 2004.

Revenue Loss. Income used for TSP contributions is exempt from income tax. The 3 percentage point increase in TSP contributions for switching employees would thus lower taxable income and revenue. CBO estimated the additional amount exempt from income tax as 3 percent of the aggregate salary base, and the corresponding revenue loss as 19 percent of that amount, or $25 million over ten years.

Shift in Employee Contributions. CSRS employees switching to FERS would contribute 7.0 percent of their pay towards retirement on earnings up to the Social Security maximum wage level—$68,400 in 1998—and 0.8 percent on earnings above that level. These are the same percentages they would contribute under CSRS for salaries up to $68,400. But, under FERS, 6.2 percentage points (of the 7.0) would go to the Social Security trust fund instead of the Civil Service trust fund. This change would shift revenues from one fund to the other but would have no significant net budgetary impact.

PAY-AS-YOU-GO CONSIDERATIONS

Under the procedures established by the Balanced Budget and Emergency Deficit Control Act of 1985, changes in on-budget direct spending caused by provisions in appropriation bills are effectively counted as increases or decreases in discretionary spending for purposes of determining compliance with the discretionary caps. For the current year and the budget year, such changes are added to the estimated discretionary budget authority and outlays attributed to the appropriation bill. For subsequent years, they are reflected on the discretionary side of the budget by adjusting the caps.

Changes in revenues, however, are not counted in determining compliance with the discretionary caps. Therefore, CBO believes that the on-budget revenue impacts of appropriation bills should be recorded on the pay-as-you-go scorecard.

The following table summarizes the on-budget revenue effects of the retirement provision in Public Law 105-61. Those effects include (1) the loss of income tax revenue resulting from the increase in employees' contributions to the TSP, and (2) the loss of on-budget revenue resulting from the switch of 6.2 percentage points of employees' contributions from the Civil Service trust fund to the off-budget Social Security trust fund. These two changes produce an estimated loss of on-budget revenues totaling $312 million over the 1998-2007 period, as shown in the table below. For purposes of enforcing pay-as-you-go procedures, only the effects in the budget year and the succeeding four years are counted.

Table 2. Summary of Pay-As-You-Go Effects

	By Fiscal Year, in Millions of Dollars									
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Change in Outlays	0	0	0	0	0	0	0	0	0	0
Change in Receipts	-4	-35	-37	-37	-38	-38	-34	-32	-29	-28

The estimate of pay-as-you-go effects does not include discretionary outlays or off-budget revenues or outlays, which are not governed by the pay-as-you-go process. Thus, agency contributions from appropriated funds and Social Security revenues and benefit payments are excluded from this calculation.

ESTIMATE PREPARED BY:

Eric Rollins

ESTIMATE APPROVED BY:

Robert A. Sunshine,
Deputy Assistant Director for Budget Analysis

Mr. MICA. I want to thank each of our witnesses for their testimony and, if I may, begin with a couple of questions. We should be joined in a minute here by Mr. Cummings, and other Members.

One of my concerns is that we have a growing unfunded liability in the old CSRS obligations. We got some figures from—I believe it was OPM—that this liability was $538 billion in 1993, jumped to $541 at the beginning of fiscal year 1995, and $546 at the end of fiscal year 1995. We have not received all of the data, but we are up to—what is the increase that I quoted in my opening statement? We are up to an increased figure.

Mr. Flynn, you estimated that an open season would reduce the long-term liabilities of CSRS by $2 billion. How did you calculate this estimate?

Mr. FLYNN. I think, Mr. Chairman, in terms of that estimate, we assumed that the unfunded liability of the Civil Service Retirement System component of the Retirement and Disability Fund would decrease by just under $2 billion. That is primarily a reflection of the 5 percent of people, and I might just add, we assume 5 percent across the board, who would switch from the Civil Service Retirement System to the Federal Employees Retirement System. It essentially takes away——

Mr. MICA. When you take out folks, you have less liability.

Mr. FLYNN. Exactly.

Mr. MICA. But there are some increased costs. I think you projected also the costs to be very similar to the amount taken out? Is that your calculation or someone else's?

Mr. FLYNN. In present value terms, Mr. Chairman, we assumed that the long-term cost to the Government as a whole from the switch would be about a net increase of $1 billion, and that is net of the billion and a three-quarters reduction in the unfunded liability.

Mr. MICA. $1 billion?

Mr. FLYNN. That is correct, present value, long-term.

Mr. MICA. In the long-term, you actually save $1 billion?

Mr. FLYNN. No, sir, Mr. Chairman, you actually spend in present value terms an additional $1 billion.

Mr. MICA. OK, so it works in the opposite fashion.

One of our interests is in trying to take some pressure off of that obligation. When this was originally presented to me, and we began looking at some of the figures, we felt that in the long-term there may be a minor savings or a neutral cost, and you are saying that is not the case.

Mr. FLYNN. I don't believe it would be, Mr. Chairman. Of course these things always depend on your assumption about the number of people who will switch, and in particular, when you are looking at the Federal Employees Retirement System, some assumptions about Social Security benefits attributable to that group, and also the Thrift Savings Plan contributions made by that group, which then, of course, drive Government contributions.

Mr. MICA. Well, it does shift some of the new cost, though, what, to Social Security? Is that part of what you calculated? Not in your cost but in other Government costs?

Mr. FLYNN. That is exactly correct, Mr. Chairman. The cost of being in the Federal Employees Retirement System to the Govern-

ment consists of the incremental costs in Social Security, Thrift Savings Plan, Government contribution costs in the basic defined benefit of the Federal Employees Retirement System. And that is where that billion dollar long-term cost in present value terms comes from.

The point I was going to make just a minute ago in terms of trying to estimate how people would switch and what the value of their benefit in those programs would be, I think, though, is best capped out by the fact that anybody who decides to move to the Federal Employees Retirement System is perceptually making a judgment that it will provide for them and their family a better benefit in the long run. That better benefit in the long run inherently is going to cost more.

Mr. MICA. Because there are additional costs with the new plan that the Government has?

Mr. FLYNN. That is true. Additional contributions that the Government makes toward the cost of those benefits over the long term.

Mr. MICA. Well, there were some differences in calculations as to costs between the different agencies. Mr. Brostek, you seem to be agreeing with Mr. Flynn on his guesstimates. Mr. Van de Water, what are the major differences in calculations that you see? Mr. Brostek.

Mr. BROSTEK. What I can comment on are the differences between our estimates and the other estimates. And our estimates were specifically of the agencies' costs. They were not the governmentwide costs and they were all the agencies' costs primarily for their general schedule, non-postal employees so we are not making an estimate for the full universe of CSRS employees who might change over to the new system.

Mr. MICA. Well, the CSRS system is a closed system and you cannot have any more folks coming in. We actually have more folks coming out all the time, yet the unfunded liability is continually increasing.

Is there any mechanism in which we can take folks out without incurring costs—or incurring costs at a lower level than we are with this increased unfunded liability cost? Have you got my question?

Mr. BROSTEK. I think I do understand your question, and I guess there could be a scenario where that could be the case. If I understand correctly, the full accruing cost of the FERS system currently is higher than that for the CSRS system currently in part because the interest rates in the Nation have declined for a long period of time. The CSRS retirement benefits are somewhat sensitive to that because they are fully indexed from age 55. Indexing in the FERS system is delayed until 62 and then it is not a complete indexing for the cost of living. So changes in the cost of living make a more significant difference in the cost of the CSRS system.

Were inflation rates to rise again, then the difference in the full accruing cost between the two programs could flip and the FERS system might become the less expensive program to the Government.

Mr. MICA. Mr. Flynn, with FERS, what is the current status of the unfunded liability? Years ago, it was several billion dollars, but has that changed? Are you aware?

Mr. FLYNN. It hasn't changed dramatically, Mr. Chairman. That small unfunded liability was created, essentially, when the FERS system began. There are provisions to amortize its costs in law, and we do not expect it to grow. And we characterize it, as you do, as a fully financed system.

Mr. MICA. And if we brought people from CSRS into FERS, into a fully funded, or nearly fully funded system, would we threaten that current status?

Mr. FLYNN. I don't think we would threaten the status under either.

Mr. MICA. It is only going to have to be a direct cost to the Government to make up these additional costs incurred, and we have that plan under FERS, but the plan meeting our obligations for CSRS shortfalls is dipping in the Federal Treasury, right? And we ultimately dip in the Federal Treasury for both?

Mr. FLYNN. Yes, we do, Mr. Chairman.

Mr. MICA. Did you have any comment on the differences in calculation, Mr. Van de Water?

Mr. VAN DE WATER. I have just two comments. First of all, the big picture issue is the most important, and I think Mr. Flynn laid that out extremely well. Both the administration and CBO agree that if you look at the Federal Government as a whole—not just the Civil Service Retirement System and FERS components but also the Thrift Savings Plan and Social Security—the proposed open season would have cost money. The administration estimates a larger cost than we do because they estimate a larger switch rate, but we all acknowledge that no one can estimate with any certainty what the rate of switching is going to be. Nonetheless, the higher the rate of switchers, the higher the net cost of the open season would be.

Second, the difference between CBO's and GAO's estimates is that, as was acknowledged in a footnote in Mr. Brostek's statement. GAO based its estimate on only a subset of those who would be eligible to change plans—about 460,000 people altogether. In fact, however the universe of people eligible to switch, as both you and Mr. Flynn have mentioned, encompasses 1.2 million people. When you blow up the GAO estimate to cover the whole universe, it too turns out to be roughly comparable with ours.

Mr. MICA. Well, I think one of you had a calculation of a small percentage, up to 10 percent? Was that yours?

Mr. VAN DE WATER. Using the 1 percent version of the GAO estimate, which was our assumption, you end up with comparable results. Obviously, if you assume that 5 percent or 10 percent will switch, you end up with net costs that are 5 or 10 times larger.

Mr. MICA. But the $2.1 billion, how was that calculated, Mr. Brostek? We have heard the administration figures, $2.1 billion cost. Is that 10 years?

Mr. BROSTEK. I think I would be best to defer to Mr. Flynn to answer that question. I think he would know more.

Mr. MICA. Mr. Flynn.

Mr. FLYNN. The $2.1 billion, Mr. Chairman, which was referenced in the President's veto message, reflects in round numbers about $850 million in redirected employee contributions over 5 years, and about $1.3 billion in redirected agency contributions over 5 years. Added cost.

Mr. MICA. What is the agency's?

Mr. FLYNN. $1.3 billion from the agency's, Mr. Chairman, and the two both approximate $2.1 billion over 5 years.

Mr. MICA. With what number of folks transferring was that calculated?

Mr. FLYNN. That was assumed at 5 percent, about 60,000 people, Mr. Chairman.

Mr. VAN DE WATER. Mr. Chairman, the comparable number in our estimate would be roughly 400 million. Not surprisingly, that estimate is about one-fifth of the administration's estimate because we assumed that about one-fifth as many people would switch.

Mr. MICA. Well, as more people were learning about this proposal, we saw a tremendous amount of enthusiasm building for this. As I said in my comments, we have had 10 years of FERS to look at Thrift Savings and other incentives that appear very attractive. Folks are now weighing that potential retirement scenario versus what they are in. It would be my thought that you would get an even larger number, maybe in the 10 percent range if we did this open season. I was not here when these other bills were introduced.

Mr. Flynn, do you recall when was the last proposal for an open season?

Mr. FLYNN. Not a specific proposal, Mr. Chairman, but there have been discussions in each of the last 4 years that I am aware of with either Members of the House or Senate.

Mr. MICA. Did one of them pass? No? No.

Well, it appears that while there may be some differences in figures, basically you come to the same conclusion that there is not much difference in the cost. You have some short-term costs or you have some long-term costs. Pretty much on balance. Is that correct? Are you saying it is going to cost more to switch them in?

Mr. VAN DE WATER. Mr. Flynn's estimate was for a net long-run cost of about $1 billion. Again, assuming that our estimate would be proportionate, we might have a somewhat lower figure, but whether it is $200 million or $1 billion, those are not inconsequential sums.

Mr. MICA. And you see no gain on the other end? Your projections are that they will end up just costing us more net dollars by virtue of the expense incurred whether it be the agency or others picking up the cost?

Mr. VAN DE WATER. That is correct. Mr. Flynn, I think, stated exceedingly well that by the very nature of an open season, those people who would choose to switch are those who would at least estimate that they would be better off if they did switch. And they would be better off, for the most part, at the expense of the taxpayer.

Mr. MICA. We also have a question of fairness. You gentlemen have not been involved in this, but we also have the question of people being placed in the wrong retirement system. I guess the pe-

riod from 1985, 1986, 1987, was sort of a foggy period when they were switching from CSRS into FERS. A number of folks were left in the lurch and we have been considering proposals to give people the opportunity to have their status as far as the retirement plan they wish to be in corrected.

Has there been any thought given to a period of eligibility where we could allow, on a limited basis, folks who were in CSRS to join FERS, because of the problems that were incurred, the limited open season, the placing of folks in the wrong retirement system? Mr. Flynn.

Mr. FLYNN. Mr. Chairman, the proposal that we discussed with you, and that you will have specifically in terms of legislative language in the very near future, in fact conpensates for people who were in the wrong retirement system what is, in essence, an open season type of election, either to move to the Federal Employees Retirement System or to move back to the Civil Service Retirement System Offset Plan which would provide a benefit equal to or greater than they thought they had before the error was corrected.

But for the larger population, I guess I would say that with the exception of knowledge about the activity of the Thrift Savings program, and quite honestly some of the extraordinary performance of the C Fund within the Thrift Savings fund, with the exception of that knowledge as hindsight, the conditions that exist today governing whether or not it would be to an employee's advantage to move into the Federal Employees Retirement System or not are exactly the same as they were 10 years ago.

And it is also worth saying that every employee in the group of 1.2 million has been given at least one opportunity to make that election either during the open enrollment period that occurred in 1987, or subsequent to an appointment after a break in service when they came back to the Federal Government. And I think it is somewhat poignant that the overwhelming majority of those people are still in the Civil Service Retirement System.

That is not to say that more of them today would not choose, but I think that the flat answer is we do not know how many would.

Mr. MICA. Well, we will continue to work with you on trying to correct the wrong retirement question. But one of the things that has caught my attention, is trying to take pressure off of this unfunded liability and also to offer folks an opportunity to enter FERS where possible.

Is there any scenario under which you could allow folks to join the new system at a cost neutral? Any modification of that? Any scenario which you see, Mr. Flynn? Impossible? You would have to drop something——

Mr. FLYNN. Exactly, Mr. Chairman. To make the two systems cost neutral, given the fact that we know today—and just to use sort of actuarial terms, the normal cost of the Federal retirement system is 24 and a fraction percent of payroll, the comparable figure for the Federal Employees Retirement System, if I recall correctly, is about 3 or 4 percentage points higher than that. Which means that comparing the normal cost of the two systems, the Federal Employees Retirement System is more expensive.

In order to make them cost neutral, some of the value of the benefit of the Federal Employees Retirement System would have to be reduced, which would, then, make it less attractive.

Mr. MICA. Let me ask you, Mr. Flynn, we have 1.2 million people still in the CSRS system. How are they stratified as far as becoming eligible? Do you have any——

Mr. FLYNN. I can answer that more specifically, Mr. Chairman, perhaps for the record. But clearly, the majority of employees who work for the Federal Government today are now in the Federal Employees Retirement System, that sort of switch occurred a year or so ago. And of the remaining employees who are in the Civil Service Retirement System, on balance, they are older and have more service than the majority group, which is the Federal Employees Retirement System group. But in terms of specific age brackets and increments, if you don't mind, I would like to submit that for the record.

Mr. MICA. Well, I think that would be interesting, and also I am sure you have the projections of how many will be eligible to retire in the sequenced advanced years. If you will could provide that to the subcommittee, I would like that.

Mr. FLYNN. I would be happy to.

Mr. MICA. My final question, at least right now, is we are still looking at ways to take pressure off of this obligation. Has there been any thought given to any kind of retirement buyouts or do we have any cash-out proposals that might make sense? Maybe there has been something attempted in a State or local retirement system. Has that been under consideration or any ideas along that line, Mr. Flynn?

Mr. FLYNN. Not that I am aware of currently, Mr. Chairman. There was in existence for a number of years a mechanism by which one could retire known as the alternative form of the annuity, which essentially provided the value of an individual's cash considerations over a year or 2-year period that expired a couple of years ago. But in terms of any specific proposal under consideration now, no, not that I am aware of, and of course, anything that is sort of front-loaded, cashing out of a retirement benefit would, of course, have some outlay implications under the Federal Government's unified budget.

Mr. MICA. Was that alternative annuity plan a legislative——

Mr. FLYNN. Yes, it was available through legislation. And then over the years, the groups of people to which it applied sort of narrowed. And I think the last group was so—or the legislation expired a year or so ago.

Mr. MICA. Would it be possible to just provide the subcommittee also with some information about that? I am not really familiar with that program and what its cost was and who it applied to.

Mr. FLYNN. Certainly.

[The information referred to follows:]

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ONE HUNDRED FIFTH CONGRESS

Congress of the United States

House of Representatives

COMMITTEE ON GOVERNMENT REFORM AND OVERSIGHT

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11/19/97

November 12, 1997

Mr. William E. Flynn, III
Associate Director, Retirement and Insurance Services
Office of Personnel Management
1900 E Street, NW
Washington, DC 20415

Dear Mr. Flynn:

Thank you for participating in the Civil Service Subcommittee's November 5 hearing on the President's line item veto of a provision of Public Law 105-61 that would have authorized an open season allowing federal employees to switch their retirement enrollment from the Civil Service Retirement System to the Federal Employees Retirement System. We appreciate your ability to clarify several of the concerns that have surfaced related to this measure.

During this hearing, you agreed to provide for our records a demographic profile of the federal employees who remain in the Civil Service Retirement System. We are especially concerned about their current age, distribution by agency, their grade levels, and the numbers of these employees at each agency who will become eligible for retirement within the next five years.

I also requested that you provide for the record an analysis of alternative approaches to addressing the funding needs of federal retirement programs, especially the CSRS unfunded accrued actuarial liability. Please ensure that any alternatives that you assess include the costs of providing CSRS employees the cash value of their accrued benefits.

The Subcommittee also appreciated receiving, for the first time, a copy of the FY-1995 actuarial report on the federal retirement systems. As you know, I remain deeply concerned about the funding challenges facing federal retirement programs, and believe that we need more timely and accurate information about the long-term consequences of current personnel policies as they relate to funding federal retirement systems. Effective preparation for hearings is inevitably impaired when we do not receive reports such as this until the day before the hearing. I renew my request that you provide the Subcommittee with copies of these annual reports on a timely basis.

Thanks, again, for your assistance at this hearing.

Sincerely,

John L. Mica
Chairman
Civil Service Subcommittee

United States
Office of Personnel Management
Washington, DC 20415-0001

In Reply Refer To: Your Reference:

FEB 9 1998

Honorable John L. Mica
Chairman
Civil Service Subcommittee
Committee on Government Reform and Oversight
U.S. House of Representatives
Washington, DC 20515-6143

Dear Mr. Chairman:

This is in response to your request for additional information following the Civil Service Subcommittee's hearing on November 5, 1997, regarding the line item veto of Section 642 of the Appropriations Act for the Department of Treasury, the Postal Service, and other Government Agencies for Fiscal Year 1998. Section 642 would have permitted Federal employees covered by the Civil Service Retirement System (CSRS) to switch into the newer Federal Employees Retirement System (FERS).

We have enclosed information obtained from the Civilian Personnel Data File regarding Federal employees currently covered by CSRS. The enclosed profile provides the number of employees currently in CSRS by agency and salary level. We have also provided the average age of CSRS employees, the number of CSRS employees currently eligible for retirement, as well as those eligible in 5, 10, and 15 years. The profile provides data for all of the cabinet level agencies and 7 independent agencies, representing roughly 90 percent of the Federal workforce.

You also requested an analysis of alternative approaches to addressing the CSRS unfunded liability. More specifically, you asked about the alternative form of annuity. Sections 8343a and 8420a of title 5, United States Code, originally enacted as part of the Federal Employees' Retirement System Act of 1986, Public Law 99-335, June 6, 1986, granted the Office of Personnel Management (OPM) the authority to pay certain retiring employees, other than disability retirees, an Alternative Form of Annuity (AFA). The AFA consisted of a single lump-sum payment of the retiree's contributions to the retirement system in exchange for a permanently reduced annuity. The law required that the reduced annuity and lump-sum payment together be actuarially equivalent to the annuity otherwise payable. The AFA was available to non-disability retirees under both CSRS and FERS for annuities beginning June 6, 1986.

The AFA provision was first amended by Public Law 100-203, December 22, 1987. For annuities commencing on or after January 4, 1988, and before October 1, 1989, payment of the lump-sum portion of the AFA would be paid in 2 installments. The first installment, paid at retirement, consisted of 60 percent of the total lump-sum payment. Payment of the remaining second installment was deferred until 1-year after retirement and included interest earned during the 1-year deferment period. The deferred payment schedule did not apply, unless the retiree requested otherwise, in the case of involuntary retirements (not for cause) or to retirees who could demonstrate they suffered from a life-threatening affliction or critical medical condition.

Public Law 101-103, September 30, 1989, extended the deferred payment schedule of the lump-sum portion of the AFA to annuities beginning before December 3, 1989. Exceptions to the deferred payment schedule continued to apply to involuntary retirements and non-disability retirees with a life-threatening or critical medical condition.

The deferred payment schedule of the lump-sum payment of the AFA was extended and modified by Public Law 101-227, December 12, 1989. For annuities beginning December 3, 1989, or later, retirees electing the AFA were entitled to receive only 50 percent of the lump-sum payment portion at the time of retirement. The remaining 50 percent, plus interest, was paid 12 months later. The exemptions to the deferred payment schedule created under previous law continued to apply. The 50/50 payment schedule applied to annuities payable through September 30, 1990.

Public Law 101-508, November 5, 1990, temporarily extended the AFA for annuities beginning through December 2, 1990. Effective December 3, 1990, the AFA was suspended for most retirees through September 30, 1995. After December 2, 1990, only certain non-disability retirees whose separation from service was involuntary (except in the case of Members of Congress, other senior officials, and political appointees) and those suffering from a life-threatening or critical medical condition were eligible to elect the AFA. The AFA was also available, for a 1-year period, to certain Department of Defense employees who were eligible to retire as of November 30, 1990, but were called to active duty in support of Operation Desert Shield/Desert Storm.

Public Law 103-66, August 10, 1993, eliminated the AFA for most annuities beginning after October 1, 1994. Only non-disability retirees suffering from a

life-threatening condition or critical medical condition may currently elect the AFA. With current AFA elections, the lump-sum portion is paid in one installment at retirement.

After initial enactment of the AFA in 1986, the Administration sought to eliminate it because of the effect on short-term outlays affecting the Budget Deficit. The legislative history shows this was gradually achieved through several amendments culminating in the 1993 legislation. The Civil Service Retirement and Disability Fund (CSRDF) paid an additional $1.7 billion in fiscal year 1988 in lump-sum payments attributable to the AFA. These outlays were significantly reduced as the AFA was amended to defer payment of the lump-sum portion. In fiscal year 1997, $7.1 million in lump sums was paid out under the AFA.

I regret that you did not receive a copy of the Civil Service Retirement and Disability Fund Annual Report: *An Annual Report to Comply with the Requirements of Public Law 95-595*. I have ensured that you will receive future reports at the time they are distributed.

I hope that this information is helpful. If I can be of further assistance, please let me know.

Sincerely,

William E. Flynn, III
Associate Director
for Retirement and Insurance

Enclosure

Office of Personnel Management

Profile of Federal Employees Covered by the Civil Service Retirement System

Retirement and Insurance Service

January 1998

Employees Covered by the Civil Service Retirement System

Department of the Air Force

Salary Level	Number of Employees	Average Age	Currently Eligible for Retirement	Eligible to Retire in 5 Years	Eligible to Retire in 6-10 Years	Eligible to Retire in 11-15 Years
$0 to $9,999	0	0	0	0	0	0
$10,000 to $19,999	32	45.6	1	10	5	7
$20,000 to $29,999	8,972	49.0	1,038	1,911	2,401	2,287
$30,000 to $39,999	26,306	48.6	2,582	6,122	8,070	6,766
$40,000 to $49,999	18,167	49.5	2,133	5,281	5,706	3,787
$50,000 to $59,999	10,687	49.8	1,453	3,258	3,135	1,956
$60,000 to $69,999	5,508	49.7	845	1,649	1,546	953
$70,000 to $79,999	2,309	50.9	407	773	689	341
$80,000 to $89,999	1,291	53.0	363	523	294	94
$90,000 to $99,999	652	54.0	201	297	138	14
Over $100,000	171	54.3	59	68	31	12
Unspecified	372	49.1	36	97	117	81
TOTAL	74,467	49.3	9,118	19,989	22,132	16,298

Employees Covered by the Civil Service Retirement System

Department of Agriculture

Salary Level	Number of Employees	Average Age	Currently Eligible for Retirement	Eligible to Retire in 5 Years	Eligible to Retire in 6-10 Years	Eligible to Retire in 11-15 Years
$0 to $9,999	0	0	0	0	0	0
$10,000 to $19,999	34	48.5	3	5	6	12
$20,000 to $29,999	3,558	48.0	319	644	933	1,065
$30,000 to $39,999	11,111	48.1	999	2,137	3,639	3,263
$40,000 to $49,999	10 917	48.5	1,414	2,514	3,289	2,760
$50,000 to $59,999	7 988	48.5	942	1,852	2,500	2,071
$60,000 to $69,999	4,329	49.6	637	1,217	1,355	921
$70,000 to $79,999	2,089	51.1	413	619	631	370
$80,000 to $89,999	1,207	53.1	353	417	308	120
$90,000 to $99,999	634	55.8	279	230	100	22
Over $100,000	288	54.7	111	98	60	18
Unspecified	66	49.9	12	15	15	16
TOTAL	42,221	48.9	5,482	9,748	12,836	10,638

Employees Covered by the Civil Service Retirement System

Department of the Army

Salary Level	Number of Employees	Average Age	Currently Eligible for Retirement	Eligible to Retire in 5 Years	Eligible to Retire in 6-10 Years	Eligible to Retire in 11-15 Years
$0 to $9,999	2	56.0	1	0	1	0
$10,000 to $19,999	102	50.1	11	24	33	25
$20,000 to $29,999	15,149	48.9	1,420	3,146	4,544	4,280
$30,000 to $39,999	29,225	48.6	2,353	6,416	10,032	7,872
$40,000 to $49,999	19,951	49.3	2,177	5,173	6,498	4,592
$50,000 to $59,999	17,750	49.3	2,116	4,572	5,508	4,000
$60,000 to $69,999	10,968	49.5	1,563	2,882	3,301	2,242
$70,000 to $79,999	4,834	50.6	848	1,441	1,478	795
$80,000 to $89,999	3,027	52.5	786	1,118	797	266
$90,000 to $99,999	1,585	54.0	510	659	332	80
Over $100,000	409	55.4	160	169	63	14
Unspecified	778	48.8	73	194	261	192
TOTAL	103,780	49.3	12,018	25,794	32,848	24,358

Employees Covered by the Civil Service Retirement System

Department of Commerce

Salary Level	Number of Employees	Average Age	Currently Eligible for Retirement	Eligible to Retire in 5 Years	Eligible to Retire in 6-10 Years	Eligible to Retire in 11-15 Years
$0 to $9,999	0	0	0	0	0	0
$10,000 to $19,999	9	43.1	0	1	1	3
$20,000 to $29,999	1,251	51.2	229	280	370	261
$30,000 to $39,999	1,699	48.8	199	399	542	354
$40,000 to $49,999	1,650	49.6	258	427	500	345
$50,000 to $59,999	2,125	48.8	268	512	666	510
$60,000 to $69,999	1,713	48.3	176	413	545	429
$70,000 to $79,999	1,491	49.6	248	379	442	289
$80,000 to $89,999	1,239	51.5	269	397	345	164
$90,000 to $99,999	932	53.8	296	322	244	61
Over $100,000	430	54.3	134	161	98	33
Unspecified	15	53.3	4	4	4	2
TOTAL	12,554	50.0	2,081	3,295	3,757	2,451

Employees Covered by the Civil Service Retirement System

Department of Defense—Civilian

Salary Level	Number of Employees	Average Age	Currently Eligible for Retirement	Eligible to Retire in 5 Years	Eligible to Retire in 6-10 Years	Eligible to Retire in 11-15 Years
$0 to $9,999	2	55.0	0	1	1	0
$10,000 to $19,999	109	53.4	23	32	25	20
$20,000 to $29,999	8,329	48.3	701	1,510	2,439	2,562
$30,000 to $39,999	10,785	47.9	813	2,163	3,345	3,182
$40,000 to $49,999	10,114	48.6	949	2,329	3,185	2,649
$50,000 to $59,999	9,645	49.4	1,095	2,491	3,069	2,180
$60,000 to $69,999	4,611	49.2	507	1,222	1,564	990
$70,000 to $79,999	2,408	50.0	335	693	815	457
$80,000 to $89,999	1,220	50.8	196	445	400	151
$90,000 to $99,999	1,164	51.6	211	496	316	130
Over $100,000	349	52.4	80	149	83	34
Unspecified	126	48.7	13	29	33	41
TOTAL	48,862	48.8	4,923	11,560	15,275	12,396

Employees Covered by the Civil Service Retirement System

Department of Education

Salary Level	Number of Employees	Average Age	Currently Eligible for Retirement	Eligible to Retire in 5 Years	Eligible to Retire in 6-10 Years	Eligible to Retire in 11-15 Years
$0 to $9,999	0	0	0	0	0	0
$10,000 to $19,999	0	0	0	0	0	0
$20,000 to $29,999	60	47.9	5	10	23	14
$30,000 to $39,999	186	46.7	11	38	49	58
$40,000 to $49,999	170	46.9	12	46	52	26
$50,000 to $59,999	424	48.6	41	98	152	101
$60,000 to $69,999	369	49.0	32	93	145	84
$70,000 to $79,999	288	50.8	45	83	104	48
$80,000 to $89,999	199	52.3	43	59	61	33
$90,000 to $99,999	152	52.0	25	53	58	14
Over $100,000	42	51.4	6	13	19	4
Unspecified	7	47.7	1	1	1	3
TOTAL	1,897	49.4	221	494	664	385

Employees Covered by the Civil Service Retirement System

Department of Energy

Salary Level	Number of Employees	Average Age	Currently Eligible for Retirement	Eligible to Retire in 5 Years	Eligible to Retire in 6-10 Years	Eligible to Retire in 11-15 Years
$0 to $9,999	0	0	0	0	0	0
$10,000 to $19,999	0	0	0	0	0	0
$20,000 to $29,999	186	46.7	12	26	60	51
$30,000 to $39,999	769	46.8	42	148	243	228
$40,000 to $49,999	820	47.6	46	189	285	231
$50,000 to $59,999	1,430	48.5	120	333	527	340
$60,000 to $69,999	1,660	48.4	133	408	551	432
$70,000 to $79,999	1,195	49.4	125	335	416	248
$80,000 to $89,999	937	50.5	140	296	304	163
$90,000 to $99,999	869	52.6	183	343	267	71
Over $100,000	331	52.7	66	139	101	24
Unspecified	25	49.2	4	7	5	6
TOTAL	8,222	49.2	871	2,224	2,759	1,794

Employees Covered by the Civil Service Retirement System

Environmental Protection Agency

Salary Level	Number of Employees	Average Age	Currently Eligible for Retirement	Eligible to Retire in 5 Years	Eligible to Retire in 6-10 Years	Eligible to Retire in 11-15 Years
$0 to $9,999	0	0	0	0	0	0
$10,000 to $19,999	1	39.0	0	0	0	0
$20,000 to $29,999	139	47.2	13	24	34	38
$30,000 to $39,999	643	48.0	77	134	167	158
$40,000 to $49,999	559	48.1	70	119	160	143
$50,000 to $59,999	951	48.3	113	187	283	263
$60,000 to $69,999	1,464	48.4	153	326	474	382
$70,000 to $79,999	1,094	49.1	121	241	393	290
$80,000 to $89,999	844	51.2	145	255	258	164
$90,000 to $99,999	625	51.3	93	199	230	97
Over $100,000	234	51.8	41	93	69	30
Unspecified	25	51.2	6	6	7	5
TOTAL	6,579	49.2	832	1,584	2,075	1,570

Employees Covered by the Civil Service Retirement System

General Services Administration

Salary Level	Number of Employees	Average Age	Currently Eligible for Retirement	Eligible to Retire in 5 Years	Eligible to Retire in 6-10 Years	Eligible to Retire in 11-15 Years
$0 to $9,999	0	0	0	0	0	0
$10,000 to $19,999	14	49.2	1	5	6	2
$20,000 to $29,999	525	48.9	47	107	187	136
$30,000 to $39,999	1,390	48.5	112	304	509	353
$40,000 to $49,999	1,123	47.9	83	239	396	305
$50,000 to $59,999	1,286	47.8	79	295	452	352
$60,000 to $69,999	956	48.3	72	227	370	222
$70,000 to $79,999	574	49.3	50	188	212	103
$80,000 to $89,999	309	50.8	41	114	125	25
$90,000 to $99,999	212	51.1	27	107	60	15
Over $100,000	85	51.9	20	33	24	8
Unspecified	18	50.2	2	6	7	3
TOTAL	6,492	48.6	534	1,625	2,348	1,524

Employees Covered by the Civil Service Retirement System

Department of Health and Human Services

Salary Level	Number of Employees	Average Age	Currently Eligible for Retirement	Eligible to Retire in 5 Years	Eligible to Retire in 6-10 Years	Eligible to Retire in 11-15 Years
$0 to $9,999	0	0	0	0	0	0
$10,000 to $19,999	18	51.6	2	5	6	3
$20,000 to $29,999	1,961	49.8	291	457	554	475
$30,000 to $39,999	2,945	49.1	395	677	841	697
$40,000 to $49,999	2,613	49.6	404	643	722	586
$50,000 to $59,999	3,369	49.7	476	865	1,089	673
$60,000 to $69,999	3,195	49.6	385	825	1,207	625
$70,000 to $79,999	2,549	51.7	543	807	790	350
$80,000 to $89,999	1,671	53.4	457	535	508	158
$90,000 to $99,999	1,169	54.9	369	426	297	71
Over $100,000	398	55.8	154	124	92	24
Unspecified	57	56.3	20	20	11	4
TOTAL	19,945	50.6	3,496	5,384	6,117	3,666

Employees Covered by the Civil Service Retirement System

Department of Housing and Urban Development

Salary Level	Number of Employees	Average Age	Currently Eligible for Retirement	Eligible to Retire in 5 Years	Eligible to Retire in 6-10 Years	Eligible to Retire in 11-15 Years
$0 to $9,999	0	0	0	0	0	0
$10,000 to $19,999	2	44.5	0	1	0	0
$20,000 to $29,999	165	48.8	13	32	54	50
$30,000 to $39,999	569	48.2	55	116	162	155
$40,000 to $49,999	690	47.8	56	155	211	193
$50,000 to $59,999	1,418	49.5	149	382	485	318
$60,000 to $69,999	865	50.3	104	252	314	170
$70,000 to $79,999	607	51.2	97	206	205	93
$80,000 to $89,999	431	52.5	101	146	136	43
$90,000 to $99,999	292	53.5	78	108	82	20
Over $100,000	83	53.1	19	27	33	3
Unspecified	6	52.0	2	2	0	2
TOTAL	5,128	50.0	674	1,427	1,682	1,047

Employees Covered by the Civil Service Retirement System

Department of the Interior

Salary Level	Number of Employees	Average Age	Currently Eligible for Retirement	Eligible to Retire in 5 Years	Eligible to Retire in 6-10 Years	Eligible to Retire in 11-15 Years
$0 to $9,999	0	0	0	0	0	0
$10,000 to $19,999	85	50.9	16	20	12	22
$20,000 to $29,999	2,705	48.9	266	571	863	704
$30,000 to $39,999	5,162	48.4	457	991	1,756	1,441
$40,000 to $49,999	6,120,	48.1	531	1,214	2,219	1,762
$50,000 to $59,999	5,133	48.4	434	1,151	1,850	1,393
$60,000 to $69,999	3,170	49.1	319	788	1,176	751
$70,000 to $79,999	1,616	50.4	224	480	607	276
$80,000 to $89,999	970	51.9	194	317	322	135
$90,000 to $99,999	595	53.9	166	223	176	28
Over $100,000	233	54.3	80	80	60	13
Unspecified	102	50.8	18	31	22	23
TOTAL	25,891	48.9	2,705	5,866	9,063	6,548

Employees Covered by the Civil Service Retirement System

Department of Justice

Salary Level	Number of Employees	Average Age	Currently Eligible for Retirement	Eligible to Retire in 5 Years	Eligible to Retire in 6-10 Years	Eligible to Retire in 11-15 Years
$0 to $9,999	0	0	0	0	0	0
$10,000 to $19,999	3	47.0	1	0	0	1
$20,000 to $29,999	924	46.9	85	132	202	298
$30,000 to $39,999	5,478	45.8	310	716	1,442	1,844
$40,000 to $49,999	5,606	46.4	247	818	1,937	1,881
$50,000 to $59,999	4,471	46.7	209	726	1,583	1,393
$60,000 to $69,999	5,065	47.1	188	1,097	1,717	1,509
$70,000 to $79,999	3,506	48.1	171	964	1,265	844
$80,000 to $89,999	1,556	49.6	121	516	582	280
$90,000 to $99,999	1,506	50.3	153	438	556	322
Over $100,000	1,078	50.2	122	310	342	265
Unspecified	259	44.7	6	39	79	83
TOTAL	29,452	47.2	1,613	5,756	9,705	8,720

Employees Covered by the Civil Service Retirement System

Department of Labor

Salary Level	Number of Employees	Average Age	Currently Eligible for Retirement	Eligible to Retire in 5 Years	Eligible to Retire in 6-10 Years	Eligible to Retire in 11-15 Years
$0 to $9,999	0	0	0	0	0	0
$10,000 to $19,999	2	43.5	0	0	1	0
$20,000 to $29,999	582	49.5	85	117	161	145
$30,000 to $39,999	877	48.8	111	198	264	201
$40,000 to $49,999	838	48.5	79	183	286	224
$50,000 to $59,999	2,121	50.5	317	533	757	415
$60,000 to $69,999	1,381	50.2	175	370	531	254
$70,000 to $79,999	983	51.2	191	278	331	158
$80,000 to $89,999	525	52.1	132	170	162	51
$90,000 to $99,999	308	52.8	71	117	98	21
Over $100,000	167	54.3	51	69	42	5
Unspecified	33	52.1	10	11	7	3
TOTAL	7,817	50.3	1,222	2,046	2,640	1,477

Employees Covered by the Civil Service Retirement System

National Aeronautics and Space Administration

Salary Level	Number of Employees	Average Age	Currently Eligible for Retirement	Eligible to Retire in 5 Years	Eligible to Retire in 6-10 Years	Eligible to Retire in 11-15 Years
$0 to $9,999	0	0	0	0	0	0
$10,000 to $19,999	1	38.0	0	0	0	0
$20,000 to $29,999	254	47.0	16	59	54	68
$30,000 to $39,999	559	45.9	41	103	141	136
$40,000 to $49,999	1,052	47.0	90	196	285	311
$50,000 to $59,999	1,026	49.0	173	227	270	250
$60,000 to $69,999	2,018	47.0	347	342	351	438
$70,000 to $79,999	1,446	49.1	340	267	302	327
$80,000 to $89,999	1,438	53.2	600	365	228	200
$90,000 to $99,999	976	55.0	448	299	161	68
Over $100,000	534	55.7	277	137	71	41
Unspecified	15	53.3	6	2	1	3
TOTAL	9,319	49.8	2,338	1,997	1,864	1,842

Employees Covered by the Civil Service Retirement System

Department of the Navy

Salary Level	Number of Employees	Average Age	Currently Eligible for Retirement	Eligible to Retire in 5 Years	Eligible to Retire in 6-10 Years	Eligible to Retire in 11-15 Years
$0 to $9,999	1	56.0	1	0	0	0
$10,000 to $19,999	93	51.9	22	19	21	21
$20,000 to $29,999	8,550	49.0	931	1,739	2,361	2,493
$30,000 to $39,999	25,848	48.0	2,026	5,128	8,254	7,487
$40,000 to $49,999	21,830	48.0	1,707	4,850	7,184	5,960
$50,000 to $59,999	18,505	48.2	1,709	4,621	5,802	4,225
$60,000 to $69,999	9,865	48.2	1,025	2,627	2,820	2,127
$70,000 to $79,999	4,759	49.9	781	1,460	1,343	851
$80,000 to $89,999	2,831	51.8	663	1,084	704	295
$90,000 to $99,999	2,142	53.0	598	889	487	148
Over $100,000	570	53.7	196	198	104	55
Unspecified	327	47.9	25	70	101	92
TOTAL	95,321	48.5	9,684	22,685	29,181	23,754

Employees Covered by the Civil Service Retirement System

Office of Personnel Management

Salary Level	Number of Employees	Average Age	Currently Eligible for Retirement	Eligible to Retire in 5 Years	Eligible to Retire in 6-10 Years	Eligible to Retire in 11-15 Years
$0 to $9,999	0	0	0	0	0	0
$10,000 to $19,999	3	61.3	2	1	0	0
$20,000 to $29,999	179	49.6	20	32	57	43
$30,000 to $39,999	314	46.8	12	58	105	89
$40,000 to $49,999	185	47.7	16	33	76	44
$50,000 to $59,999	164	47.7	17	31	59	42
$60,000 to $69,999	212	47.9	13	49	87	43
$70,000 to $79,999	159	50.3	17	65	53	20
$80,000 to $89,999	86	52.7	21	40	21	4
$90,000 to $99,999	54	50.9	7	19	27	1
Over $100,000	29	52.5	6	17	6	0
Unspecified	7	55.5	2	2	2	1
TOTAL	1,392	48.7	133	347	493	287

Employees Covered by the Civil Service Retirement System

Small Business Administration

Salary Level	Number of Employees	Average Age	Currently Eligible for Retirement	Eligible to Retire in 5 Years	Eligible to Retire in 6-10 Years	Eligible to Retire in 11-15 Years
$0 to $9,999	0	0	0	0	0	0
$10,000 to $19,999	0	0	0	0	0	0
$20,000 to $29,999	66	49.2	5	11	25	18
$30,000 to $39,999	212	49.5	25	37	80	59
$40,000 to $49,999	134	47.8	11	30	40	37
$50,000 to $59,999	397	50.2	51	115	134	73
$60,000 to $69,999	285	50.5	45	70	98	59
$70,000 to $79,999	177	51.6	31	58	64	22
$80,000 to $89,999	89	52.2	20	25	33	8
$90,000 to $99,999	72	55.7	28	25	16	3
Over $100,000	31	52.3	4	11	10	5
Unspecified	10	51.1	0	3	7	0
TOTAL	1,473	50.5	220	385	507	284

Employees Covered by the Civil Retirement System

Social Security Administration

Salary Level	Number of Employees	Average Age	Currently Eligible Retire	[illegible]	[illegible]
$0 to $9,999	0	0	0	0	0
$10,000 to $19,999	34	45.4	0	7	0
$20,000 to $29,999	4,687	48.8	594	[illegible]	[illegible]
$30,000 to $39,999	8,714	48.1	[illegible]	[illegible]	[illegible]
$40,000 to $49,999	13,641	47.7	982	[illegible]	[illegible]
$50,000 to $59,999	7,221	48.6	[illegible]	[illegible]	[illegible]
$60,000 to $69,999	2,494	49.1	[illegible]	[illegible]	[illegible]
$70,000 to $79,999	1,350	51.1	[illegible]	[illegible]	[illegible]
$80,000 to $89,999	669	52.6	[illegible]	[illegible]	[illegible]
$90,000 to $99,999	297	52.1	[illegible]	[illegible]	[illegible]
Over $100,000	552	59.4	[illegible]	[illegible]	[illegible]
Unspecified	35	[illegible]	[illegible]	[illegible]	[illegible]
TOTAL	39,694	[illegible]	[illegible]	[illegible]	[illegible]

Employees Covered by the Civil Service Retirement System

Department of State

Salary Level	Number of Employees	Average Age	Currently Eligible for Retirement	Eligible to Retire in 5 Years	Eligible to Retire in 6-10 Years	Eligible to Retire in 11-15 Years
$0 to $9,999	0	0	0	0	0	0
$10,000 to $19,999	0	0	0	0	0	0
$20,000 to $29,999	69	45.8	4	11	14	24
$30,000 to $39,999	528	47.2	55	101	131	141
$40,000 to $49,999	447	48.0	48	99	142	107
$50,000 to $59,999	364	46.5	22	72	117	97
$60,000 to $69,999	296	47.4	21	68	95	74
$70,000 to $79,999	253	49.0	24	65	90	55
$80,000 to $89,999	170	51.1	28	52	58	28
$90,000 to $99,999	173	52.0	39	51	57	26
Over $100,000	82	52.9	20	31	21	8
Unspecified	25	46.4	0	6	9	4
TOTAL	2,407	48.2	261	556	734	564

Employees Covered by the Civil Service Retirement System

Department of Transportation

Salary Level	Number of Employees	Average Age	Currently Eligible for Retirement	Eligible to Retire in 5 Years	Eligible to Retire in 6-10 Years	Eligible to Retire in 11-15 Years
$0 to $9,999	0	0	0	0	0	0
$10,000 to $19,999	4	54.5	1	0	3	0
$20,000 to $29,999	582	50.2	92	130	162	143
$30,000 to $39,999	2,307	48.7	267	491	705	586
$40,000 to $49,999	2,541	47.7	271	535	687	732
$50,000 to $59,999	6,204	48.5	863	1,463	1,664	1,554
$60,000 to $69,999	5,076	48.1	673	1,159	1,347	1,279
$70,000 to $79,999	5,860	46.2	559	1,075	1,201	1,745
$80,000 to $89,999	3,828	49.3	681	1,115	833	796
$90,000 to $99,999	2,171	51.6	493	857	529	230
Over $100,000	396	53.4	120	143	102	29
Unspecified	40	50.3	11	7	5	16
TOTAL	29,009	48.4	4,031	6,975	7,238	7,110

Employees Covered by the Civil Service Retirement System

Department of the Treasury

Salary Level	Number of Employees	Average Age	Currently Eligible for Retirement	Eligible to Retire in 5 Years	Eligible to Retire in 6-10 Years	Eligible to Retire in 11-15 Years
$0 to $9,999	0	0	0	0	0	0
$10,000 to $19,999	39	47.3	4	5	4	14
$20,000 to $29,999	5,826	47.8	592	925	1,423	1,733
$30,000 to $39,999	10,968	48.0	983	2,020	3,339	2,988
$40,000 to $49,999	8,586	48.0	703	1,886	2,775	2,203
$50,000 to $59,999	9,054	47.7	693	1,944	2,958	2,306
$60,000 to $69,999	11,093	47.6	681	2,521	3,917	2,803
$70,000 to $79,999	5,920	49.1	620	1,665	2,194	1,150
$80,000 to $89,999	2,689	50.0	359	916	943	402
$90,000 to $99,999	1,195	50.7	176	478	378	149
Over $100,000	650	50.4	100	227	214	98
Unspecified	203	47.7	19	42	70	44
TOTAL	56,223	48.1	4,930	12,629	18,215	13,890

Employees Covered by the Civil Service Retirement System

Department of Veterans Affairs

Salary Level	Number of Employees	Average Age	Currently Eligible for Retirement	Eligible to Retire in 5 Years	Eligible to Retire in 6-10 Years	Eligible to Retire in 11-15 Years
$0 to $9,999	28	57.5	14	6	6	1
$10,000 to $19,999	857	51.0	138	180	232	236
$20,000 to $29,999	20,959	49.5	2,449	4,167	6,504	6,172
$30,000 to $39,999	14,654	49.1	1,451	2,971	5,169	4,105
$40,000 to $49,999	13,763	49.5	1,294	3,339	4,807	3,401
$50,000 to $59,999	9,750	50.4	1,090	2,549	3,491	2,167
$60,000 to $69,999	4,767	50.6	503	1,407	1,759	932
$70,000 to $79,999	1,862	51.2	250	572	682	314
$80,000 to $89,999	944	51.5	140	324	326	141
$90,000 to $99,999	3,899	56.2	1,201	1,177	1,029	465
Over $100,000	381	53.0	86	159	109	26
Unspecified	541	50.3	78	127	197	113
TOTAL	72,405	50.7	8,694	16,978	24,311	18,073

Employees Covered by the Civil Service Retirement System

U.S. Postal Service

Salary Level	Number of Employees	Average Age	Currently Eligible for Retirement	Eligible to Retire in 5 Years	Eligible to Retire in 6-10 Years	Eligible to Retire in 11-15 Years
$0 to $9,999	0	0	0	0	0	0
$10,000 to $19,999	654	57.7	261	166	119	80
$20,000 to $29,999	732	45.5	44	54	154	288
$30,000 to $39,999	249,641	48.9	32,848	54,537	72,385	65,617
$40,000 to $49,999	40,242	49.5	5,124	9,925	12,705	9,715
$50,000 to $59,999	15,008	48.5	1,603	3,805	5,167	3,492
$60,000 to $69,999	5,888	48.7	617	1,620	2,104	1,305
$70,000 to $79,999	1,904	49.9	255	580	706	321
$80,000 to $89,999	216	49.9	32	61	74	43
$90,000 to $99,999	204	50.5	25	74	77	28
Over $100,000	346	51.0	59	136	116	34
Unspecified	2	65.0	2	0	0	0
TOTAL	314,837	49.0	40,870	70,958	93,607	80,923

Employees Covered by the Civil Service Retirement System

All Other Agencies

Salary Level	Number of Employees	Average Age	Currently Eligible for Retirement	Eligible to Retire in 5 Years	Eligible to Retire in 6-10 Years	Eligible to Retire in 11-15 Years
$0 to $9,999	3	46.6	0	0	1	2
$10,000 to $19,999	40	49.7	7	8	13	10
$20,000 to $29,999	1,188	49.4	146	258	352	302
$30,000 to $39,999	3,796	48.3	453	821	1,131	865
$40,000 to $49,999	2,879	49.0	410	668	896	618
$50,000 to $59,999	3,223	49.6	448	817	1,080	661
$60,000 to $69,999	2,323	49.2	252	568	828	515
$70,000 to $79,999	2,186	49.6	266	578	741	460
$80,000 to $89,999	2,098	51.3	349	676	647	356
$90,000 to $99,999	2,145	52.4	449	697	718	257
Over $100,000	1,415	52.6	343	451	410	180
Unspecified	67	52.0	14	18	15	13
TOTAL	21,360	49.9	3,137	5,560	6,831	4,237

Employees Covered by the Civil Service Retirement System

Total Government-Wide

Salary Level	Number of Employees	Average Age	Currently Eligible for Retirement	Eligible to Retire in 5 Years	Eligible to Retire in 6-10 Years	Eligible to Retire in 11-15 Years
$0 to $9,999	36	56.3	16	7	9	3
$10,000 to $19,999	2,136	52.8	493	489	493	470
$20,000 to $29,999	87,598	48.9	9,417	17,320	25,264	24,825
$30,000 to $39,999	414,686	48.7	47,545	88,745	125,224	110,816
$40,000 to $49,999	184,638	48.8	19,095	43,703	60,433	45,980
$50,000 to $59,999	139,714	48.8	15,189	34,600	45,885	32,270
$60,000 to $69,999	89,571	48.8	9,731	22,805	29,295	20,000
$70,000 to $79,999	51,419	49.6	7,222	14,310	16,277	10,036
$80,000 to $89,999	30,484	51.4	6,434	10,181	8,680	4,160
$90,000 to $99,999	24,023	53.3	6,202	8,684	6,530	2,364
Over $100,000	9,284	53.3	2,595	3,192	2,384	978
Unspecified	3,161	49.0	367	753	982	757
TOTAL	1,036,714	49.0	124,290	244,782	321,447	252,656

Mr. MICA. One of my interests is to pursue ways that we can take pressure off the system, give folks some alternatives, without substantially increasing the long-term costs to the general Treasury.

Did any of you want to comment? Mr. Brostek. Have you seen anything?

Mr. BROSTEK. I am unaware of any proposals that have been designed to deal with the funding issue. The proposals that I am aware of that relate to giving people incentives were for downsizing or restructuring workforces to realign them better with the needs of the agencies.

Mr. MICA. Mr. Van de Water.

Mr. VAN DE WATER. The only proposal that occurs to me is the administration's proposal of a couple of years ago. Mr. Flynn, I suspect, remembers it better than I, but it would have involved substantially increasing the rates paid by agencies for CSRS employees so as to avoid further increases in the unfunded liability and allowing for an increase in the discretionary spending caps so as to accommodate the increased payments.

Mr. MICA. We have done some of that.

Mr. VAN DE WATER. You did a small amount of that, yes.

Mr. MICA. Trying to get the employees to increase their contributions, which made me quite a star. With the caveat, my caveat that the money be fenced off into some hard account. But sometimes that message does not get through.

Do any of you have any problems with the figures or projections you see up there? Are these OPM? CBO? That is pretty much the picture of the future, is it not? As far as our obligation? Mr. Flynn. I think some from you and some from CBO.

Mr. FLYNN. Mr. Chairman, we did provide some information for the subcommittee, and I think it is an accurate reflection of something that we saw a year or so ago.

The only point I might make would be an editorial one, and that is that while I understand that we fall under the budget category of entitlement programs, I would just simply like to point out——

Mr. MICA. I apologize for that. I didn't do it. These are earned benefits. There is no question about that, and the obligations we have incurred. My task is to try to figure out how to pay for them. I truly believe you have some folks from employee groups—some have endured this hearing and some have left—but those poor souls that remain hear my speech again. As this becomes a bigger and bigger budget item, and it grows dramatically, it is going to put some tremendous pressure on our workforce, on our retirees, and something has to give. And it will get folks' attention. It may not right now as it is only about $30 billion out of general Treasury, but it is going to become a major issue for funding in the future.

With those comments, I would like to yield to the gentlewoman, the hard worker for civil servants, the Representative from Maryland, Mrs. Morella.

Mrs. MORELLA. Thank you, Mr. Chairman. Those are some austere challenges that you pose for us, and although you may not be a star in some areas, I think that for some of the good things that

you have done for Federal employees and retirees we can move you to beatification. But then he is not listening.

Let me see if I understand. The difference between the fiscal projection of OPM and CBO is basically the numbers of people that you anticipate are going to be leaving, otherwise, you both agree on everything that has been said, basically?

Mr. FLYNN. Fortunately, yes, ma'am.

Mr. VAN DE WATER. That is correct.

Mrs. MORELLA. Now, how would OPM have ensured that all eligible employees were educated about open season, and the consequences of their decision, let us say had the President not vetoed that, not used the line-item veto or if we are to move legislation to do that, what would you have done, Mr. Flynn?

Mr. FLYNN. Mrs. Morella, let me make one general comment and then a specific one. First of all, as you know, we work in concert, in partnership with Federal departments and agencies worldwide in terms of the benefit administration program. And so we would have worked very closely with agencies providing them with textual information, the Federal Employees Retirement System Transfer Handbook, computational aids, disks and what have you that let people use this in a what-if scenario unique to their circumstances and things of that nature. Certainly it takes some time to prepare for that. The amount of time that would have been involved, 6 to 9 months I think would have been adequate.

I think to demonstrate the fact that I think we are well-versed and certainly fully capable of doing this, if you look on the Federal employee health benefits side where we run an open enrollment period each year, we are able to provide a wealth of information to an employee group that is almost three or four times that size, enabling them to make informed choices during the annual open enrollment period for the health benefits program each year. So I think those two issues, working in partnership with agencies, providing a wide-range of informational materials, and our demonstrated success on the health benefits side would suggest that while not insignificant, this would be a task that we could carry out very well.

Mrs. MORELLA. Probably more complicated than the health benefit open season preparation, but you think 6 to 9 months' time would have been adequate?

Mr. FLYNN. I think so. Certainly somewhat more complicated, but doable nonetheless.

Mrs. MORELLA. Let me ask you, does OPM have an official position on this provision in the Treasury-Postal bill?

Mr. FLYNN. Well, as you know, Mrs. Morella, we certainly support the administration's provision on that and the President canceled it in the appropriations bill.

Mrs. MORELLA. So that is basically your position because it is the President's position?

Mr. FLYNN. Exactly.

Mrs. MORELLA. Actually, I don't have any further questions, and I look forward to getting the information that you asked for.

Mr. MICA. Thank you.

Just a final point on these calculations I was just going over it with staff here. The CSRS folks basically cost us 24 percent and the FERS folks end up costing us 27.8 percent; is that correct?

Mr. FLYNN. In round numbers, Mr. Chairman, yes.

Mr. MICA. And the major difference is the agency contribution, which would have to be increased. We are paying part of it anyway through the Treasury contribution, but it is not really reflected in the agency budget for CSRS, right?

Mr. FLYNN. Well, Mr. Chairman, that is true. It is not reflected in the agency budget, but when we reflect it in the 24 percent, it is reflected there.

Mr. MICA. And the big item we take out, I guess, would be the 4 percent Thrift Savings matching amount, which is the major advantage given to the FERS folks versus the CSRS folks.

Mr. FLYNN. That is the average Government contribution toward the Thrift Savings Plan benefit.

Mr. MICA. Is that our big cost differential?

Mr. FLYNN. Well, that is the primary one, Mr. Chairman, yes.

Mr. MICA. And at what would that calculate out in dollars? I guess one of you did 5 percent. How much of your $2.1 billion cost is this additional cost to allow that?

Mr. VAN DE WATER. Mr. Chairman, I think those figures are not directly comparable. The figures you have been citing on costs are the so-called entry-age normal cost figures which, as the name indicates, apply to new entrants into either the FERS or the CSRS system. For this particular proposal, we are not talking about new entrants. Quite the contrary. We are talking about people who at the time of the open season will have had at least 15 years of Federal employment and in some cases are actually approaching retirement. So one cannot look at those entry-age figures, which are grand averages, and apply them directly to the particular cohort of people who would be affected by the open season. To reiterate what Mr. Flynn said earlier, we are also talking about people who would choose to join one system rather than the other, not a random sample of people.

Mr. MICA. What I am trying to do is take apart what is the major new cost to transferring folks from CSRS to FERS, and as I see it, it is the matching Thrift Savings funds. The rest is a wash. I mean, maybe I am calculating it wrong. Maybe in Social Security, there is going to be some long-term difference. But one of your biggest items is going to be the eligibility for that program, which is one of the most attractive incentives for folks to switch. Mr. Flynn.

Mr. FLYNN. I am sorry, which part, sir?

Mr. MICA. Getting into the matching TSP.

Mr. FLYNN. Yes, I don't think there is any question about that, Mr. Chairman. Though a lot of the attractiveness will depend on, one, the ability to invest, and thereby get a Government match, and, second, one's sort of projections about the performance of the Thrift Savings program. And third, the amount of time one participates. If you are only participating a short period of time, even if you have very rosy projections of the first two, it is not going to make much difference in terms of an election opportunity.

Mr. MICA. Well, I think we have opened Pandora's box here. And we also now have the issue, is the Treasury employees' suit not

going forward on the line item? It will be interesting to see what happens in that case, whether they come back to us and have any grounds for throwing out that line-item veto.

But we have opened up Pandora's box and there are some costs. I think this hearing has substantiated that there will be some increased costs if we do this; and some future obligations, both of agencies and the Treasury. I am not sure what the alternatives are, but I would like to look at the possibility of buyouts or possibly examine alternative annuity history of the past and see if anything could be applied for the future.

We might also look at some alternative, if I could get those figures to folks in CSRS who might want to get into the Thrift Savings matching plan, and give them that option. You have presented some evidence here that this would have varying costs, depending upon the number of folks who choose to get into TSP, the period of time they could be eligible to join. We can look at that if you will give us the figures, Mr. Flynn, as far as the numbers of folks in CSRS, and their drop-off schedules.

Again, we want to make the Federal workplace competitive with the private sector. We do not want to have two classes of Federal employees. And Mr. Flynn has testified that we have reached the point where we are at about an even division, I think you said. Half FERS, half CSRS, and we do have some inequities.

We may also need to look at the Social Security question. The hearing does raise a number of good points and some projects for us to work on in the future. But we are also left with this foggy period of transition and wrong retirement that needs to be resolved and we will work with you on that.

Mrs. Morella, did you have anything else?

Mrs. MORELLA. No, I don't.

Mr. MICA. We appreciate your participation.

Did you have any closing comments? You managed to survive without getting into any hot water. That is always an accomplishment. We appreciate your willing to work with us, share the data and information you have gathered, and hope you will work with the subcommittee as we try to look for solutions to some of the problems that have been raised today.

There being no further business before the Subcommittee on Civil Service, this meeting is adjourned. Thank you.

[Whereupon, at 1:05 p.m., the subcommittee was adjourned.]

[Additional information submitted for the hearing record follows:]

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

THE DEPUTY DIRECTOR

November 4, 1997

The Honorable John L. Mica
Chairman
Civil Service Subcommittee
Committee on Government Reform
and Oversight
U.S. House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

Thank you for the invitation to testify on November 5, 1997, before the Committee on Government Reform and Oversight's Civil Service Subcommittee on the proposal to conduct an open season enabling federal employees who are currently enrolled in the Civil Service Retirement System (CSRS) to move into the Federal Employees Retirement System (FERS).

As has been discussed with your staff, OMB will be unable to testify, but the Office of Personnel Management will participate in the hearing representing the Administration's position on the policy implications of the provision. Pursuant to conversations with your staff, enclosed is a statement for the record explaining our position on the provision.

We hope this information will be helpful to you. If you have any further questions, please feel free to contact me or have your staff contact Lisa Kountoupes in our Legislative Affairs office at (202) 395-4790.

Sincerely,

Jacob J. Lew
Deputy Director

Enclosure

STATEMENT FOR THE RECORD OF
JACOB J. LEW
DEPUTY DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET
FOR THE
SUBCOMMITTEE ON CIVIL SERVICE
COMMITTEE ON GOVERNMENT REFORM AND OVERSIGHT
U.S. HOUSE OF REPRESENTATIVES

November 5, 1997

Chairman Mica and Members of the Subcommittee, I appreciate the opportunity to present the Administration's views on the provision in the Treasury and General Government Appropriations Act, 1998, that would have allowed Federal employees in the Civil Service Retirement System (CSRS) an opportunity to switch to the Federal Employees Retirement System (FERS). On October 16, 1997, the President used his line-item veto authority to cancel the provision.

As you know, the President did not propose a FERS open season in his budget for FY 1998, or at any other time, nor did any committee of the Congress. It was not the subject of any public hearings, and it was not considered by either the House or the Senate. Instead, it was added at the end of the legislative process, in a House-Senate conference committee.

The President's cancellation will reduce near term deficits and increase future surpluses. Over time, we estimate that the total costs of the FERS open season would have been about $1 billion in present value terms. This means that the net impact of the FERS open season on the total budget would have been a cost to the U.S. taxpayer of about $1 billion when discounted back to today's dollars.

In addition, agencies have to pay higher retirement costs for each employee covered by FERS than they do for each employee covered by CSRS. The open season would therefore have also required the agencies to pay over 5 years about $1.3 billion of limited discretionary dollars; dollars that could be used for pay increases or other priorities.

The costs of changes to retirement programs are very difficult to estimate because of their long-term nature and because no one knows for sure how many employees will make a change. We estimated that 5 percent of the CSRS-covered employees would switch, or about 60,000 employees of the over 1.1 million CSRS-covered workforce. This estimate may be conservative. During the first and only open season held in 1987, about 4 percent of eligible employees switched. At the time, there was much uncertainty surrounding FERS in general and the rates of return that would be achieved by the Thrift Savings Plan (TSP). Now, after ten years of experience with the TSP, there is much more information about likely rates of return, more experience with mutual funds, and much greater willingness on the part of employees to save for retirement by using the TSP. Unlike the last open season when most who opted to switch were younger employees, now more senior employees are expected to switch to FERS. The higher returns earned by those in the TSP over the past 10 years would be particularly attractive to those who have already locked in a generous fully indexed retirement benefit under CSRS.

Both OMB and CBO agree that the open season would, over time, increase substantially the cost of Federal employee retirement benefits. This was not apparent from CBO's

discretionary cost estimate, but is now apparent with CBO's subsequent PAYGO (pay-as-you-go) cost estimate under the Budget Enforcement Act (BEA). There may be differences between OMB and CBO estimates of the number who will switch to FERS or in the short-term "scoring" of the switch, but we agree that the open season would end up costing more when all long-term costs are included.

I would like to reemphasize that this decision was made to protect limited Federal resources. The cancellation of this provision will reduce agency costs in the short term, freeing resources to fund inflation increases in pay and other priorities. The Administration is committed to ensuring that the Federal Government can recruit and retain the quality individuals we need and that they are compensated fairly for the work they do for the American people.

O