FEDERAL RETIREMENT SYSTEM—CONGRESSIONAL PENSIONS

HEARING

BEFORE THE

SUBCOMMITTEE ON
CIVIL SERVICE

OF THE

COMMITTEE ON GOVERNMENT
REFORM AND OVERSIGHT
HOUSE OF REPRESENTATIVES

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FEDERAL RETIREMENT SYSTEM—CONGRESSIONAL PENSIONS

FRIDAY, MARCH 10, 1995

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

The subcommittee met, pursuant to notice, at 9:05 a.m., in room 2154, Rayburn House Office Building, the Honorable John L. Mica, (chairman of the subcommittee) presiding.

Present: Representatives Clinger, Bass, Gilman, Morella, Moran, Collins, Mascara.

Staff present: George Nesterczuk, staff director; Daniel R. Moll, senior policy director; Garry Ewing, counsel; Susan Mosychuk, professional staff; and Caroline Fiel, clerk.

Minority staff present: Bruce Gwinn, senior policy analyst; Elisabeth Campbell, staff assistant; and Cedric Hendricks, professional staff member.

Mr. MICA. If I may have your attention, please. I would like to call to order this hearing of the Subcommittee on Civil Service. This morning we have a hearing on the Federal retirement system. I would like to open the hearing with some remarks.

This past week our subcommittee has focused on the question of possible changes in our Federal Civil Service Retirement System. With an unfunded liability in excess of half of a trillion dollars in the former Civil Service Retirement System, and $1½ billion monthly subsidy from the general treasury, it's critical that we examine the impact and benefits of all participants in the Federal retirement system.

Yesterday, in an effort to address these problems, I introduced a bill which will stop some of the drain on our national treasury. The bill calls for more cost-sharing by Federal employees for the retirement benefits which they receive. This is the first such adjustment in 26 years. Members of Congress and their staffs are also included in this reform. It may be necessary to consider additional changes in congressional pension benefits, but I will defer further considerations until after today's hearing.

Today, we continue our inquiry into the terms relating to Federal employment and benefits. Members of Congress are Federal employees, even if you consider them only 24-month temporary contract civil servants. Members of Congress and their retirement benefits must be subject to the same scrutiny, standard and review that we have already applied to the civil service.

That is why I have called this hearing today. As one of my colleagues from the other side of the aisle recently questioned me, "I can't understand why Republicans rain-in fire on their own troops." I responded by saying, "We cannot exempt Members of Congress when we ask Federal employees and all Americans to consider sacrifices to bring our nation's fiscal house into order."

Today, we will hear from several Members of Congress who have diverse opinions relating to changes in Members' retirement benefits. Some are proposing to abolish all benefits; some will present alternative options. As chairman of this subcommittee, I believe Members of Congress deserve the same standard and measure of consideration extended to all civil servants. That means fairness and equity and their chance to be heard.

So this morning I welcome our participants, my colleagues, as well as experts from both the public and private sector.

With those comments I would like to now yield to the chairman of our full committee, the distinguished gentleman and chairman, Mr. Clinger, from Pennsylvania.

Mr. CLINGER. Thank you very much, Mr. Chairman. I want to start out by thanking you for holding these hearings and for playing a very significant leadership role in dealing with what we all know are very tough issues in your subcommittee.

Addressing the issue of Federal retirement reform is never, never easy, which is probably the reason it is so rarely touched or considered. Yet, our current retirement system is not without fault, and certainly not without flaws.

This committee has the opportunity in this Congress to make the current retirement systems more fiscally responsible and better able to provide the benefits that employees have worked for. Clearly, the soundness of the system has to be maintained. The legislation introduced by you, Mr. Chairman, yesterday, I believe, moves us forward in that direction. The focus of your proposal is on preserving the benefits employees have earned, but has them share more of the government's burden in paying for those benefits.

The Federal pension system is a generous one. Currently, on average, Federal employees recoup their share of retirement contributions in the first 22 monthly annuity checks. In other words, employee contributions are about 8 to 10 percent of their total lifetime benefits.

With my full support, Mr. Mica's bill recognizes and addresses the issue of equity. It takes the same actions, with regard to the pensions of congressional Members and staff, that it takes with the pensions of Federal workers in the executive branch. As it raises the executive branch employee contribution rate, it brings rates of Members and staff to the same level. Similarly, as the replacement rates for executive employees go from "high three" to "high five," the same will apply to Members and staff.

Today, we are going to be hearing testimony that will help round out our understanding of pension systems. In particular, since the committee is considering reforms to the congressional pension system, the first part of today's hearing will focus on testimony regarding Members' pensions.

One proposal that I think is worth considering would establish a blended system that moves toward equalizing Members and staff

retirement benefits with those of executive branch employees. But in order to move on any one proposal, we need to consider the views on all the ideas that are out there, which is why we're delighted to have the sponsors of some of the proposals with us this morning.

So, Mr. Chairman, I look forward to hearing from these Members and others who have sponsored legislation in this area, as well as from Members who have supporting or additional statements to offer to the subcommittee.

I want to thank you all for coming today to share your thoughts and ideas, and I look forward to hearing the testimony of this panel and the subsequent panels. Thank you, Mr. Chairman.

Mr. MICA. I thank the gentleman. I would like to now yield, for an opening statement, to the distinguished gentlelady who is the ranking individual on our full committee, Mrs. Collins.

Mrs. COLLINS. Thank you, Mr. Chairman. At Tuesday's hearing I said I was opposed to making any changes in Federal retirement programs before the House has voted on a budget resolution. My position has not changed at all in the last 3 days.

Changes to Federal retirement programs should only be made as a part of the normal budget process. Without a budget resolution, we cannot be sure that cuts are being made fairly. Everything has to be on the table, including defense and farm subsidies, not just social programs or pensions.

We also need a budget resolution to be certain that savings from the retirement program will actually be used for a deficit reduction. It is pretty clear that the cuts proposed by the majority, in my view, are not intended to reduce the deficit, but instead to pay for a capital gains tax cut for the wealthy.

Capital gains and other tax cuts in the Contract with America are estimated to cost the Federal Government $200 billion over the next 5 years. What the Contract did not tell anyone is that these tax cuts would be financed by raising taxes on middle income Federal employees. Yet, that is exactly what the majority members of this committee are proposing to do at next week's mark-up. Bottom line, the majority wants to impose on Federal employees a new 2½ percent payroll tax that will not apply to anyone else. Estimates are that this new tax will cost Federal employees more than $10 billion over the next 5 years.

Now, I want to make it absolutely clear that I am totally opposed to taxing Federal employees in order to a capital gains break to the wealthy. I am also virtually certain that most voters do not know that the majority party's idea of tax equity is to have the middle income pay for tax cuts for the rich.

Now, the Federal Government has a contract with its employees that should be every bit as binding as the Contract with America. Under this contract, however, we have asked government employees, including congressional employees who work long, hard hours, to contribute a large percentage of their salary in order to receive specified retirement benefits.

Congress dealt with reforms needed in the Federal retirement system in 1986. At that time, we asked Federal employees to make a final and irrevocable choice as to the retirement plan in which they would be participating.

Having made that choice, Federal and congressional employees have the right to expect that the government they have served well would not change the system once they agreed to participate.

It should be remembered also that the Federal Government by law holds private employers responsible for meeting pension obligations to their employees. If there is an unfunded liability on the private plan, the employer, not the employee, is responsible for making up the deficiency. Furthermore, the Federal Government backs up the agency which guarantees major private pension plans in the event of an unfunded liability.

Why, therefore, should the Federal Government be the ultimate underwriter of every major private pension plan in the country, other than the one it maintains for its own employees?

Federal employees have fulfilled their obligations under the Federal retirement programs; it is now up to us to make sure that the government delivers on its commitments. I would point out that the only certainty most congressional employees have is that if they do somehow work long enough in the Congress, they will be eligible to receive a specified level of pension benefits.

By and large, Federal employees, as well as congressional employees, have the same commitment to public service that causes Members of Congress to run for office. We ask a lot of our staffs, and with the downsizing occurring within the executive branch, Federal employees also face greater and greater demands.

I don't think we should dishonor the work of so many who have done so much, nor should we dishonor ourselves by breaking commitments that we know we already made in 1986.

Thank you, Mr. Chairman.

Mr. MICA. I thank the gentlelady. Now, it's my honor to defer to the vice chairman of our subcommittee, Mr. Bass.

Mr. BASS. Thank you very much, Mr. Chairman. I appreciate the opportunity that we've been given here to review congressional staff pensions.

Two months ago I didn't know anything about the Federal retirement system, nothing. All I knew was that every time there was a job opening in my home town in the post office, or any time there was a job opening in Manchester at the Federal Building, everybody fell all over themselves to get these jobs because they were best paid jobs. They paid more than anybody else in the community. The retirement system was considered to be so rich that it didn't compare with anything that private industry provided. In fact, most businesses in my district don't provide any retirement pension at all, only the major employers.

Certainly, Members of Congress receive a deal that is even better than anybody in the Federal work force. And I haven't been here very long and I'm sure what I say is subject to a certain amount of shaking of one's head and saying, "This guy doesn't know what he is talking about."

But I think I bring, as the newest member of this committee—we're all new, it's a new subcommittee—a perspective that may be a little different, because as a former member of the New Hampshire State Senate and the legislature before that, we have a retirement system for our State and municipal employees which is protected by the Constitution of the State from legislative meddling

and lobbying, and so forth, and the influence that the various groups have on the process. And it has to be fiduciarily sound.

Now, when Chairman Mica made his opening statement the other day, I was absolutely flabbergasted to find out that our Federal retirement system, including the military retirement system, has an unfunded liability of close to $1 trillion.

So when we talk about whether or not we're going to have high three or high five, or whether we're going to have an employee contribution increase, or whether we're going to blend in congressional retirement, and we're going to make things a little bit fairer, I think we have to keep our eye on the real issue here. And that is that this government is paying, as I understand it, up to $1½ billion every year to a program where there is no connection between the Federal Government payment and what the employer/employee contribution, and so forth—it doesn't work together.

Mr. MICA. If the gentleman would yield just a second. That is more than $1½ billion a month, 19.7 a year.

Mr. BASS. Thank you. Now, everybody says, you know, this what we've come to accept here in Washington, this is the way the system works. We just spend, we write out checks, we don't worry about who is paying for it.

Well, I favor congressional parity. That's not the real issue for me. The issue here is that over the coming months we have to move, to treat the Federal retirement system the same way that every other retirement system in this country is or should be treated. And that is to bring it into some sort of fiduciary reality and do something to attack this massive unfunded Federal liability that isn't associated directly with the employer/employee contribution.

Even if we raise the employer contribution to 100 percent of pay, at least then we're being honest about what the true cost of this retirement system is.

So I appreciate the fact that Members of Congress are here today to talk about the congressional—our responsibilities as Congressmen to do here in our own lives what we expect to have happen across the board. But over the long term, let's have this subcommittee look at the Federal retirement system for what it really is. And that is, a $1½ billion per month subsidy from the Federal Government, over and above the retirement system of the people who participate in that system.

And with that, I'll yield back, Mr. Chairman.

Mr. MICA. I thank the gentleman. Now, it's my honor to introduce for an opening statement the ranking member of our Civil Service Subcommittee, the gentleman from Virginia, Mr. Moran.

Mr. MORAN. Thank you, Chairman Mica. We do very much respect your perspective and ideas, Mr. Bass. And I'm pleased that you are a member of the subcommittee.

But the issue of an unfunded liability was brought up a decade ago, that's before all but Mrs. Collins and Mr. Clinger were here, I believe, in the Congress at the time. And it was true at that time that there was a substantial unfunded liability in the CSRS.

And so 2 years were invested in resolving how to address real pension reform. It was a bipartisan effort and, in fact, Senator Stevens was one of the leaders in coming to a resolution, which was to phaseout the CSRS plan. It was felt that it was somewhat too

generous. That, in fact, since it had been deliberately scored on a static basis which didn't take into account inflation and other factors that were increasing it year by year, that we had to go to a system that used the Social Security system, as private employers do, instead of relying upon the Federal Government to be the principal source of retirement security for Federal employees.

So at the end of 2 years the Federal Employee Retirement System was created. That system is fully funded. The CSRS system is phasing out. No one goes into CSRS now. And the idea of an unfunded liability is based upon assumptions that I think we will show in the course of this discussion are no longer valid, although they were very much true 10 years ago, before the system was fixed.

The system is now fixed. What is not fixed is the budget deficit. And that is what is motivating this discussion, rather than problems inherent with the retirement system.

Now, I don't think that Members of Congress ought to be here for the pay and benefits. And, in fact, I can't imagine any of our colleagues who would not be making more money in the private sector with greater benefits. If they don't think they would be, they really ought not be in this job. And anyone who would run for this job because of the pay and benefits ought not be here and I trust, in short time, they will not be able to maintain the pace of activity—particularly intellectual activity—and their constituents will dispose of them and put in somebody who is prepared to make a sacrifice.

I also believe that Federal employees ought to be compensated commensurate with what other large corporations in the private sector pay their employees in terms of a weekly paycheck, and in terms of benefits, secure retirement and health benefits. And that ought to be the standard by which we measure the adequacy and appropriateness of Federal retirement programs.

Now, in testimony earlier this week it was stated repeatedly, and can be shown factually, that 95 percent of private corporations pay all their retirement contributions. And, in fact, they also have Social Security to supplement their retirement plans. So while they may not increase retirement by cost of living increases, Social Security does do that. That's one of the reasons why COLA increase, cost of living increases and Social Security are such a controversial item, and why so many people feel that they are necessary—because they are built in to a private sector system of retirement security.

I think we ought to be moving toward a system where Members of Congress get compensated in the same way as Federal employees for work that is comparable and that, in fact, our retirement system is comparable to what you would be getting in the private sector, albeit that we should anticipate that we would be compensated higher in the private sector than we are under the Federal Government. And that's the way it ought to continue for Members of Congress.

But I want to make sure that whatever system we come up with, we are able to attract and to retain the very best people up here—for our own staffs and, in fact, within the executive branch as well as the legislative branch. I think we owe that to ourselves, our im-

mediate constituents, and we owe it to the taxpayers who have a right to expect that we are going to be able to attract the best people into the Federal service who can carry out the programs that are funded with their taxpayer's money in the most efficient and effective manner.

That's the ultimate objective for what we are discussing today and earlier this week, and will continue on the House floor. So I'm glad that we're bringing up the subject, but we may have some difference in perspective on our ultimate objective. Thank you, Mr. Chairman.

Mr. MICA. I thank the gentleman. I'd like to yield at this time to the distinguished gentleman from New York, Mr. Gilman. Mr. Gilman, do you have an opening statement?

Mr. GILMAN. Thank you, Mr. Chairman. Just briefly. I first of all want to thank you for calling this session, and I hope that the hearing can be a forum for the exchange of constructive proposals as we continue in our efforts to review the Federal retirement system and have a positive effect at the same time on the Federal budget deficit.

Accordingly, I want to welcome our colleagues who are witnesses to the subcommittee and look forward to hearing their testimony. Thank you very much, Mr. Chairman.

Mr. MICA. I thank the gentleman. I would like to yield at this time to our distinguished Member from Pennsylvania, Mr. Mascara.

Mr. MASCARA. Thank you very much, Mr. Chairman. I'm sorry to say that we still seem to be moving at a breakneck speed down a path that will lead to a reduction of Federal retirement benefits.

During Tuesday's hearing, six of the eight members of the subcommittee, as well as the distinguished chairman of our full committee, expressed reservations and said that we should move more deliberately and look closely at the process. After all, ultimately, we will be affecting the lives of former and current employees who have worked a lifetime for their retirement.

Anyone who has watched the Simpson trial or Court TV knows that people are innocent until proven guilty. Here we are turning that axiom on its head. We are saying that the Federal retirement system is guilty and no trial is allowed. Beyond the testimony we will hear today from our witnesses from the Government Accounting Office, we have had no experts before us. They have given us no detailed briefing.

What exactly is the problem with the Federal retirement system that so hurriedly needs fixed? No one has put up a chart showing the contributions made to the system and the benefits paid out. No one has explained or examined the systems actuarial soundness or alleged weakness. According the Congressional Research Service, the system has a present trust fund balance of $340 billion, estimated to rise to $366 billion in the current fiscal year.

Even the documents sent out by the chairman indicate a trust fund balance of $311.7 billion as of September 30, 1993. I believe we reformed this in 1986. There was a 35 year program to bring the Civil Service Retirement System into balance. This is a trust fund. Its funds are supposed to be dedicated to paying retirement benefits. The burning question is what is going on? This is a seri-

ous business and I think we should demand, and I think we deserve answers.

The testimony we are going to hear today regarding Members' pension is equally as troubling. One of my fellow colleagues plans to testify that his intent is not to score cheap political points by bashing Congress—that's fashionable today. While my colleagues may be new here, but the way I read the testimony lined up for today, that is exactly what our witnesses are going to be doing. The message is if you have served in Congress for more than 12 years, you do not deserve the pension you are entitled to.

Shortly after we were all sworn in on January 4, Roll Call ran an article listing millionaires of Congress. If I recall correctly, the list included 45 Members of the House and Senate. Needless to say, my name and the name of the other 490 Members of the House and the Senate were not on that list.

As a 65 year old freshman Member who is an accountant and has raised four wonderful children, my advice is rethink your position. We have a contract with our former and current employees. Many have planned their retirement based upon that contract that you or most of us signed when they came to work with the Federal Government.

And, finally, I want to say a word about the impact this plan will have on the congressional staff. You don't have to be around Congress too long before you realize these people work incredibly long hours and for not much pay. It is no secret that the turnover is great. There are no set hours. There is no job security. If your member loses, you lose, you're out of a job. It's very unlikely that more than 2 to 3 percent of the staff ever stay around here for the 20, 25 years required to receive an immediate benefit.

If I understand the proposed bill the chairman has introduced, we are going to ask these senior staff members to contribute several thousand dollars more per year. In return, their pension benefits are going to be computed on their 5 years of salary instead of the high three under the current system. Guess what? This adjustment probably will cost them at least several thousand dollars a year in benefits.

And why are we doing this? To help pay for a nearly $200 billion tax cut over 5 years. This is wrong. I hope our subcommittee members will back up a few steps and rethink what we are asked to do here in the near future.

Thank you very much, Mr. Chairman.

[The prepared statement of the Honorable Frank Mascara follows:]

PREPARED STATEMENT OF HON. FRANK MASCARA, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF PENNSYLVANIA

Mr. Chairman, I must say right at the start that I am very saddened that the first order of substantive business this subcommittee is apparently going to be asked to deal with is possibly cutting Federal employee's retirement benefits.

As my colleagues on the committee know, before coming to Congress I served as a county commissioner in Washington County Pennsylvania for 15 years.

I always worked to have good relations with the county employees.

I faithfully negotiated with their unions to set fair wages and to ensure they received a decent benefit package, including pension benefits.

If the county ran into budgetary problems, as certainly was the case sometimes, my fellow commissioners and I would sit down and carefully go over our spending

priorities. We would have to decide where we could cut spending and where we could scrimp and save.

But we did not automatically take our budget problems out on our workers.

I am troubled that this may be exactly what we are going to be asked to do in the very near future.

Until late yesterday afternoon when my staff procured a copy of the talking points prepared by the Republican staff about Federal retirement reform, rumors abounded on our side of the aisle regarding the magnitude of the cut that would be sought. Some said $25 billion, some said $17 billion.

If we can be grateful for something, the talking points use a lower number, $12 billion, and further disclose that the markup could come as soon as next week.

What I do not understand, Mr. Chairman, is this is supposed to be taken out of a retirement system that currently has a trust fund surplus of $340 billion, rising to an estimated $366 billion in the current fiscal year.

Since being sworn in January, I have learned one thing. Federal trust funds are not really dedicated nor untouchable. I am beginning to wonder if they are worth the paper they are written on.

First, we could not protect the social security trust funds from being included in the balanced budget amendment. Then it was decided that the highway trust funds would be used for part of the forthcoming fiscal 1995 rescission cuts. Now we are going to do the same thing to the Federal retirement system trust funds.

I think this is simply the wrong way to run our fiscal railroad.

Now I want to make it clear that I am not against getting Federal spending under control. My constituents sent me here to get the Federal budget on a more sane course. I firmly believe spending must be cut, but I do not think it should be done haphazardly with out a definitive budget plan.

As many of my colleagues know, I am a public accountant. I know how to read the government's monthly treasury statement. Maybe it is my devotion to balance sheets, but I do not think we should be discussing how we are going to cut the Federal retirement system, or any possible budget cuts, until we have a budget plan that tells us exactly how much is being cut and for what purpose.

We have none of that before us today and if the press is getting its information correctly, we will not have it for almost another two months. Speaker Gingrich, according to the media, is predicting a budget resolution will not be brought before the full house until mid-May.

That still leaves us with the question of why are we being asked to consider savings in the Federal retirement system now? The answer I am afraid is to help pay for the tax cuts the majority party will be proposing to the Committee on Ways and Means near the end of this month.

Over the past several weeks, committees throughout the House have been facing a similar situation, making cuts in programs ranging from rural health care transition grants, to the school lunch program, to the HUD section 8 housing program, to the Veteran's Administration health care budget, to name but a few.

Now, we are going to go after the Federal retirement system based on a vague perception that it is too generous. This is a system that since 1982 has already contributed $40 billion to deficit reduction.

What about the countless other ways the Federal Government spends money from the Department of Defense through flood insurance. Do they not count?

I think it would be more appropriate to discuss potential reform of the Federal retirement system after my colleagues on the other side of the aisle have laid out their complete budget plan for the nation.

I also would like to take a moment to comment on our plans to review Members' retirement later this week.

Now as someone who is 65 and just elected to Congress, I have no illusions that I will ever collect much of a retirement for my service in Congress. The facts are that more than half of the Congress has been elected since 1990, and with the present rate of turn-over and the press for term limits, far and few between will ever receive a large enough benefit to write home about.

Having said that, I sincerely hope that no one is going to make the argument that just because members are elected to serve in this body they somehow do not deserve a pension.

I would also hope we are not going to disparage the pensions received by prominent former Members who in many cases dedicated more than 25 years of their lives to serving this nation. The reality is that executives working in the private sector, bearing similar levels of responsibility, receive much more generous pensions. Forbes and Business Week regularly run articles detailing the stock options and golden parachute deals they enjoy.

These retired Members contributed much to our country, leaving it a better place for their service. I say let them enjoy their private lives in the peace and quiet they have rightfully earned.

Finally, I am pleased that the chairman has invited the unions and organizations representing Federal workers and managers here today to testify. I know they will add some balance and reality to the issue being addressed.

I look forward to listening to their remarks.

Mr. MICA. I thank the gentleman. It's my privilege now to yield to the very distinguished lady from Maryland, Mrs. Morella.

Mrs. MORELLA. Thank you, Mr. Chairman. Again, I want to thank you for this second in a series of hearings so that we can get the total picture, having heard from the unions and other groups earlier this week, and now to hear from our colleagues as we look to downsizing government.

I want to just reiterate that we must always make sure that we recognize that changes will have an impact on morale and productivity. We must also look at breaching contracts.

The thing that I've heard is a guiding principle from Federal employees and others is this concept of equity, that we should not be treating one group unlike how we treat other groups. I know that my colleagues will exercise the best judgment as we look to this situation, and I look forward to hearing from my colleagues.

I thank you, Mr. Chairman.

Mr. MICA. I thank the gentlelady, and I thank all of the distinguished members of this panel for their opening comments. Now, it's my responsibility to introduce our first panel, a very distinguished panel of Members of Congress. We have a good friend, Representative Howard Coble, from North Carolina; Representative Bob Goodlatte from Virginia; and Representative Dan Miller, a good friend for many years—and former roommate, I might add.

I welcome each of you to our panel this morning, and our subcommittee. And I'd like to start, if I may, with Mr. Coble.

STATEMENT OF HON. HOWARD COBLE, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NORTH CAROLINA; HON. BOB GOODLATTE, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF VIRGINIA; HON. DAN MILLER, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF FLORIDA; AND HON. DAVID MINGE, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MINNESOTA

Mr. COBLE. Thank you, Mr. Chairman, members of the committee. I applaud you, Mr. Chairman, and the ranking member, Mr. Moran, for your foresight in holding this hearing to examine Federal civil service and Members' retirement programs.

This issue of Members' retirement has been a hot button for me, Mr. Chairman, for in excess of a decade. In 1985, I introduced a bill to reform the congressional retirement plan and amassed a grand total of six cosponsors. That proposal was designed to bring parity to Federal civil service and Members' pensions.

On January 4th of this year I reintroduced a more radical proposal. If enacted, my bill would terminate the congressional pension for Members who are not yet vested. In the 103rd Congress I introduced an identical bill and was able to attract a grand total of four cosponsors. By closing the pension system to the unusually large number of Members in the most recent freshmen class, my

bill, it seems to me, would save taxpayers millions of dollars in the long run.

Members were included, Mr. Chairman, and members of the committee, in the Federal retirement system beginning in 1946, reportedly to induce them to retire and bring into the legislative service or process a larger number of younger Members with fresh energy and new viewpoints.

Instead, I believe this generous pension probably has had the opposite effect. The congressional retirement plan costs the American taxpayer between $15 and $16 million per year. As of the end of fiscal year 1993, the Office of Personnel Management reported that there were 391 living former Member of the Congress receiving a pension. Their Federal service averaged 20.3 years and their annual average annuity was $44,479.

The gentleman from New Hampshire, in his opening statement, implied this. You didn't say it directly, Mr. Bass, but I will extend that the people who are unsung and forgotten in this process, it seems to me, are private sector employees, many of whom have no retirement at all, but who yet contribute very generously to what, in my opinion, is an inexcusably lavish plan for Members of Congress.

I have introduced a new sense of the Congress' resolution urging that retirement benefits for Members of Congress should not be subject to COLAs. Members' COLAs often allow Members' pensions to exceed retirees' old salaries, and have contributed to the perception of Congress as a pension millionaire's club.

The Bureau of Labor Statistics reports roughly 5 percent of private sector pension plan participants enjoy annual cost of living adjustments. And I say to the gentleman from Pennsylvania, I did not make the cut either on that list of millionaires that was appointed sometime ago. I regret to say that. I would have liked to have made the cut, but I didn't.

Mr. Chairman, as Mr. Moran pointed out, I think probably most Members of the Congress do not come here as a result of the retirement plan. I think most of them learn about it after they get off the ship and hit the ground. And I realize my friends—and I do regard you all as my friends—I realize this is not going to make me a candidate for Mr. Popularity in the 104th Congress. But I feel strongly about it.

Mr. Chairman, I appreciate you and your subcommittee for having permitted me to share this forum this morning. I thank you, sir.

[The prepared statement of the Honorable Howard Coble follows:]

PREPARED STATEMENT OF HON. HOWARD COBLE, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NORTH CAROLINA

Mr. Chairman:

I applaud you and the ranking subcommittee member, Mr. Moran, for your foresight in holding this hearing to examine federal Civil Service and members' retirement programs. I also wish to commend the new Republican leadership for its commitment to reducing federal spending which fuels this debate, in part.

I was pleased to be invited to testify on my legislation to reform the retirement plans of Members of Congress. The generous retirement benefits available to members have been a concern of mine for over a decade. As you may know, I pledged

in my first campaign for Congress that, if elected, I would not participate in the retirement plan.

In my first term, I introduced a bill to reform the congressional retirement plan. Speaker Newt Gingrich and Majority Leader Dick Armey were two of only six cosponsors of this proposal to bring parity to federal Civil Service and members' pensions. Specifically, the bill would have subjected members to the same immediate and deferred retirement provisions and annuity computation methods as applied to other federal employees. This proposal died a quiet death in the Post Office and Civil Service committee.

On January 4, I reintroduced a more radical proposal which I had introduced in the 103rd Congress. If enacted, my bill would end the congressional pension for members who are not yet vested. I chose this deadline for participation for several reasons. Primarily, closing the pension system to the large number of members in the most recent freshman classes would save taxpayers millions in the long run. Second, it is fair to members who are nearing retirement and may be completely reliant on these pensions. Since it would not have harmed nearly two-thirds of the House members in the 103rd Congress, I was hopeful in that it would receive consideration and support. Nevertheless, my earlier bill secured only four cosponsors: Thomas E. Petri (WI), Mac Collins (GA), John J. Duncan, Jr. (IN), and William H. Zeliff, Jr. (NH).

Members were included in the federal retirement system starting in 1946. In support of this proposal, a Senate report at the time argued that a retirement plan for members would, in part, "[be] an inducement for retirement . . . [and] bring into the legislative service a larger number of younger members with fresh energy and new viewpoints . . ." I do not believe that retirement benefits are necessary to entice qualified Americans to run for Congress. Instead, the generosity of the congressional pension has prolonged the tenure of many of our colleagues.

The congressional retirement plan costs the American taxpayers between $15 and 16 million dollars per year. As of the end of fiscal year 1993, the Office of Personnel Management reports that there were 391 living former Members of Congress receiving a pension. Their federal service averaged 20.3 years and their average annual annuity was $44,479.

In 1986, a new federal pension system—the Federal Employees' Retirement System ("FERS")—was created for all future members and employees in order to comply with the mandate for covering all workers under Social Security. Unlike the old retirement system, FERS provides less than full inflation protection.

However, most Americans are concerned that members receive a cost-of-living adjustment (COLA) on their pension, while automatic COLAs on pensions are very rare in the private sector. The Bureau of Labor Statistics reports that, in 1991, five percent of private sector pension plan participants were in defined benefit pension plans providing cost-of-living increases. An additional seven percent were in plans that provided an ad hoc pension increase at least once in the previous five years.

These COLAs often allow members' pensions to exceed retirees' old salaries and have contributed to the perception of Congress as a "pension millionaires club." As such, I have introduced a new sense of the Congress resolution urging that retirement benefits for Members of Congress should not be subject to COLAs.

Finally, I want to express my objection to the federal match for all federal civil servants and members covered by FERS who participate in the Thrift Savings Plan. The taxpayers also deposit one percent of the basic pay for each FERS participant, regardless of whether they chose to invest in the optional thrift plan. This idea is not unique to me, but I promoted it to Leon Panetta when he served as President Clinton's Director of the Office of Management and Budget. The federal match of thrift plan contributions, coupled with the one percent automatic contribution, increase annual compensation for civil servants and members by up to five percent of annual pay. I believe this benefit is excessive.

Again, I commend you, Mr. Chairman, for moving swiftly to discuss the many pension reform options which have been introduced. In principal, I do not believe that the American taxpayers owe me a pension for my service in the "People's House." While only one-half of full-time American workers in the public and private sectors are fortunate enough to participate in an employer-sponsored pension plan, all taxpayers are forced to subsidize our retirement.

As we look at ways to tighten up entitlement spending, we owe it to our constituents to share in the sacrifice.

Mr. MICA. I thank the gentleman, not only for his testimony and legislative recommendation, but also for keeping my popularity at a higher level. [Laughter.]

I would like to defer to Mr. Goodlatte, from Virginia, for his legislative proposal.

Mr. GOODLATTE. Mr. Chairman, I, too, thank you for holding these hearings. I think this is an important issue as we address the overall issue of serious problems with the budget deficit and the national debt of this country.

One of the bills that we've already passed through this Congress was the Congressional Accountability Act, It passed the House of Representatives, I think, unanimously. It went to the Senate where it also passed by a very wide margin. And it has since been signed into law by the President of the United States, making Members of Congress subject to laws that we impose on others. In other words, equating equity between what other people should live by and what we live by.

One area, in that regard, that we have not addressed is the disparity between the pensions of Members of Congress and the pensions of other Federal Government employees. As it stands right now, under the new FERS system Members of Congress accrue benefits at a rate that is fully 70 percent higher than the accrual rate for top paid Federal civil service retirees.

So that, for example, a Member of Congress, assuming the high three salary formula that is currently used at the current congressional rate of pay for a 15 year service period, and equating that with a Federal Government employee with the same salary and the same length of service, the retirement for the Member of Congress would be $34,000, and for the executive branch employee, $24,000. Fully 70 percent higher for the congressional employee.

This, I think, is simply not a good standard to go by, especially as the committee has to look at the overall impact of the budget and what can or should be done with the pensions of all Federal Government employees.

I also take issue with my good friend from North Carolina, Mr. Coble, regarding the idea that there should be no pensions whatsoever. I, too, am not a member of the millionaires' club that has been described here—far from it. But I think that rather than looking at the impact of this on ourselves, we ought to look at the impact of this on the importance of the message we send to people who have families, who have a career, who may well in the private sector have a pension and now are thinking about running for public office. And we want to encourage as much competition and as much offering of public service from as wide a field of people, including people of a wide degree of economic backgrounds to run.

I'm a supporter of term limits. It's my feeling that Members should come here and serve for a limited period of time and then go back to the private sector. But when they do that I think that they ought to do it with the understanding that they are not going to completely give up their retirement system in the process.

So, to me, it seems fair that if we equate it with other Federal Government employees, whatever the Congress sets that retirement level at they should not treat themselves in a better fashion. But I do not think that there should be a complete elimination of pensions when you are talking about a situation where people are making decisions to leave the private sector and serve in public office.

The way that my legislation works is it would change the accrual rate to the same as other Federal Government employees, it would reduce it from 1.7 percent to 1 percent, and it would raise the retirement age to the same as other Federal Government employees, which is an increase of 5 years.

It does not affect any vested interest. It only applies to those who are elected after 1990. And as a result, I think it is fair to those who may have come to rely upon the current situation. I think in that regard the gentleman from North Carolina and I do agree. I think his legislation also does not pick up anybody who is already vested under the program.

So I would submit my written testimony for the record. And, again, thank the chairman and the committee for allowing me to testify.

[The prepared statement of the Honorable Bob Goodlatte follows:]

PREPARED STATEMENT OF HON. BOB GOODLATTE, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF VIRGINIA

Thank you Chairman Mica and members of the Subcommittee for inviting me here today to testify on H.R. 575, my congressional pension reform bill.

I first introduced this legislation in the 103rd Congress and the reception it received from many members of the House was subdued—to put it mildly. Therefore I am very pleased that you are holding this hearing today and have an interest in legislation to reform congressional pensions.

The 104th Congress has made unprecedented steps to reform this institution—reforms most Americans have demanded for some time. We've created an open Congress, with open rules and lots of sunshine. We've decentralized power and put it back in the people's hands. We've eliminated many of the perks and privileges that tainted this body for far too long, finally applying the laws we've passed on everyone else to ourselves. However, there is one perk, congressional pensions, that has yet to be tackled. I'm pleased that we have started that process with this hearing.

The Congressional pension plan is one perk that is most in need of reform. The National Taxpayers Union estimates that over 180 members could collect well over $1 million in lifetime benefits after 1995, making congress a pension millionaires club. According to NTU, congressional pensions are at least twice as generous as the standard corporate pension in the private sector.

Under the current pension calculation, members of Congress receive pensions anywhere between 10%–20% higher than federal employees. This discrepancy is basically due to the different formulas used to calculate federal employee pensions and congressional pensions. In addition these taxpayer-funded pensions, bloated by cost-of-living allowances, now vest in five years. My legislation simply eliminates this discrepancy so that congressional pensions would be calculated using the same formula currently used for federal employees.

There are more draconian approaches to reforming congressional pensions. Some, such as my good friend and Judiciary Committee colleague would completely eliminate congressional pensions. I believe such a wholesale elimination could be a serious deterrent to many qualified citizens who may be considering a run for Congress. Even with term limits, many citizens, especially those with modest means or large families, simply cannot afford to be without a retirement system for any length of time. While we need to take the profit out of incumbency, we shouldn't make running for Congress completely out of the question for many Americans. I'm afraid that simply putting Members on Social Security would do just that. The answer isn't to make Congressional service unappealing or impractical for many talented Americans.

Others have recommended a wholesale overhaul of the system. My legislation, however, would take an important step toward reforming the system without precluding future reforms.

My legislation would affect all members who were elected after 1990. As I have testified, it changes the formula used to calculate congressional pensions to that used for federal employee pensions. The present formula allows members of congress to accrue pension benefits for each year of service at a rate that is fully 70 percent higher than the accrual rate for top-paid Federal Civil Service retirees.

In addition, members would not be permitted to collect their pensions until the age of 55, five years later than under present law. These changes would put members' retirement benefits on par with all other federal employees.

It's time we address some of the gross disparities between Congressional retirement benefits and those of the average American. The era of special treatment and excessive retirement benefits for members of Congress must end. I urge you to support my bill and ensure that it finally does.

Mr. MICA. Without objection your full testimony will be submitted to the record.

Now I would like to yield to the gentleman from Florida, Mr. Miller, for his legislative proposal.

Mr. MILLER. Thank you, Mr. Chairman. Thank you for holding this hearing and inviting us to participate. I commend you and Chairman Clinger for the courage and boldness to have such a sensitive issue here in Congress.

As we have started here in the 104th Congress with a commitment to reduce the size and scope of the Federal Government, we have some very difficult challenges ahead, and some very difficult choices ahead.

As a member of both the Appropriations and Budget Committee, I am very aware of these choices that we are going to be making over the next months. Next week we are going to have a major rescission package before us: $17 billion out of the current fiscal year 1995 budget. We are going to eliminate over 100 programs of the Federal Government. During the month of May we will be having the 1996 budget, and we will start that glide path to a balanced budget. We have to stay focused on the need to balance the budget by the year 2002 because it's so important, not just for us, but for future generations.

And as we make these tough choices next week and throughout the summer with the 13 appropriation bills, I feel it is appropriate that we start with ourselves. That's the reason I commend you for having the hearings so early in the year. I didn't realize we would be able to address this issue at this early stage of the 104th Congress.

When I first sent out my Dear Colleague last year, I was not attempting to bash Congress, because we really, really want to attract the best and brightest in this country. And we do not want a Congress of just millionaires. We want successful people to leave their community—as a believer in term limits, for a limited amount of time—and come to Congress and do the job of the people of this country.

The issue of congressional pensions is sensitive and people are aware of it throughout the country. It's not a conservative or liberal issue. Robert Novak had an editorial in January saying we needed a change. The New York Times editorial wrote about it in January also. As a member of the Budget Committee I was in Columbus, OH, over a month ago with a field hearing on the budget. Two different people brought up going after congressional pensions in a field hearing.

So we have to address the issue, and I commend you for bringing it up at this time.

Let me make clear what we have in our pension system. In 1984 the pension system was changed. Those Members of Congress who entered prior to 1984 have a very, very generous pension—more

generous than other Federal employees and more generous than the private sector. In 1984 it was changed, and so those of us that are under the current system have a plan that is not as generous as the old one, but still is more generous than other Federal employees and more generous than in the private sector.

Our plan, in addition to Social Security, has two components: a defined benefit plan, which is the traditional pension plan; and second, a Thrift Savings Plan. The Thrift Savings Plan is a 401(k)-type of plan. We don't call it a 401(k) because 401(k) refers to a section of the tax code for private corporations.

The pension plan, as Mr. Goodlatte has pointed out, is quite generous in our accrual rate and our retirement age. We contribute about $140 a month, but the amount we contribute doesn't relate to how much we receive.

In the Thrift Savings Plan, we can set aside up to 10 percent of our pay as capped by the IRS as in a 401(k), at about $9,200 a year. The government will match up to 5 percent of our pay, which will be approximately $6,000. So that under our Thrift Savings Plan we can set aside $9,000 of our money and get $6,000 matched. That is a 401(k) plan. That is what private industry is going to. I think you will have some experts from the private sector saying this is what everybody is going to in the country. They're going away from the defined benefit plan because of the huge unfunded liability that the Federal Government and all your major corporations are currently facing.

We should be going in the same direction as the private sector. What my plan does is eliminate the defined benefit plan for Members of Congress only. And it is not retroactive. I don't think that is morally right or legally right for reform to be retroactive. So anybody that has contributed to their pension plan will keep that particular pension plan.

I want to keep the Thrift Savings Plan, also known as the 401(k) plan. This is the right thing for the employer—in this case, the government—and the employee. Let me tell you why it's right for the employee—and this is true in the private sector as well. If you come to Congress, serve only 4 years and leave, what do you have in retirement? You have nothing besides Social Security. Under a 401(k) you get to keep what you have contributed.

And if you go to, say, the State government, get 4 years of retirement and leave, you have nothing unless you have a 401(k). If you go in the military and serve 15 years and retire, you don't get retirement benefits—you have nothing. You should accumulate your retirement and allow the people to move from job to job, from State to State, and have benefits that accumulate. It's the right thing for the employee, and it's also the right thing long term, for the employer, whether it's the Federal Government or Ford Motor Co. or a small business back in Sarasota or Bradenton, FL.

So I think it's the direction to go. I commend you for at least going to the step that we're going to equalize our pension the same as all Federal employees. And I encourage you to start looking at the 401(k) concept because I think it's right for everybody in the country, employers: taxpayers and certainly for the employees.

Thank you for having this panel.

[The prepared statement of the Honorable Dan Miller follows:]

PREPARED STATEMENT OF HON. DAN MILLER, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF FLORIDA

The American people sent a clear message to Congress last November. They want real change. They rightly believe that their government is too big and increasingly unaccountable, and they expect us to do something about it. I believe this change needs to start with Congress. As we cut the size, scope, and cost of the federal government, we need to prove to the American public that we are more than willing to start with ourselves.

The new Republican Majority has already taken the first steps on the road toward replacing "business as usual" with accountability and fiscal responsibility. On the first day of Congress, we passed legislation that applies ten major private-sector workplace laws to ourselves. We cut committee staff by one-third, banned proxy voting, and cut the congressional budget. The House also passed the Balanced Budget Amendment—and while it did not pass in the Senate, we are committed to force Congress to do what every family in America does with regularity: make tough choices and not spend more than they earn. Congress needs to continue this trend.

The Budget Committee, the Appropriations Committee, and the committees of program jurisdiction are currently engaged in a comprehensive review of federal spending programs. Tough decisions must be made. Federal spending must be cut, and every program must be reevaluated. Outdated programs must be eliminated outright, and others must be returned to the States. Old-style government bureaucracies must be replaced with dynamic markets and open competition.

I urge my colleagues to recognize the necessity of applying the same fiscally conservative standards to our retirement system as we do to the rest of the federal government. We must prove to the American people that we were serious in our pledge for reforming "business as usual" in Washington.

Cutting spending is not easy. Every program has a constituency that wants to protect their piece of the pie. Witness the rhetorical beating the Washington media gave Appropriators for the small cuts that have been made in order to pay for the recent missions our troops have taken and also the natural disaster in California. If we are going to ultimately succeed in our efforts to reduce government, a decidedly larger task, we have to convince a skeptical public that we plan on being thorough and fair.

In order to maintain our credibility as true reformers, we have got to look at some of our own benefits. According to pollster Frank Luntz, we "must lead by example, and the sacrifice must be visible. Voters expect—demand—that we share their pain. If we join them in sacrifice, it will make other budget cuts easier."

I understand that this is a sensitive issue for Members of Congress. The 104th Congress is working long hours and individual Members are making real sacrifices—both personally and financially—to serve. My intent here is not to score cheap political points by bashing Congress. But as trends in the private sector move away from generous pension plans aimed at enticing employees to serve lifetime careers, Congress must do the same. Reforming the Congressional pension system is both good retirement policy and essential to our larger goal of re-limiting the size and scope of government.

Congressional pensions were a major campaign issue in many elections across the country last year. Everyone, from the liberal New York Times editorial board ("Some scaling back [of congressional pensions] is surely in order."[1]) to conservative columnist Bob Novak (congressional pensions are a "flagrant congressional perquisite"[2]) agrees that the pension system needs reform. Lamar Alexander has made it a key platform in his presidential campaign: "The best part of pension reform is that Congress can act on it immediately. It does not require a constitutional amendment. If Republicans want to prove their commitment to fundamental change, they will roll back their own pension on the 101st day of Congress."[3] I applaud the Chairman's efforts in demonstrating our committment in this area.

Historically, the primary retirement plan among individuals who participated in retirement systems was the defined benefit or annual pension benefit plan. Currently, both FERS and CSRS offer a defined benefit plan. In the eighties, the 401(k) plan, described as a defined contribution plan, became increasingly popular. The Thrift Savings Plan, which has been available to all executive and legislative branch employees since 1984, is equivalent to the 401(k) plan. In fact, according to the Em-

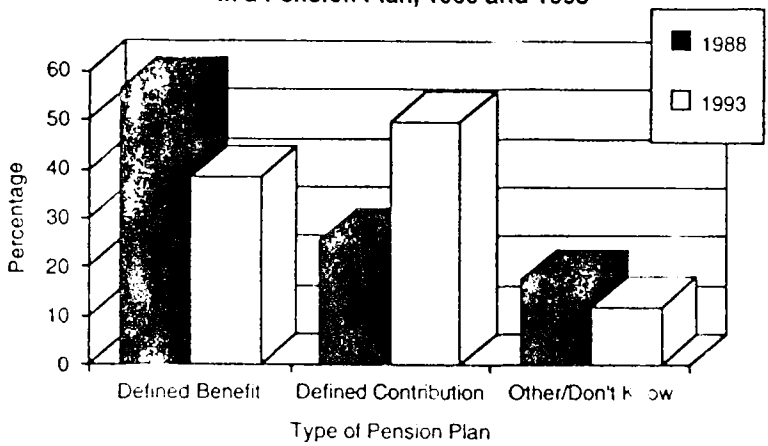
[1] "Congressional Pensions Need Review," New York Times January 14, 1995: Editorials/Letters.

[2] Robert Novak, "Retiring on Pensions," Washington Post January 2, 1995: A19.

[3] Lamar Alexander, "Complete the Congressional Revolution," Wall Street Journal February 9, 1995: Editorials/Letters.

ployee Benefits Research Institute (EBRI), organizations, large and small, public and private, have "emphasized defined contribution and individual account retirement programs."[4] Organizations are seeking to be more flexible. "Flexibility and reinvention, as now being implemented by the federal government and many others, means more reliance on defined contribution retirement plans, on a smaller workforce, and on the use of lump-sum buyouts and pension incentives that achieve that smaller work force. With flexibility comes an end to the psychology of lifetime employment—even though few in this nation have had lifetime employment with one firm, and a significant number move to other employment after leaving their "career job."[5]

Chart 6
Primary Retirement Plan Among All Civilian Nonagricultural Wage and Salary Workers, Aged 16 and Over, Who Participate in a Pension Plan, 1988 and 1993



Source: Employee Benefit Research Institute tabulations of the May 1988 and April 1993 Current Population Survey employee benefit supplements

As we move into the global economy, the defined contribution plan makes sense for both employers and employees. Individuals who change jobs several times may not build up a pension, but can save for retirement through the mobile 401(k) plan. The country as a whole is moving away from paternalistic programs, both in the public sector and the private sector. In the private sector, large and small organizations are moving away from paternalistic retirement plans to approaches like the 401(k) "that test concepts of partnership, shared responsibility, and increased individual responsibility."[6] As this trend is accelerating in the private sector, Congress should not become more isolated from average Americans by maintaining a system most Americans don't have and can't identify with.

Additionally, members' pensions are significantly more generous than pensions for other employees of the federal government and private sector. The two federal retirement systems, CSRS and FERS, apply both to Members of Congress as well as to legislative and executive branches of the federal government. "Although Congressional Members pay slightly more into the pension plans than executive branch employees, the pension benefit formulas applicable to Members provide a higher per-

[4] Employee Benefits Research Institute, Retirement in the 21st Century . . . Ready or Not . . . , ed. Dallas L. Salisbury and Nora Super Jones. (Washington, D.C.: Employee Benefits Research Institute, 1995) 5.

[5] Robert E. Hall, "The Importance of Lifetime Jobs in the U.S. Economy," American Economic Review September 1982: 720; and Christopher Ruhm, "The Work and Retirement Patterns of Older Americans," EBRI Issue Brief 121 December 1991.

[6] Employee Benefits Research Institute 5.

centage of preretirement pay for each 4year of service than formulas applicable to the executive branch. Thus, benefits relative to contributions are higher for Members of Congress than for federal civil service retirees."[7]

The formula for federal government pension benefits are comprised of three factors: (1) the retiree's average annual salary for the highest paid 3 consecutive years (high-3 salary); (2) years of service; and (3) an "accrual rate" at which the pension accumulates for each year of service.

General formula:

high-3 salary X years of service X accrual rate = annual pension

The most significant differences between pensions for executive branch employees and pensions for legislative branch employees and Members of Congress is the accrual rate. The following chart exhibits the differences in the accrual rates.

Years of service	Members of Congress		Executive Branch Employees	
	CSRS	FERS	CSRS	FERS
1–5 years	2.5%	1.7%	1.5%	1.0%
5–10 years	2.5%	1.7%	1.75%	1.0%
10–20 years	2.5%	1.7%	2.0%	1.0%
>20 years	2.5%	1.0%	2.0%	1.0%
				1.1%*

* If over age 62.

The following example demonstrates what this means when it is translated into dollar figures. A Member, elected in 1989, who serves for 15 years receives an annual pension of $34,068. A federal employee earning the same salary serving for the same period of time only receives a pension of $20,040.

Translated into dollar figures:

Assume high-3 salary = $133,600 and years of service = 15 years

Members of Congress:	
Under CSRS	$50,100
Under FERS	$34,068
Executive Branch Employees:	
Under CSRS	$40,080
Under FERS	$20,040

The legislation that I have introduced, The Congressional Members' Pension Limitation Act of 1995 (H.R. 804) makes the system more equitable and affordable while making congressional pensions more like those of most working Americans.

This legislation eliminates the pension portion of the retirement system for Members of Congress, and transforms the system into an expanded Thrift Savings Plan. The government matching would stop after 12 years of service.

Currently, both CSRS and FERS retirement systems encourage all employees, including Members, to remain employed in a federal and/or congressional capacity for a minimum of 30 years or up to age 62 by rewarding long term service with more generous pension benefits. While it may make sense to encourage long-term commitments from federal employees, giving elected officials a direct financial reward for pursuing long careers creates all the wrong incentives. This bill attempts to remove the financial incentive for remaining in Congress for more than twelve years.

Members will continue to contribute to Social Security at 6.2% of their gross salary up to the pre-determined indexed cap, and be eligible to receive benefits upon retirement and reaching the age of 62. The legislation does not change this benefit, which is the same for all Americans.

This bill completely eliminates the defined benefit plan (pension) for Members of Congress who enter after the effective date (January 1997). Members who are vested and have already accrued pension benefits may no longer contribute to their pensions. But please note, no contributions that already have been made to their pensions will be deducted from their benefits. Senior members will not lose one penny of benefits which they have already earned. Members who have contributed to their pensions, but are not yet vested will be allowed to contribute only until they are vested.

In addition, all Members will be able to contribute up to 10% of their earnings to the Thrift Savings Plan, but not exceeding the limit specified in the tax code by

[7] Carolyn Merck, "Brief Comparison of Retirement Eligibility and Benefits for Members of Congress and Executive Branch Personnel," CRS Report for Congress August 9, 1993: 1.

the IRS ($9,240 in 1994). The Thrift Savings Plan is equivalent to the 401(k) plan found in the private sector. Members who participate in FERS will receive Government matching to their contributions up to 5% for up to 12 years of service in Congress. Thereafter, Members can continue to contribute up to 10% of their earnings, but the Government will no longer match any contributions. Members of Congress that participate in CSRS have served more than 12 years, and therefore will not receive Government matching to their contributions. Such contributions already made for Members who have served more than twelve years will not be taken away.

This plan is based on trends in retirement plans that have emerged in the private sector, with a little something extra: a financial incentive for term limits. As a firm supporter of term limits, I believe we need to change the incentives of the current congressional pension system. My legislation suspends the government match to Members' contributions to the Thrift Savings Plan after the Member has completed twelve years of service. By limiting the length that retirement benefits available to Representatives are accrued, we would discourage career politics and encourage would-be citizen legislators.

It is significant that in our quest for reform, we continue to attract a quality citizen-legislature, because we all know how taxing this job can be. While I absolutely agree that Congressional service needs to remain an attractive pursuit, and should therefore offer appropriate benefits, we all know that no one decides to run for Congress based on the lucrative pension system. However, at some point it becomes an incentive to stay in Congress for as many terms as possible.

The Founding Fathers never intended for public service to be a profitable career. Indeed, the framers of the Constitution represented the best and brightest of their communities—all successful businessmen, farmers, laborers, and professionals long before they entered politics. They did not enter politics to enhance their personal wealth, they entered politics to serve, at significant personal risk and cost.

Public outrage with career politics and bloated government is at the root of popular support for term limits. Short of outright term limits, limiting congressional pensions is the best way to get back to the Founding Fathers' vision of a citizen legislature. It represents a modest attempt to return Congress to the citizens we are supposed to represent.

Because we have all promised change and reform; because many of us have pledged to reduce the size and scope of the federal government; and because we need to continue this trend of accountability and fiscal responsibility, we must change our pension system.

I am not implying that my legislation is the only way to reform the Congressional retirement system. There are other proposals that merit review, such as the proposals introduced by Representative Goodlatte and Representative Coble. While I believe that Representative Goodlatte's legislation is a step in the right direction, I feel Representative Coble's bill is a draconian approach that will resultingly punish public service. My legislation, on the other hand is a balanced approach that simply parallels trends in the private sector. I have thought about this a long time and believe this is the most logical approach.

I thank Chairman Mica for recognizing the necessity for Congress to begin this debate and allowing me to testify before the Committee. This hearing alone marks a sea-change in both the actions of Congress and the attitudes of the American people towards Congress.

Mr. MICA. I thank the gentleman. And I thank all of our witnesses for their testimony and also for taking time to explain their legislative proposals to the subcommittee this morning.

I have a couple of quick questions, first for Mr. Coble. I noticed in your resolution you suggest that current Members of Congress do not get COLAs. One of the problems that has actually precipitated the criticism of former Members is that they have gotten these repeated COLAs. You don't address the question of COLAs for former Members of Congress who have already retired. How would you suggest we approach that problem?

Mr. COBLE. Well, I didn't address it, Mr. Chairman, but I would not be adverse to doing so. I would be very flexible to that end. I guess I did not direct attention there because as the gentleman from Florida said, when you start delving into pensions that are al-

ready vested I think that becomes more rigid and more inflexible, as opposed to those Members who are not yet vested.

Mr. MICA. I thank you. Mr. Miller, if we adopt term limits, do you believe Members of Congress should then be excluded from the retirement system?

Mr. MILLER. No, I don't. We want to attract the best and brightest into Congress. So I think we need to give a pension similar to what the private sector is offering—at least the big corporations.

My bill, which I did not mention in my opening statement, caps Federal Government's matching to your TSP contributions after 12 years. Citizen legislators should come up and serve a maximum of 12 years and then return to their community. After 12 years, under my proposal, you can continue to put your money into the Thrift Savings Plan, but there will be no Federal match for it. So I think we should allow people to have a pension because we want to attract the best and brightest.

Mr. MICA. I thank you. Mr. Goodlatte, your bill doesn't change the current law that allows Members of Congress to opt out of the FERS system, which is the current system that we're under. Other Federal employees are not given the same option. I've been looking at some legislative proposals that may give them that option also. What is your opinion about that, and is there any reason that you didn't allow them the same privilege that Members of Congress have?

Mr. GOODLATTE. I would have no objection, and certainly be willing to work with the chairman on this particular legislation if the committee would go forward with that. I think they should be parallel and we would certainly want them to be parallel.

Mr. MICA. Well, I thank you for your response. We have Congressman Minge with us, who wanted to associate himself with certain remarks of the panelists and then was going to depart.

Mr. MINGE. Thank you very much. I appreciate the opportunity to appear here briefly.

I would like to emphasize that a bipartisan group is also advocating pension reform for Members of Congress, and many of our proposals are parallel to what is being heard here. I will not go into that, except to say that I'm appearing not just on my own behalf, but also on behalf of Congressmen Dickey, Klug, Castle, Shays, Deal, Barrett and a couple of others who are stretching across the aisle to try to work on a bipartisan basis so we can move together, rather than as individuals. Thank you.

[The prepared statement of the Honorable David Minge follows:]

PREPARED STATEMENT OF HON. DAVID MINGE, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MINNESOTA

Thank you for the opportunity to testify before your subcommittee.

Mr. Chairman, a "Contract with America" or any genuine effort designed to restore the public's faith in government is rendered worthless if one group—the American people—believes the other one—Members of Congress—is getting a sweet deal. In the last several months stories and reports have highlighted the disparities between Members' pensions and those of other federal employees. The fact is, Mr. Chairman, that even though reforms were made to the pension system in 1983, Members still have an unjustifiably better system in place.

I am joining with Congressman Dickey, Congressman Shays and other members of the Bipartisan Reform Team to propose straightforward changes to the pension system. At the start of the 105th Congress, we would like to see Members' pensions be equal to the pensions of all other federal employees. The benefits computation

formula, employee contribution amount, social security payment, and age and service requirements should be the same for Members regardless of when they were elected to Congress. Our proposal would not affect retroactively any Member's pension.

Specifically, on the first day of the 105th Congress, all Members would begin to accrue at the federal employee rate for each year of service. Currently Members accrue 1.7% under FERS and 2.5% under CSRS. Members under FERS would lower their contribution percentage from 1.3% to 0.8%. The lower contribution percentage is what other federal employees pay under FERS. The accrual rate for Members under CSRS would be reduced to that of federal employees under CSRS beginning in the 105th Congress.

A change in age and service requirements would also take effect and would not apply to Members eligible to receive an annuity under the current rules. Members would only be eligible for full pensions at age 62 with at least 5 years service; at age 60 with 20 years of service; or at age 55 with at least 30 years of service.

Today, Members are eligible for a full pension at any age with 25 years of service; and at age 50 with 20 years of service. There is a clear disparity in the age and service requirements and we intend to remedy it.

Mr. Chairman, our proposal is currently being drafted by legislative counsel. We feel strongly that Members should not get special treatment. We will insist that our proposal not punish Members by handicapping their retirement. Our bill will only be prospective and will not impact any benefits already earned. Benefits already earned would be merged with those to be accrued under our proposed system. We believe our bill is fairer to all federal employees and will go a long way to restore the public's faith in government.

Again, Mr. Chairman, I thank you for the opportunity to share my views and look forward to working with you and your committee on this important reform.

Mr. MICA. I appreciate the gentleman from Minnesota's comments. Without objection we will make your comments and the comments of the other Members part of the record. And I appreciate also your cooperate effort in trying to help us reach some real conclusions here, to try to get the system into some corrective nature.

I would like to yield at this time to the chairman of the full committee for questions, Mr. Clinger.

Mr. Clinger has no questions. I'll defer now to the ranking chairperson of the full committee, Mrs. Collins.

Mrs. COLLINS. Thank you very much, Mr. Chairman. Mr. Coble, your bill, as I understand it, would make the newer Members of Congress who are not yet vested ineligible to participate in a retirement program.

Now, I think that being a Member of Congress is a full time job and it just seems to me that if we want Members to give their full time and attention to their responsibilities in Congress that we should also want them to participate fully in a retirement system. You don't agree with that?

Mr. COBLE. No.

Mrs. COLLINS. Just absolutely don't?

Mr. COBLE. No, Mrs. Collins, I'm sorry. We can agree to disagree agreeably on that issue.

Mrs. COLLINS. Well, if you notice, I didn't give you a zinger back on that one. We're OK.

Mr. COBLE. I didn't mean to imply that you were being disagreeable. But I think in many instances in this body oftentimes we find ourselves at odds with one another, and I think the secret is to do that with a smile on your face, as you just did and as I just did.

Mrs. COLLINS. Fine. Mr. Goodlatte, you mentioned in your opening statement that your legislation would affect all Members who

are elected after 1990. But I have your bill, H.R. 575, and it doesn't say that in your bill.

Mr. GOODLATTE. If you would allow me, what I would tell you is that this bill was originally introduced in the last Congress, and the savings provision does provide for any annuity, or portion of any annuity, computed based on service performed before the effective date of this Act shall be——

Mrs. COLLINS. If you'll excuse me, the bill is dated January 19, 1995.

Mr. GOODLATTE. I understand. When we reintroduced the bill we should have corrected that to indicate—you see, when it was introduced in the last Congress it would have applied in that fashion because the effective date would have only covered people elected in 1992 and thereafter. Now it would need to be amended to reflect 1992 and thereafter, because now it would effectively only be 1994.

So the gentlewoman has a very good point, and the bill would need to have that correction made to it.

Mrs. COLLINS. On Tuesday witnesses testified, and in 1986 the Congress and the Republican administration employee group spent 2 years, as Mr. Moran has said, developing the proposal to reform the civil service retirement program. Your bill makes the contribution rate for Members, Mr. Goodlatte, under the FERS program, the same as Federal employees have to pay.

It also equalizes the agency contribution for Members' pensions with that that applies to employee pensions.

I notice, however, that the contribution rate is applicable to congressional employees are left unchanged. It appears that your bill does not affect congressional employees at all, and it just appears only to affect a Members' pension.

Could you tell me why you wrote your bill in that manner?

Mr. GOODLATTE. The effort here was to say that Members of Congress subjecting themselves, as with the Congressional Accountability Act, to the same law everybody else is subject to, would be subject to those laws.

I would have no objection whatsoever to having the same parallel for congressional employees as well, but I leave that to the committee's discretion whether that should be added to the bill.

Mrs. COLLINS. One other question for you, Mr. Coble. Let me ask you, I have a concern because I know that you've been here a while. And I wonder if you've been here more than 5 years in the Congress?

Mr. COBLE. I'm in my 11th year.

Mrs. COLLINS. You're in your 11th year. And while it just seemed kind of strange to me that those of us who have been here longer than 5 years would have any kind of bill that would deny a pension benefit to Members who have not yet vested, because that would eliminate those of us who have been here that period of time. It wouldn't be quite fair to those who are the newer Members.

I'm sure you have a good——

Mr. COBLE. Well, it has not that unfair to me because I'm not a beneficiary of the pension plan. So I don't think I'm being in any way hypocritical.

Mrs. COLLINS. You're not a beneficiary—you did not choose to take a pension?

Mr. COBLE. I will not take the pension.

Mrs. COLLINS. And they don't take any money out of your pay for pension?

Mr. COBLE. Indeed they do not.

Mrs. COLLINS. All right, thank you, you've cleared that up for me. Thank you very much. Mr. Chairman, I have no further questions at this time.

Mr. COBLE. Mr. Chairman, may I reply to Mrs. Collins' first question?

Mr. MICA. Yes, go ahead.

Mr. COBLE. I don't mean to imply, folks, that I'm indifferent to those people who are here, because I think on balance most of the people in the Congress are good people. And Mrs. Collins, if we had the luxury of a credit balance, I probably wouldn't be so hell-bent on this reform path that I pursue.

But, folks, we're in trouble fiscally in this country. And I just feel like that maybe looking at the Members' retirement plan might be a convenient first step that would be favorably received by our constituents.

Mrs. COLLINS. Mr. Chairman, there is also a trust factor here. We made a legitimate contract with Federal employees, and with congressional employees, and I think that we ought to keep that. I think the trust factor is something that every American would want us to do. We're about a country that believes in openness and honesty. And when we tell an employee, Federal or congressional, which both seem to be, that we're going to have a contract with them for their retirement benefits, we ought to be about the business of keeping that. I thank you, Mr. Chairman.

Mr. MICA. I thank the gentlelady. And I also thank Mr. Coble for his comment that Members of Congress are good people, because I know that's inclusive and it would include the chair even for holding this hearing.

Mr. COBLE. It would certainly include the chairman, Mr. Chairman. [Laughter.]

Mr. MICA. I would like to yield now to our vice chairman, Mr. Bass.

Mr. BASS. Thank you very much, Mr. Chairman. Mr. Coble, I would just like to remark on your comment at the end of your testimony that you said, that the introduction of this legislation would not make you a candidate for Mr. Popularity. You don't need to be a candidate for Mr. Popularity because you won that election years and years ago. So I would commend you for introducing this bill because I think it's important.

But I would like to associate myself with the comments of the ranking member of the full committee, Mrs. Collins, in asking you why you think that me or Mr. Mascara or somebody who is elected to Congress after 1990 really doesn't deserve any pension at all; whereas somebody elected prior to that date, who is working just as long hours and doing the same kind of work, side-by-side, deserves something different?

Mr. COBLE. Well, that was a judgment call that I made when I drew the bill. You may disagree with that, but that was my call. And I think I had to draw the line at vesting. I think I would be skating on dangerously thin ice if I directed attention to a bill that

would cover everyone in the Congress. I just don't believe that would fly as a matter of law.

I do think that is not an unsound approach to focus on those who are not yet vested.

Mr. BASS. Thank you, Mr. Coble. Mr. Goodlatte, it's my understanding that your piece of legislation essentially brings Members of Congress and staff into parity with the rest of the Federal employee work force?

Mr. GOODLATTE. Well, as has been noted by the ranking minority member of the full committee, it only applies to Members of Congress. It would certainly be something to consider whether it also should apply to the congressional staff.

But it does reduce congressional employee pensions for those, with an amendment, elected after 1990, and would bring them into parity with other Federal employees. That is correct. I think the disparity that we have right now is not at all justifiable given our commitment to being accountable and being brought into parity with others with other legislation that we passed recently.

Mr. BASS. Thank you. And one last question, which you don't have to answer unless it affects any of the four of you. When you ran for election to Congress, did any of you ever think for 1 minute about your retirement or what it was? Did you know? Was that an issue in your campaign?

Mr. GOODLATTE. If I might respond to that. I was too busy campaigning to wonder whether I was going to be here at all and certainly was not affected by the idea of what this pension would be. But I think once you get here and find out that there is a disparity, it is something that we should pay attention to because I do think it does not set the right example.

Mr. MINGE. If I may respond, as well. It was not a consideration for me, but I can tell you that with respect to the voters, they brought it up quite often. Not so much regarding what I thought my pension would be, but rather did I think the right course of action would be for those already in Congress.

Mr. COBLE. Mr. Bass, in my case I made it an issue perhaps, in applying retrospective hindsight, maybe foolishly so. I was opposing a one term Congressman who had not yet vested, so it was no issue.

But as a State legislator I came across some information 1 day, during which time I became thoroughly educated about what I thought was the inexcusable lavish pension that was on line in the Congress. And it was a self-appointed issue that I created. And as my friend says, once it began being discussed then constituents picked up on the idea. I think this has happened more notably in the past 8 to 10 years.

Mr. BASS. Thank you, Mr. Chairman.

Mr. MICA. I thank the gentleman. Now, I would like to yield to our ranking subcommittee member, Mr. Moran.

Mr. MORAN. Thank you, Mr. Chairman. Let me begin with my friend, Mr. Miller. You've done a lot of work on this Dan. I like charts and so on, in your congressional testimony.

On page 6 you say that the current retirement system encourages Members to stay in office for a minimum of 30 years, or up

to age 62. Since you've done so much research, what is the average length of service for the current Members of Congress?

Mr. MILLER. I'm not sure you could calculate an average. I don't know. We have some people like Jamie Whitten who just retired after close to 50 years in service. I'm not sure what the average is but think there is high turnover.

Mr. MORAN. I think it's a fairly short period of time, on average. In fact, I had heard that the majority now have been elected since 1990. Is that possible?

Mr. MILLER. I think 50 percent of the House Members may have been since 1990. The few that only stay here for 2 years or 4 years have nothing when they leave here. At least they should be able to have their 401(k) savings. Unless they do not participate in it, that's going to be their pension.

So that's the reason I support the 401(k) concept and I support it throughout industry.

Mr. MORAN. But that's not a new concept. That's what we have now, the FERS system.

Mr. MILLER. Right. But we have both the 401(k) and the pension plan, not just 401(k).

Mr. MORAN. Well, I understand that. But in 1986 we incorporated the plan that we applied to Federal employees, which was basically a 401(k), so that you contribute to a retirement system.

Now, one of the problems with that system—and I'm sure you'll recognize this, particularly being on the Budget Committee—is that the contributions to that system are outlays.

Mr. MILLER. Right.

Mr. MORAN. Whereas, the prior system is budget authority, but not outlays. No money is going out of the Federal Government. So CBO doesn't score it as an outlay. It doesn't increase the deficit. It's an intra-governmental fund transfer, but no real money changes hands. It's an accounting mechanism. But it is not scored, as it should not be, for outlays.

And that's the difficulty of going from this system to that other system. In the 401(k) you're taking the taxpayers' money and you're taking it out of the government so that it doesn't finance the deficit. And essentially the CSRS plan was financing the deficit. We put in treasury bills in place of money. But with a 401(k) we send money out of the general account.

But you contend that we have this encouragement to stay 30 years, and yet the average length of stay of staff members is, what, about two-and-a-half terms, or something, at this point. So it can't be a terribly strong encouragement, which seems to bolster the points that have been made that Members aren't in public service for the retirement plan and they aren't staying because of the retirement plan, either.

Mr. MILLER. Well, the debate of term limits we're going to have later on this month. I am a believer of term limits and I support the 12-year term limit.

But your earlier statement about budget authority now versus later on, is what is getting us into the problem. It's a problem that we're going to have to address about Social Security as it starts running into financial trouble in the next century.

And this FERS plan that we were talking about in earlier statements, has close to $1 trillion of unfunded liability. We've had to create the pension guarantee program of the Federal Government because corporations have had troubles with this unfunded liability. It's a dangerous thing sitting out there, and we're putting our head in the sand if we don't start addressing it in the near future.

I agree that we need to look at the full budget implications of the fact that when you do a 401(k) it goes right into this year's budget. So I agree with you on that point.

Mr. MORAN. And with regard to the unfunded liability, and I said in my opening remarks, the new plan that we set up to deal with the prospective unfunded liability. And the plan is fully funded now.

And, in fact, we're taking in $62 billion a year and sending out $36 billion. And so when those plans converge, CSRS and FERS, because the FERS is what is growing and the CSRS members are declining, we're not going to get into a situation where any problematic unfunded liability would result. And, in fact, it would cause problems with our deficit imbalance if we were to take money out of the general fund, presumably to fund this unfunded liability.

And the unfunded liability figure is based upon an assumption there are going to be inflationary increases, and with the Federal Government that you'll have any number of pay increases, which haven't even happened in the last few years. You know, the COLA increases, for example, are built in to this assumption of this unfunded liability figure. And we cut the COLA, the cost of living increase, as you know, and we'll probably make that permanent beginning in April instead of January.

So we will get into those more technical factors later. But there was one other question that I wanted to ask, since so much research has been done by all of you, and any of you can provide the figures. How does the Members retirement system match up to what you would be getting if you were an executive in a private corporation?

Mr. MILLER. Well, there are several outside consultant groups that represent the retirement industry, and hopefully you will have some of those type of experts to testify. And I've talked with some of these industry experts and those at CRS. It's very difficult to generalize about pensions in general. As far as 401(k) plans are concerned—and if you see a graph in one of my charts on page 4 it shows how there has been a decrease in the pension systems versus a dramatic increase in the defined contribution plan, which is a 401(k) plan, in the past 5 years. And that trend is going to continue.

But there are no really, hard statistics. I'd rather let the experts do that. We've got some material from them. But they're going to tell you that it's going to be hard to totally generalize. But there is no question that 401(k) is the direction that pensions are——

Mr. MORAN. I understand that. But isn't it true that most private corporations provide a pension, 95 percent of which is fully funded by the corporation, without the employees required share; and that they supplement that private pension with the Social Security system. So that most people in the private sector, if we were executives in the private sector we would be getting two sources of re-

tirement, the corporate pension plan—which in 95 percent of the cases is going to be funded by the corporation entirely—plus Social Security, which would give you built in cost of living increments.

Mr. MILLER. Well, the percentage of companies that actually offer a defined benefit plan is approximately 20 percent, but we'll get the number. But as Mr. Bass said, up in New Hampshire, most people are with the General Motors and the Ford Motor Co., and have access to a defined benefit plan.

The vast majority of Americans don't even have a pension. They have IRAs—before I came to Congress I was able to participate in an IRA plan, and it was the only thing I had. I was in a small company, of which I was one of the owners. We did not have a pension plan; we did not even have a 401(k). The majority of Americans don't have either, unless they are with a big corporation.

And the big corporations have gone through their downsizing. They've had major financial problems, as we know, because of that unfunded liability. Some of them have basically been on the verge of bankruptcy, without having the resources to pay for those benefits, and that's the reason the Federal Government had to stand in.

So are we more generous or less generous than private sector executives? I think it's going to be hard to find a comparison. But there is no question that we're more generous than Federal employees. I think Mr. Goodlatte's bill or Mr. Mica's bill is definitely the right step and the first step we should take.

Mr. MORAN. Well, I'm not sure that our goal should be to search for the lowest common denominator for Members' retirement system. My time is up.

Mr. MICA. I thank the gentlemen, and I'd like to defer now for the purpose of questions, to Mrs. Morella.

Mrs. MORELLA. Thank you, Mr. Chairman, I notice you've got a long list of panelists for the second panel, and then the third panel, too, and many of our colleagues are waiting. I'm just going to ask one question.

First of all, I want to thank you for preparing the legislation, for the kind of commitment you've displayed. We may agree or not agree and, of course, Mr. Coble, your proposition really is term limits, isn't it? If there isn't anything beyond a certain period, or anything for them they're not going to want to stay on very long I would think. I think it becomes a consideration ultimately.

But I'm just wondering, could you comment on whether or not there would be any savings in your plans? I'm curious about whether it's motivated because of savings, whether it's principle, whether it's symbol? Could you tell me if there will be savings, as you've looked at it? Is this one of the motivations and, if so, what would it be?

Could I start off with Mr. Goodlatte?

Mr. GOODLATTE. If I might respond to Mrs. Morella. The Congressional Budget Office hasn't scored my bill as of yet to determine what those savings would be. But, yes, there would be a reduced government contribution corresponding to the fact that the pension itself would be reduced. And I think it would be true, and I'll let them speak to it, I think it would be true of all these plans.

And that certainly is a motivation. The taxpayer expects to see savings and the taxpayers' complaint about high congressional pen-

sions is that they're having to foot that bill. So as a result that is certainly motivation in my case. I think it's also important that we send the right message regarding not according ourselves any benefits that are superior to others who are in government service. So, as a result, I think that I have both of those motivations.

Mr. MILLER. I would agree with Mr. Goodlatte. The total pension system, as Mr. Coble was saying, costs in the $15 to $20 million a year range for Members of Congress only. So the total dollars saved are obviously not going to balance the budget. But it's symbolic as we start reducing the size and the scope of the government in Washington. We're going to be having to make cuts in a number of programs, reducing the spending, and we have to start with ourselves.

Next week we're going to have a major rescission package that is going to have a lot of cuts, we're eliminating programs. And that's the reason I think it's so important that we start with ourselves and say we're no different than all other Federal employees, as a minimum. Then I think that the sound idea is to go to the 401(k) concept.

Mrs. MORELLA. So you see it mostly as the concept or the perception of the public with regard to their public servants, and not so much as a way to save money that is going to bring us toward a balanced budget in any way, or be any significant amount of savings.

Thank you, Mr. Chairman.

Mr. MINGE. I would just like to add that this concept of shared sacrifice is very important. When we're talking about cuts in services for the general population, for school lunches or something else that is on the table at the same time we, as Members of Congress, have to take a commensurate cut in the benefits we receive.

But we should not be punitive. To say that as Members of Congress we should somehow be treated as second class citizens is wrong, as well.

Mr. MICA. I thank the gentlelady and yield at this time to Mr. Mascara.

Mr. MASCARA. Thank you very much, Mr. Chairman. I would like to go back to the issue of the reform that took place in 1986. And I commend you gentlemen for the work that you've done in attempting to bring all of this to light and attempting some reform.

But what happened to the reform that took place that said that over a 35 year period, that somehow we were going to make the Civil Service Retirement System whole? And what are we going to do with the $340 billion surplus—and I understand there is another $26 billion surplus that will be added this year.

And the gentlelady from Maryland asked about the savings. And I'm interested that if we're going into a major reform that affects people's lives who have worked a lot of years, and the years when they were young and could have gone some place else—especially the gentleman who wrote a letter that was read at the last committee hearing that said he gave his best years to his government, and planned for retirement. Now, somehow, this government, an uncaring government—and I agree, Mrs. Morella, some of this is sanitized political rhetoric. I don't think that we can look at true reform unless we have all of the numbers. I'm sitting here without

a budget and you're asking me to make decisions that affect people's lives, people who have worked for this government for a lot of years.

Can you tell me the kinds of savings that are going to be effectuated as a result of these cuts? Can you tell me that? Can you tell me where that money is going to go? Is it going to go for a tax cut? Is it going to be specified that it be used for deficit reduction?

I hardly think—you know, I'm not a young kid anymore, and I've lived a long time. And I'm not here for a pension. I didn't come here for a pension. But what is going on here upsets me, that this rush, this mad rush to do something, to tell the American people that we're no different than anybody else, that's fine. That sounds good, and I'm sure that plays well back on Main Street in the town you live in. But as an accountant, none of this makes any sense. I think we have an obligation to the millions of people who have worked for this government, who have given their life to this government, to make sure we're doing the right thing. I agree we need to do something. But not in the timeframe that is being set by this Congress.

Mr. MILLER. Mr. Mascara, this hearing isn't on Federal employees' pensions—all of our bills are on specifically just Members' pensions. I mean, to my knowledge, I've been working on reforming just our pensions, and not the——

Mr. MASCARA. I appreciate that.

Mr. MILLER [continuing]. Total system. And I commend you. I think we need to look at it and I'm looking forward to the reports coming out of this committee. But, I mean, we're here to say that we should not have——

Mr. MASCARA. I understand that.

Mr. MILLER [continuing]. A different pension than other Federal employees.

Mr. MASCARA. I'm talking about the whole picture, because we're talking about saving money, we're talking about reform. You gentlemen did reform in 1986, and all of a sudden that reform is no longer good. I mean, I don't understand.

Who is responsible for investing the moneys that are paid into this fund? Who has the fiduciary responsibility to make sure that these funds are being invested properly, and what rate of return are we getting on the money that we're putting in and that the employees are putting into this fund? Does anybody have those answers?

Mr. GOODLATTE. I think those are excellent questions, but I would join the gentleman from Florida in saying that as you work through that, by all means make sure that we don't set the example of saying that somehow Members of Congress are exempt from such a process.

And that's my bill—my bill is forward looking and says there will be savings in the future with regard to congressional pensions, but let's make sure first and foremost that we don't say that Members of Congress should be treated differently than the many, many Federal employees that are in your district, in my district and most of the other people in this room.

Mr. MASCARA. Well, I've worked long and hard. I've only been here 2 months. I go home many nights at midnight. I'm not going

to apologize to anybody for anything I might get. There aren't any perks here, they're all gone. So nobody can accuse me of taking a perk.

But I'm not going to apologize for my job as a U.S. Congressman. I'm proud to be here. I work hard. And I am different. When I'm up there at midnight, I don't see anybody around. So why shouldn't we be considered in maybe a different light? I work 16, 18 hour days. So don't tell me I should be treated on an even keel with everybody. That is rhetoric. There is a difference, and you have to look to see the difference. If there is no difference, then I'm going home. I don't need to be here.

Mr. COBLE. Mr. Mascara, if I may put my oars in the water, I'm not sure that we are all that different. Many times I'll call people back in my home district, small businessmen, small businesswomen, at 9 and 9:30 at night and they're still there working, and they've been there probably since 6 o'clock that morning.

Mr. MASCARA. Thank you, Mr. Coble.

Mr. COBLE. So I'm not so sure that we are that much different in our hard work.

Mr. MASCARA. Well, maybe not in that light, sir. I worked as hard when I was in the private industry than I am in government. The point I'm trying to make is let's not strip the last vestiges of dignity that the Members of Congress should have. And if you're not proud to be a U.S. Congressman then you shouldn't be here. There is a little bit of a difference.

Mr. COBLE. Well, I don't think we're doing that.

Mr. GOODLATTE. Not at all.

Mr. COBLE. I plead not guilty to that.

Mr. MASCARA. OK. Fine.

Mr. GOODLATTE. Mr. Mascara, if I might——

Mr. COBLE. And I support term limits, too.

Mr. GOODLATTE. We're glad to have your support. If I might respond to that as well. There are many people, not only in the private sector, but also Federal Government employees who work hard and I don't think we're in a position to judge on that point. I'm very proud of my service in the Congress. I'm very honored to have the opportunity to be here. But I think that the public expects us to treat this position in such a way that we do not appear to be treating ourselves preferentially with others. And while we do put in very long hours, we do so because we are motivated to do so, and not because of these pensions.

And I think what we should do is say that that's not the point. We are perfectly willing to have the same pension as another government employee.

Mr. MASCARA. I'll just make one final point, Mr. Chairman. We're going too fast. Let's not make that mistake. There is a lot at stake here for everybody, the employees, current and past employees and future employees. There is enough time here. We can sit down and debate. I think we're on the right track. Let's do it right and let's do it proper.

Mr. COBLE. Mr. Chairman, if I may say to the gentleman from Pennsylvania, sir, I've been on this track since 1985. I don't think that's going too fast.

Mr. MICA. I would like to thank our panelists, and each of you for your legislative proposals and for discussing them with our subcommittee this morning. This is a very sensitive issue for all of the Members of Congress and for the American public. We want to address it fairly, honestly and openly, and have a good discussion about it. You've provided that forum and those vehicles. So we appreciate your participation, and also Mr. Minge. You can see there is a wide diversity of opinion on this issue amongst our Members. I thank you and I'll excuse the panel at this time.

I don't see all of the freshmen panel here, but I would like to call on Mr. Murtha, who is in the next panel, if he would come up. He is a senior Member of Congress, and has served many years with distinction. Mr. Murtha is from Pennsylvania. Mr. Murtha, I know you have been waiting patiently. We would like to go ahead and have your testimony at this time.

STATEMENT OF HON. JOHN P. MURTHA, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF PENNSYLVANIA

Mr. MURTHA. Thank you very much, Mr. Chairman, and distinguished members of this committee. I've been involved in this process because of my position on the Legislative Appropriations Subcommittee for 15 years. Let me give you a little background of what we've gone through over the years.

First of all, 1920 is when they first established the Civil Service Retirement System. Congress was not included. The legislative body wasn't included until 1946. Interesting thing. They tried to include them in 1942, there was such an uproar they had to repeal it and finally enacted it in 1946.

But 1984, because of the excesses, because of the problems we had under the civil service retirement plan, we put everybody in Congress, that works for Congress, under the Social Security system. And at that time we decided that we had to get rid of the excesses and reform the overall retirement system.

We took 2 years. We looked at big systems. We looked at little systems. We looked at every retirement system you could find. And we didn't pick the biggest or the best. We didn't pick the smallest or the worst. We picked what we felt was a good retirement system for anybody that works for the legislature.

We talked to consultants, benefit experts, actuaries, economists, personnel directors of major firms. I mean, we were across the board. Two years we studied the system. Our objective was to design a system to modernize the Federal retirement system, to meet the work force management needs of the government, and offer portable benefits.

Now, this is an important point. The old system had no portability. If you worked for the government before, even if you were vested, you had no benefits. You left the government and you had absolutely no benefits until we put us under Social Security. At the same time we added the thrift plan, where we could donate and contribute to the thrift plan.

Now, congressional research tells me that after 8 years, half the Federal employees are under the new system. So it's working. What we did then is working out. Half are under the old system, half are under the new system.

Now, the benefit accrual rate we changed. We thought it was too high. Under the new system, which we call FERS, we went from 2.5 down to 1.7. That's in the legislative branch. And why did we leave it at 1.7? We left it at 1.7 because we wanted to front load it. We thought it was important that Members, because they only stay an average of between 5 and 8 years, ought to have an opportunity to have a little better pension plan and, of course, they go on back into industry or private practice or something like that.

Now, that's for the first 20 years. After 20 years, actually the accrual rate drops to 1 percent, which is less than the Federal employees. So the congressional plan is actually less than after 20 years of the other Federal employees. They go up to 1.1 and we go down to 1 after 20 years.

We feel we removed the excess by doing this. We scaled back the inflation protection of the formula in the cost of living. Instead, any COLA over 3 percent, you got 1 percent less. And no one in the congressional plan gets any COLA until they're age 62. We saw all kinds of stories about the amount of money that people were getting. Actually, some Members of Congress retired, some members of legislative branch retired, getting more money than people working. We obviously thought that was excessive and we changed it, we think, dramatically.

One of the reasons we felt it was so important, the average life of the staff, legislative staff—this doesn't count the support staff, I'm talking legislative staff—3 years, less than 3 years the average person stays here. The average Member of Congress, if you don't include the new group who just came in, is 8 years. Four years—I mean, we talk about term limits, term limits are 2 years. And everybody that works for us goes out in 2 years.

So if Members have this kind of a turnover, there is absolutely no job security at all for the people working for us. And I don't have to tell you stories about people that work for us on the Hill. They work long hours. They are underpaid. They have to travel an average of an hour to get to work because of the quality of life, they don't make enough money to own something that is close in.

I know not long ago I was trying to get rid of some of the people in the Navy Department that work in here close, and I said, "Look, we have to move some of these folks out a little bit"—and Mr. Moran doesn't like to hear me tell this story—but I said, "Show your hands here. How many people travel an hour-and-a-half to work everyday?" Over half the people in the room raised their hands at how far they have to travel to work. And they're not making big salaries. And that's the concern I have about what we're doing in the pension plan.

Now, how many Members of Congress—if you read the papers you would think that there are thousands of Members of Congress retired and on retirement. Three hundred and eighty-one Members of Congress are living and on retirement, 381, that's all. It amounts to $15 million a year. So we're taking a chance and punishing the people, a professional staff who have worked here for years if we go to a plan that some folks are proposing.

And I understand their proposal. I have to talk about Fred Mormon, who was a former executive director of the Appropriations Committee. This guy comes to work at 6:30 in the morning and he

leaves after we do, because we leave when the last vote is over and most of the staff are here after we're gone. And, of course, the long hours the committee staff has to work I don't need to talk about, with the preparation of legislation, the weekends that you put in.

And what Mr. Mascara said is absolutely true. And I know John Mica has been involved for years in politics. You're not home when you go home. You're out working the district. And most Members stay 8 years or less.

My recommendation is a couple of things. One, that we don't rush into changing the system. Two, that we consider instead of some of the recommendations I've heard, we consider a flat COLA. Now, this proposal has been made before. I've mentioned it to a number of people and most of them don't like the idea. I've tried to get the savings and the amount of money it would save.

People, I think, are entitled to the retirement plan as we did it in 1986, as we redid it. I don't think we ought to change it. I think we ought to grandfather everybody in, including the folks who came in this year, into the retirement system. Then I think, instead of some of the recommendations I've heard, is consider a flat COLA.

Now, what do I mean by a flat COLA? I'm not talking about a percentage COLA. I'm talking about at the lowest level a CPI makes $500, then everybody ought to get $500. I think this would be a unique experiment if we're going to change the retirement system—and I don't recommend we change it—but it would be a unique experiment for a small number of people, compared to the 3 million people that work for the Federal Government. We have 19,000 that work for the legislative branch. And we could see how it works out.

For instance, the person making $130,000 a year, as Members of Congress do, should get the same amount of CPI as the Member that is making $10,000 when they're retired. And I think that is something that we'll have to consider in the future when we look at the COLA situation.

I don't remember exactly when COLA started, but I know it has caused a tremendous problem. It has helped an awful lot of people at the lowest level. But to me, for us to get such a high COLA is out of line with the benefits as they should be.

So if we just—if we keep it exactly the same as it is, we grandfather people in, and we look at the possibility of having a flat COLA, I think it may solve our problem.

And with that, I would be delighted to answer any suggestions or questions that you have.

[The prepared statement of the Honorable John P. Murtha follows:]

PREPARED STATEMENT OF HON. JOHN P. MURTHA, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF PENNSYLVANIA

In 1920, Congress enacted the Civil Service Retirement System for Federal workers but did not include legislative branch service.

In 1935, Congress enacted the Social Security System for private sector employees, but excluded all Federal and congressional service. Public sector employees excluded because governments had retirement plan in place.

In 1946, Congress added congressional and some legislative branch staff service to the Civil Service Retirement System.

In 1950 Congress made Social Security available to State and local government workers who were not covered by a pension plan, and in 1954, Congress made Social Security coverage available to State and local government that had pension plans.

Effective January 1, 1984, Congress required that all Members of Congress be covered by Social Security. In addition, Federal Civil Service workers first employed by the government on or after that date were covered by Social Security.

As a result of Social Security coverage for Federal congressional employment, we closed the existing Civil Service Retirement System to new entrants as of December 31, 1983, and designed an entirely new Federal Retirement System to coordinate with Social Security.

In 1986, after two years studying and analyzing modern retirement system designs, we completely reformed Federal and congressional retirement with the Federal Employees' Retirement System Act of 1986.

We reviewed the retirement plans of medium and large private sector employees all over the country; we consulted employee benefit experts, actuaries economists, and personnel directors of major firms. We considered a wide range of different retirement system designs before agreeing on the present system.

The objective in the design of the system was to modernize Federal retirement to meet to workforce management needs of the government, offer portable benefits through the inclusion in the new system of a defined contribution component (the Thrift Savings Plan), and bring the system into line with private practice.

Any members of the retirement system who had completed 5 years under the Civil Service Retirement System when the new Federal system was designed could stay in that system, plus Social Security, or switch to the new Federal Employee Retirement System. Everyone working for the legislative branch hired after 1983 are in the Federal Employees Retirement System.

The Congressional Research Service tells me over one-half of the employees working for the legislature are under the new system.

The benefit accrual rate under the Civil Service Retirement System is 2.5% per year of service. The accrual rate under the Federal Employees Retirement System is 1.7% for the first 20 years, dropping to 1.0% for years over 20. We did this to remove the excesses people were complaining about. Benefits are lower under the new reformed system than those under the old system.

Congress scaled back the inflation protection formula for cost-of-living adjustments because of the controversy over full and automatic colas. Under the Federal Employees Retirement System now in effect, the cola is one percentage point less than the consumer price index if the index is 3% or higher. No cola is paid to retirees under the age of 62.

JUSTIFICATIONS FOR HIGHER ACCRUAL RATES

Legislative accrual rates are somewhat higher than those for regular employees because of:

- The uncertain tenure of the service
- The "interrupted career" and portability issue
- People, personal side

FACTS AND NOTES

- Don't rush into changing the system. Retirement is a complex issues and changes should be made only after careful analysis of the impact on people.
- Length of service—about 200 Members of Congress in their 1st or 2nd terms. Average tenure for House Members less than 4 terms. Average tenure for staff members less than 3 years.
- At the end of 1994, 381 living retired Members of Congress were receiving retirement benefits—362 are under the Civil Service Retirement System.
- Possible solution—"grandfather all current participants into the system in which they're currently enrolled, and modify benefits for employees entering after a certain date.
- Consider once in retirement system, people should be able to count on it, but they need to look at a flat cola rather than a percentage cola. Lowest CPI to all.
- Tax cut.
- Any changes should be prospective.

Mr. MICA. I thank my colleague for his testimony, and also for the historic perspective that he brings to the subcommittee in his testimony.

One of the things that I have done in the last 24 hours is to introduce legislation that does increase the employee contribution to the retirement system. We have an outflow right now of about $1½ billion a month, $19.7 billion a year.

In earlier testimony, or earlier comments, we heard that nobody is being added to CSRS, the old system, before 1985. The problem is most people who are coming out into retirement are from that system, which is where the unfunded liability is. We aren't even addressing the question of changing the unfunded liability, the over half-a-trillion dollars.

The problem is, again, that monthly outflow from the treasury. I have tried to come up with something that's equitable, and what I propose does affect Members of Congress. Most people don't realize that Members of Congress contribute 8 percent to the retirement, as opposed to 7 percent, or the average Federal employee.

What is your opinion of that proposal?

Mr. MURTHA. Well, you talked to me, mentioned this to me yesterday and I saw some comments about that in the paper. And I haven't had a chance to really look at it. But I realize that we've got some real problems here.

What I am concerned about is the people in the 10 to 15 years that have stuck it out. You know, most people don't stay. But the ones that leave, and the impact it would have on them—I don't think I know enough about it, Mr. Chairman, to really be able to comment on it.

Initially, I looked at it and I thought, "Well, it's certainly something we ought to think about." But I have a great concern when they have made all their financial plans based on the amount of money they think they're going to get, and the amount of money they're paying out.

And today one of the great frustrations in this country, in my estimation, is two people in the family have to work and they're so far away from their work. And when you increase their contribution, of course, obviously, that takes away.

And the other thing is it depends on what we're doing it for. The other day we had a vote in the Appropriations Committee that said we're doing it for tax reduction, rather than for deficit reduction. I am very concerned if we're increasing the requirements for Federal employees just for tax reduction. Now, I don't think a budget can be passed that includes tax reduction. I personally feel very strongly about it. Some of these cuts certainly have to be made. The public has spoken very clearly. But not for tax reduction.

So I think it depends on the overall context what we're trying to solve here.

Mr. MICA. Well, I thank you for your comments. You've pointed out two things: that there aren't thousands of former Members of Congress that are participating. It is less than 400, as I understand it.

Second, that there are some differences. Some brought about COLAs, and you have addressed the problem of how the COLA inflates them. Most folks don't realize that former Members and folks who participated in the old system—CSRS—did not necessarily participate in Social Security. So they are actually getting a larger amount of compensation now in retirement.

I appreciate your testimony and comments. I'd like to yield at this time, if I may, to the ranking member of our full committee, Mrs. Collins.

Mrs. COLLINS. Thank you very much, Mr. Chairman. Mr. Murtha, the Federal retirement system recognizes differences in the nature of the work that is performed by personnel in very demanding occupations like law enforcement officers and firefighters and air traffic controllers. And they all have higher accrual rates and lower age and length of service requirements than general Federal employees.

Congressional staff are in a very demanding occupation, too, as you've already said. They work extraordinarily long hours, they have very high levels of responsibility and the strain they often endure, I believe, is comparable to these jobs. So doesn't this provide a solid justification for the special retirement benefits that they receive now?

Mr. MURTHA. Yes. I feel very strongly, and I defend—there is a lot of criticism of public employees, but I defend people who work for the legislature all the time. You know, you've got excesses, you've got people that don't work. But I've never met a finer group of people than the ones that work for Members of Congress, in the committees or on the professional staff or on the legislative staffs. And I think the time shows, the fact that they only stay less than 3 years, shows the tremendous demand. And any person that is willing to make that sacrifice, to stay on longer, certainly deserves special consideration.

So I would defend the 1.7, it's something front loaded. Now, you remember what I said? It's 1.7 until 20 years, and then it goes down to one. And certainly that is, to me, a fair way to handle it. When we looked at it 8 years ago we thought this was a legitimate way to handle it.

Mrs. COLLINS. I look upon the dropping of a Federal benefit and the increase of an age as a tax on Federal employees. It just seems to me that that is an extra burden that they shouldn't have to have. And especially if that tax benefit, or deficit, is going to go to people who have stocks and bonds and capital gains tax decreases. And I don't think it's fair.

Now, somebody used the word "public servant" in a discussion around here. And it bothered me because a servant is one, as I understand it, who works for no pay at all. Now, it seems that we're trying to reach that point when it comes down to diminishing the retirement benefit of the Federal employees who already don't get the benefits that might be comparable in the private industry.

So I have some real problems with that sort of thing. And I just wonder what your thoughts were about a tax—what I call a tax, which is really a raising of the age, a lowering of the benefit in retirement. To me that's a tax. Do you agree with that?

Mr. MURTHA. Well, I'll tell you what. I do think all of us are going to have to make some sacrifice. But the gentlewoman is absolutely right. And I think if it goes for tax reduction, then it's a real mistake.

Mrs. COLLINS. Exactly.

Mr. MURTHA. I think that for us, in my estimation, if we're going to increase or decrease benefits for Federal employees and then re-

duce taxes for the wealthy sector of the country, that's a mistake and I would disagree with that. And I would hope that this—all this euphoria, and I know the President and the leaders, the Speaker, and our leader are all for the tax cut. But I don't see how we do it and get the deficit down. We went through that for 6 or 8 years and it didn't work. Our deficit substantially increased. So I hope that we're able to work that out.

Mrs. COLLINS. Thank you, Mr. Chairman.

Mr. MICA. I thank the gentlelady, and yield now to the chairman of the full committee, Mr. Clinger.

Mr. CLINGER. Thank you very much, Mr. Chairman. I want to thank my good colleague from Pennsylvania, Mr. Murtha, for his long-time interest and involvement and leadership, in this whole question of Federal retirement programs. I want to particularly recognize the outstanding work you did when this issue was last being considered back in 1984, 1985, and 1986. So I think we are all aware of your long involvement and great expertise in this area.

And I think the other thing that your presence here today indicates is that reforming retirement programs for either Members or for the Federal work force has to be done in a bipartisan way. It can't be done in a partisan way. We welcome your involvement in the process and welcome your contributions and look forward to working with you as we grope our way forward in this area. You have made a very valuable contribution already and we're grateful for that.

Mrs. COLLINS. Mr. Chairman, I appreciate those comments and I appreciate the work that you've done. We've always approached things in a bipartisan manner and I think that's the reason we've gotten so much done over the years. But this issue certainly has to be approached very carefully and in a bipartisan manner.

I know that the Federal employees and the Members, the people that work for the legislature will be treated fairly by this subcommittee and by the full committee when the time comes. And I think that's a key, because they make so many sacrifices and they work such long hours and they're so dedicated to public service, and most of them just can't afford to stay. So I think it's absolutely essential that we do the best we can by them.

Mr. CLINGER. Thank you very much, Mr. Murtha. Thank you, Mr. Chairman.

Mr. MICA. I thank you and would yield now to Mr. Moran.

Mr. MORAN. Thank you, Mr. Chairman. Mr. Murtha, I appreciate you sharing your experience and perspective on this issue, because you have studied it for a great deal of time and you are a resource that this subcommittee greatly needs on this issue, but also in the area of appropriations.

Having been an appropriator for many years, you are very much aware of the difference between budget authority and outlays and obligations. What seems to be driving this, at least allegedly, is that there is a $19 billion outflow annually, as the chairman said, to cover the Federal Government's contribution to this CSRS plan that has to provide money to be paid out in the future.

But this $19 billion is budget authority only. It is not outlays. It is an intra-governmental fund transfer. It stays within the government. It's not outlayed. And, in fact, as CSRS declines and FERS

increases, what is more important is that the total amount of money being put into the government's funds, retirement funds, is $62.2 billion a year compared to $36 billion that is being paid out to retirees.

Now, if we were to eliminate this $19 million in budget authority it wouldn't have any impact on the deficit, would it, because the deficit is an outlay deficit. It doesn't affect the total amount of money going out of the Federal Government one iota. And so all we've done is to create outlays allegedly to address a budget authority which wasn't in any way impacting the deficit.

So given your experience with appropriations and the difference between budget authority and outlays, would you care to comment on that?

Mr. MURTHA. Well, of course, as you know, Bill Young and I handled the largest discretionary money in the entire budget, $252 billion. And we wrestle continually with the impact of outlays versus the impact of budget authority, and very concerned about balancing them out. In the end what really counts is the outlays. And we have a very low outlay level for procurement, 10 percent a year, versus outlays in personnel, which is 100 percent.

So we balance it very carefully. And I don't know enough about this proposal to know. But if what you say is true, obviously it has no impact on the deficit at all. We have that problem all the time, trying to decide what does have an impact on reducing. And we've reduced the request by the government, by the executive branch, over the years by $55 billion. And that's actually in outlays, not budget authorities. And we had to attack both.

So I would say that if as you present it is accurate, then it would have no impact on the budget at all.

Mr. MORAN. That's a point that has to be emphasized, that this $19 million is purely budget authority, it is not outlay.

But the other point I want to mention, too, and have you respond to is that while this discussion has focused on us, the Members, it's really not about us, the Members. It's about our wives and children. People who, generally, if they're lucky, see us for 1½ days a week. Many Members that's, rather than weekly, monthly visits. And we don't spend much of our salary. Our money goes to the family. We're up here all the time and don't spend much more than the money it costs to pick up a sandwich in the Members' cloakroom.

But what we're really talking here about when we talk about Members' retirement pension is what are we going to do to provide the security for our wife and kids when we're no longer around. And that's why I was so struck by the point you made, that of all the tens of thousands of people that served in this Congress—I don't know how many thousands it is in total—there are only 381 living.

Mr. MURTHA. That are drawing retirement.

Mr. MORAN. On retirement, living on retirement, that have actually served long enough to be vested, and are still alive. And it's only $15 million. When you talk about 535 Members a year. That's a much smaller amount of money than you would expect.

And so the issue really is whether we are going to provide an adequate, decent standard of living for our families, given the sac-

rifice we expect them to make, which is a heck of a lot greater than even Federal employees. As strong an advocate as I am for the quality of the professional work force, Federal employees live with their families, and most of the Members here don't.

Mrs. MORELLA. If the gentleman would yield for a moment.

Mr. MORAN. Yes.

Mrs. MORELLA. I just want to point out and underline his statement that there are husbands who are spouses, too.

Mr. MORAN. Oh, that's right. Excuse me. I'm talking to Mr. Murtha, and here Mrs. Collins was beside me, Mrs. Morella on the left. "Spouses" is the operable word, and that was a terribly, politically incorrect term.

Mr. MURTHA. Nobody works harder than Mrs. Morella, that's for sure.

Mr. MORAN. That's for sure. But it's our spouses and children that we're really talking about in terms of the retirement plan and the——

Mr. MURTHA. If the gentleman would yield.

Mr. MORAN. Well, I would like to yield totally to you until the conclusion of my time.

Mr. MURTHA. For years I've been a hero to spouses, and Members don't like to admit that they need additional benefits. But I've always been up here advocating a quality of life for the spouses and for the Members themselves. And with all the health problems and everything, which Mr. Moran is certainly aware of, and all the difficulties a family face, all of them, we certainly want to be very, very careful that we don't do something that would jeopardize quality of life of the person who is left after the Member is gone.

So I feel very strongly that we just have to be cautious in what we do, and don't discourage people and don't make it worse than it is.

Mr. MORAN. Yes. I think it's easy for Members to be cavalier about retirement security, and so on, for themselves. And if it were only us, I think all of us could afford to be. But it's not us we're talking about individually. Thank you, Mr. Chairman.

Mr. MICA. I thank the gentleman, and yield now to Mr. Bass.

Mr. BASS. Thank you very much, Mr. Chairman. Congressman Murtha, I certainly appreciate your objectivity. On the one hand, as Mr. Moran has stated, we put in a lot of time, we work long hours. To some extent we lack job security. However, I would also like to observe, if I might, that the average pay of people who work in this society is probably less than a third of what we receive. The vast majority of the people in this country receive no pension at all, have no pension program at all, nothing.

And I would suggest that most employees in this country don't know—many employees in this country don't know whether they're going to be working on Monday, let alone having a job that is guaranteed, as our job is until January 1997.

I could get up right now and walk out of this room and never show my face in Washington and I'd be guaranteed a pay until 1997.

Mr. MURTHA. But you wouldn't be after 1997.

Mr. BASS. Oh, you bet. I don't think so. I would suggest that you're correct there.

So I would suggest, Mr. Murtha, that perhaps, although your observations have great merit and I applaud you for making them, that there are two sides to this argument. And that's precisely why this committee is investigating this issue today.

Thank you, Mr. Chairman.

Mr. MICA. I thank the gentleman. Mr. Mascara, did you have questions?

Mr. MASCARA. That's my friend down there, and for whom I have the greatest respect and admiration. I want to thank you, Jack, for appearing here today before the committee.

Jack probably knows, I served as a county commissioner for 15 years, and I served as chairman of the Washington County, Pennsylvania Employees Retirement system. And when I left on December 31, 1994, the pension fund was funded at 107 percent. We had an actuary who did annual actuarial assumptions for our pension plan.

Whatever happened to PERISA? I know what happened to ERISA, but I wonder what happened to PERISA where there were some guarantees of a system and how that system operated. And that if we're talking about employees paying more into the pension fund, could we target that for the plan itself, to make sure—whatever that figure is, because I'm not sure what that figure is—and I would like to see an actuary hired to tell me, as a Member of Congress, and the other Members of Congress, what kind of shape these pension plans are in, whether it be the civil service or the FERS.

And since you've also very capably pointed out, along with Mr. Moran, the difference of outlays, what does all this mean? I mean, is this a slight of hand? Are we playing with figures here? I'm not sure, Jack. I just wonder whether——

Mr. MURTHA. Obviously, the private pension problems—we've got some real problems with a lot of private pension plans. And we continually battle how much more should be put in. And, of course, most private employers pay all the pension funds and most employees don't pay anything into their own pension plan, the majority of them.

But we've got some real problems. And we keep working on trying to guarantee the pension plans that are in place. I can remember when it passed we were concerned about small corporations. And we were concerned about people who worked in garment factories that lost their benefits. And, of course, it turned out that an awful lot of big corporations, and people who worked for big corporations benefited because of the legislation that we passed and it guaranteed their pension.

So it's a very complicated thing. And we worked years and years trying to pass that legislation, and we didn't solve the problem by far because we still have underfunded pension plans. When we developed this pension plan we felt it was actuarially sound, and it reduced the problem that we had. And over half the people that are in the pension plan now, the 3 million—including the postal workers—of the 3 million people working in the system over half are already in, of just about half are already in the new pension plans.

So, you know, we've made progress and we've moved toward an actuarially sound—what I'm saying is, I'm just concerned that we

do something that would disrupt this very delicate balance that we have. And it's one thing to do it for deficit reduction, but to do it for tax decrease, I would not be in favor of.

Mr. MASCARA. Well, then perhaps we could direct that any new deductions from employees or Members of Congress go specifically to the pension plan and be a part of the overall pension plan.

I mean, I said earlier this week that when we found money to bail out the savings and loan that were involved in the pension guarantee corporation—I'm not sure whether that's the correct term or not, where it participates with the private sector yet, we're about to turn our back on people who have served this country.

That concludes my remarks, Mr. Chairman.

Mr. MICA. I thank you and yield now to the gentlelady from Maryland, Mrs. Morella.

Mrs. MORELLA. Thank you. Thanks Mr. Murtha. It's always good to hear the benefit of your experience.

I wanted to just pick up on what you talked about in terms of if we're looking for savings maybe a kind of a flat-diet COLA would be the way to go. Do you mean everybody would get the same COLA, or would it be something where if you are at the bottom of the scale, looking beyond congressional Members, you would get a percentage up to a certain point?

Mr. MURTHA. Well, my recommendation originally was that everybody would get a flat COLA, not necessarily based on the lowest level of the pension, but based on CPI at some level. And I think that's something the committee would have to work out.

I've had a hard time selling this. I talked to Mr. Panetta about it, and he liked the idea. Of course, he's a former chairman of the Budget Committee and he knows the problem we have with the deficit. I talked to Alice Rivlin, though, she was very nervous about it, didn't even want to hear about it.

I've tried to get figures to see what kind of money it would mean and what kind of an impact it would have, and I haven't gotten those yet. But I would challenge the committee to look into it and make a recommendation. I think there could be a lot of savings. And what I'm suggesting is that the people at the higher level—and I know they have a higher standard of living, but I just think it's unfair to keep pushing them out, getting the percentage increase, rather than a flat increase, which would take care of their cost of living increases.

Mrs. MORELLA. I understand that, and I've always kind of felt similarly that when you reach the top and you continue to get a percentage, you continue to escalate. Whereas that person at a lower grade just never can appreciate what the COLA was intended for.

Also, what about military retirees? Would you like to, because of your expertise, make any comments for the record on that?

Mr. MURTHA. Yes. We have had a number of proposals about military retirees, and a number of changes in the system over the years. As a matter of fact, I think in the last 10 years we've probably changed it three times, reduced the benefits.

As you know, last year, unfortunately, we delayed the COLA for the military retirees by 27 months. And yet the civilian—now, this

is active duty retirees—and civilian employees were only delayed by 9 months.

But this is what we get into when we're trying to save money. We put the money in for that, and it was a large amount of money and it will continue to be a large amount of money. The amount of money we're involved in here when it comes to active duty pay and pensions is staggering. And, of course, every year in the military pensions we set aside enough money to pay for it every year. But, of course, down the road it's going to be a big expense. So we've changed it continually.

One of the things they recommended in the Carter administration was people stay longer and retire after 22, 23 years, rather than 20, which saved us a lot of money. But they didn't endorse it because it didn't have any up front savings. So I think we have to look at both. And I think when we looked at our pension plan here, meaning not only the Members, but all the 19,000 people who work for the legislature, we recognize there had to be a long term solution to it. And our recommendations were that it be actuarially sound after an extended period of time.

And I think we've done that. My concern is we would move too fast. And the people who have planned very carefully for their retirement wouldn't have that money available to them, or people, when you increase the amount they have to pay, would have less money available to them. If it's for—and I realize all of us have to make sacrifices—but if it's for a tax cut.

Mrs. MORELLA. And again, I guess you're also pointing out the need for equity when you're looking at your military retirees, as well.

Mr. MURTHA. Yes.

Mrs. MORELLA. Thank you. Thank you, Mr. Chairman.

Mr. MICA. I thank the gentlelady. I also want to take this opportunity to sincerely say thank you, Mr. Murtha, for sharing this time and your valuable insight, the historical perspective and legislative history of this issue with our subcommittee. We look forward to working with you and I do pledge to you to work in a fair and equitable fashion.

Mr. MURTHA. Thank you so much.

Mr. MICA. We'll excuse you at this time.

Mr. MURTHA. Thank you very much.

Mr. MICA. The chair will now call the following witnesses, the remainder of the witnesses who are here: Mr. Shays, Mr. Chrysler, Mr. Salmon, Mr. Stockman and Mr. English.

I want to welcome all of our remaining panelists and thank you for your patience.

I would like to begin the testimony with Mr. Shays, one of our senior Members. I note that we have a number of freshmen panelists. Mr. Shays, you're recognized to proceed.

STATEMENT OF HON. CHRISTOPHER SHAYS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CONNECTICUT; HON. STEVE STOCKMAN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF TEXAS; HON. DICK CHRYSLER, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MICHIGAN; HON. PHIL ENGLISH, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF PENNSYLVANIA; AND HON. MATT SALMON, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF ARIZONA

Mr. SHAYS. Thank you, Mr. Chairman. Let me express gratitude to you and to your subcommittee for taking up this issue. It's extraordinarily important, and I just appreciate all the hard work that each and every one of you put in. I just want your ranking member, Mr. Moran, to know that the Members of this body are very grateful for all your hard work and the fact that you spend so much time here given the personal challenges you have at home. You have a tremendous amount of respect in this institution.

Mr. Chairman, I'm here to make two very basic points on behalf of a bipartisan reform team comprised of David Minge, Jay Dickey, Nathan Deale, Enid Walholtz, Tom Barrett, Scott Klug, Paul McHale, Michael Castle and myself. We've put forward a number of reform proposals that deal with a variety of issues, campaign finance reform, gift ban, lobbying reform and so on.

And one of our reforms is to get our pension system to conform exactly and precisely to the way it exists for other Federal employees, not to have any better system or any worse system that exists for any other employees.

We have two basic systems. We have CSRS and we have FERS. CSRS was ultimately limited because it was deemed to be a very generous system that would bankrupt the system. Federal employees were then given the option—new ones, and I'm under the new system—to be under FERS. One pays a far more generous program.

If you are a Member of Congress you can get 2½ percent for every year of service. If you've been in just 10 years when you retire you can get 25 percent of your pension. Those of us who came under FERS get 1.7 percent, but we do have, like other Federal employees, a Thrift Savings Plan. If we're in 10 years, we get 17 percent.

I kept telling people in my district that we were treated like any other Federal employee. And I believed that to be the case. I thought when we went from CSRS to FERS that those under FERS were, in fact, treated like any other Federal employee. So it was a bit of a shock for me when I really delved into it to realize that Federal employees get 1 percent for every year that they work under FERS.

Well, if that's the case for Federal employees, that's what it should be for Members of Congress. And if under CSRS Federal employees get 2 percent, but Members of Congress get 2.5 percent, then we should be 2 percent.

So the first point I make to you is that whatever it is for Federal employees under CSRS or FERS, Members of Congress should be under the very same system. So I would agree with those who say let's change the system to conform. I would disagree, however, with

some Members who have come and said we shouldn't have the same pension that other Federal employees—or that we should have no pension. We should have, as Federal employees, the same.

Now the next issue is an issue that I think you, Mr. Mica, are trying to address. And that is the question: are Federal employees given benefits that are better than those in the private sector? Are they given more credit each year than in the private sector? Are they paying as much as a contribution to the retirement system that other people in the private sector would pay?

And if we determine that the answer is yes, we as Federal employees are given a better system, then I think that we have to conform to what exists in the private sector. So, for instance, if we are allowed to take the 3 highest years to define our salary level, and then which we take through a formula of the number of years we worked. If in the private sector it's closer to a 5-year, they take the last 5 years or the highest 5 years, then I think we should as well. I noticed, Mr. Mica, that you suggest that we do that in your bill.

And I would just say to you that if ultimately we determine, or this committee determines that that's the case, then I think we should conform to the private sector. The question is, though, how quickly should we get there? Should it take 3 years to get there, should it take 4 years, should it take 5 years. I do have some sympathy for a Federal employee who is about to retire who then finds that he is going to be under a different system and would be receiving significantly reduced benefits. So you might phase in that over a longer period of time.

Mr. Chairman, I've concluded my comments. I just want to emphasize again whatever we put on the Federal employees, Members of Congress should be the same. The group that I'm working with would oppose strongly any effort to maintain the Members of Congress' pension different or better than anyone else in the Federal system.

[The prepared statement of the Honorable Christopher Shays follows:]

PREPARED STATEMENT OF HON. CHRISTOPHER SHAYS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CONNECTICUT

Chairman Mica, Ranking Member Moran, and members of the Subcommittee:

Thank you for providing me this opportunity to testify before your subcommittee to discuss the issue of pensions for Members of Congress. I applaud your efforts to address this important matter.

I have been working with a Bipartisan Reform Team comprised of Congressmen David Minge, Jay Dickey, Nathan Deal, Scott Klug, Tom Barrett, Paul McHale, Mike Castle and Congresswoman Enid Waldholtz. Our mission is to reform the way Congress conducts its business and we have been working together to put forth seven proposals addressing various issues ranging from frequent flier miles, to campaign finance, to franking. One of the most important issues in this package is what I am here today to discuss—a proposal to bring Congressional pensions in line with those of other federal employees.

Our group plans to introduce legislation next week to accomplish this task. I would like to share with you the main points and principles of our proposal.

Our bill will target two areas where Members' pensions out-benefit all other federal employees' pensions: the benefits computation formula and the age and service requirements. Under our proposal, beginning with the 105th Congress, a uniform computation formula would be established for all federal employees—including Members of Congress, congressional employees and Executive Branch employees.

Under our proposal, the multiplier in the computation formula for Members who are part of the Civil Service Retirement System (CSRS) would be reduced from 2.5 to 2.0 percent. The multiplier for Members who are part of the Federal Employee

Retirement System (FERS) would be reduced from 1.7 to 1.0 percent. In addition, our bill would reduce the contribution amount in the formula from 8.0 to 7.0 percent for CSRS employees and from 1.3 to .8 percent for FERS employees—that which applies to other federal employees.

Under our bill Members of Congress would be subject to the same age and service requirements that exist for Executive Branch federal employees. Members would be eligible for a full pension at age 62 with at least 5 years of service, at age 60 with at least 20 years of service, or at age 55 with at least 30 years of service. These new requirements would be merged with the current system, so that benefits accrued thus far would be kept, but in 1997 and beyond benefits would accrue under the new formulas.

I would also like to stress one final point. I understand your Subcommittee is considering changing the pension system for all federal employees. Whatever changes you make—whatever system you decide upon—it is essential that Members of Congress be brought under the same system.

It is not right that Members of Congress enjoy the more favorable pension system that we have today. Congress must be brought into conformance with what federal employees are receiving, and must stay in conformance when and if changes are made to the current pension system.

Thank you for your consideration of my testimony.

Mr. MICA. Mr. Shays, we thank you for your participation and for your testimony. We had heard earlier from Mr. Minge. We also thank you for working in a bipartisan fashion to bring your recommendations to our subcommittee.

At this time, I'd like to yield to Mr. Steve Stockman, from Texas, for his testimony.

Mr. STOCKMAN. Thank you, Mr. Chairman. I do have another pressing engagement, so I am going to slip out right after this. Thank you.

I want to thank you for inviting us here today and I appreciate the fact that you're moving on this so quickly. Ironically, the gentleman I ran against is on the wall here. When I was looking at his pension, I was quite surprised that he is projected, as you will notice from my testimony, to receive almost $2 million. That's a lot of money. And that's one of the reasons why I came here today to express concern over our pensions. I'd like to abbreviate my comments and submit my testimony with unanimous consent that it be included in the record.

[The prepared statement of the Honorable Steve Stockman follows:]

PREPARED STATEMENT OF HON. STEVE STOCKMAN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF TEXAS

Chairman Mica, Mr. Moran, and Members of the Committee. I am pleased to be here today with Rep. Tom Davis (VA–11), Rep. Matt Salmon (AZ–1), Rep. Joe Scarborough (FLA–1), and Rep. Phil English (PA–21) to discuss the views of the Freshman class on reforming the Members' pension system. All of us were elected last November to change the way Washington works and we welcome this opportunity to show the American people that we intend to fulfill our pledge.

I want to note at the outset that I am encouraged to see the Committee move with dispatch to address one of the most egregious examples of Congressional excess—the pension benefit received by Members of Congress. I want to congratulate you, Mr. Chairman, and other members of the Committee, for examining these reforms. We must lead by example and this is an excellent opportunity to save tax dollars and level the playing field between pensions enjoyed by retired and defeated members of Congress and those relied on by the average taxpayer living on a fixed income.

Let me turn now to a discussion of the issue before us today. I would like to briefly discuss both the need for Members' pension reform and specific elements of H.R. 804, the Congressional Members' Pension Limitation Act of 1995.

THE CASE FOR MEMBER'S PENSION REFORM

Members' pension reform, as we refer to it here, is commonly understood to mean reform or abolition of the absurdly generous congressional retirement system. The case for pension reform has been made repeatedly in recent years by grassroots organizations, think tanks, and radio talk shows. But most importantly, the case continues to be made daily by the realities of Congress enacting comprehensive entitlement reforms—including our own pension system—as part of this year's budget process.

Simply put, the average taxpayer retires on a fixed income, while our legislators retire in luxury.

According to the National Taxpayers Union Foundation (NTU), 45 departing incumbents from the 103rd Congress are eligible to collect more than $81 million combined during retirement. Ten members will begin collecting benefits in 1995 that exceed their pre-congressional pay raise salary of $89,500. Former Speaker Thomas Foley (D–WA) will collect an estimated $123,804, the largest annual pension. My predecessor, Jack Brooks, is now back in Beaumont, TX. collecting a pension that is estimated to be at $96,462. Thirty members will initially begin collecting over $50,000 annually.

Do we really need a pension system that makes it possible for Members of Congress to earn more money in retirement than a typical wage earner does in a lifetime? I suggest to you the answer is a resounding NO!

THE CONGRESSIONAL MEMBERS' PENSION LIMITATION ACT OF 1995

I would like to discuss my views on H.R. 804, put forth by Rep. Dan Miller,(FLA–13).

As an original co-sponsor of this important legislation, I agree with the direction taken by H.R. 804. The bill will eliminate the pension benefit of the Members' retirement plan, equalize access for all Members to the Thrift Savings Plan (which is similar to the 401 (k) plan in the private sector), and suspend government matching to the Thrift Savings Plan after 12 years. This bill will affect Members of Congress only, not staff. It will make the system more equitable and affordable while bringing these pensions into parity with those of the average American.

CONCLUSIONS

As we move forward, we must never forget that Members of Congress retire in luxury while the average taxpayer retires on a fixed income.

I believe the Congressional Members'Pension Limitation Act of 1995 will serve as an important catalyst for addressing Congressional pension reform. The bill provides a comprehensive framework within which the major issues can be examined. The bill is consistent with what I believe are important objectives and guidelines for Congressional pension reform.

Again Mr. Chairman, we congratulate you and the Members of the Committee for moving swiftly to address the pressing needs of Congressional pension reform. It is my view that an interactive, bipartisan effort can yield significant results in relatively short order. I look forward to working with you in the coming months to achieve our common goals.

Member	Avg. Age of Death	Federal Service to Jan., 1995	Estimated 1995 Benefits	Age in Year Benefits Begin	Estimated Initial Benefit	Year Pension Begins	Estimated Lifetime Benefits
House:							
Andrews M.	81.1	12.0	$0	60	$35,973	2004	$1,237,862
Applegate	83.9	18.0	53,825	67	53,825	1995	1,366,488
Brooks	85.6	46.0	96,462	73	96,462	1995	1,701,084
Cooper	80.3	12.0	0	60	35,973	2014	1,170,221
Darden	81.2	12.0	0	60	35,973	2003	1,248,786
Derrick	82.3	20.0	59,180	59	59,180	1995	2,351,777
Edwards, Don	88.5	36.5	96,462	80	96,462	1995	1,084,696
Fish	84.4	30.5	99,175	69	99,175	1995	2,234,177
Foley	83.9	32.5	123,804	66	123,804	1995	3,276,649
Ford, William	84.1	32.0	105,787	68	105,787	1995	2,531,184
Glickman	81.1	19.5	49,969	51	49,969	1995	2,976,137
Hughes	83.0	20.0	59,775	63	59,775	1995	1,909,624

Member	Avg. Age of Death	Federal Service to Jan., 1995	Estimated 1995 Benefits	Age in Year Benefits Begin	Estimated Initial Benefit	Year Pension Begins	Estimated Lifetime Benefits
Hutto	84.4	18.0	53,825	69	53,825	1995	1,212,538
Lehman, Rich	80.7	12.0	0	60	35,973	2008	1,203,770
Lewis, Tom	85.0	23.0	65,130	71	65,130	1995	1,299,548
Lloyd	83.6	20.0	66,117	66	66,117	1995	1,779,358
Mazzoli	83.0	26.0	77,627	63	77,627	1995	2,479,923
McCloskey	81.8	16.0	0	60	47,874	1999	1,726,554
McCurdy	80.5	14.0	0	60	41,924	2010	1,387,559
Michel	85.6	49.5	110,538	72	110,538	1995	2,014,456
Murphy	84.1	20.0	59,775	68	59,775	1995	1,430,251
Neal, Stephen	82.6	20.0	59,775	61	59,775	1995	2,134,347
Pickle	89.5	39.5	96,462	82	96,462	1995	950,225
Ridge	81.0	14.0	0	60	41,924	2005	1,431,901
Rostenkowski	83.9	38.0	96,462	67	96,462	1995	2,448,962
Rowland, J.R.	84.4	14.0	41,924	69	41,924	1995	944,437
Sharp	81.3	25.5	69,311	53	69,311	1995	3,741,525
Slattery	80.7	12.0	0	60	35,973	2008	1,203,770
Smith, Bob F.	83.2	12.0	35,973	64	35,973	1995	1,086,725
Smith, Neal	86.3	39.0	96,462	75	96,462	1995	1,499,716
Sundquist	82.3	14.0	0	60	41,924	1996	1,561,627
Swift	82.4	21.5	64,238	60	64,238	1995	2,421,155
Synar	80.5	16.0	0	60	52,893	2010	1,750,633
Valentine	84.4	14.0	41,924	69	41,924	1995	944,437
Wheat	80.4	14.5	0	60	46,282	2011	1,524,432
Whitten	91.2	54.0	96,462	85	96,462	1995	780,610
Senate:							
Boren	81.6	16.0	0	60	47,874	2001	1,709,406
Danforth	82.4	18.0	53,289	59	53,289	1995	2,142,114
DeConcini	82.3	19.0	55,669	58	55,669	1995	2,356,420
Durenberger	82.8	18.0	53,825	61	53,825	1995	1,945,026
Metzenbaum	88.0	19.0	56,702	78	56,702	1995	764,702
Mitchell	83.0	24.3	84,595	62	84,595	1995	2,895,248
Riegle	82.1	28.0	81,078	57	81,078	1995	3,612,570
Sasser	82.4	18.0	53,289	59	53,289	1995	2,142,114
Wallop	83.0	20.0	59,775	62	59,775	1995	2,045,784

Mr. MICA. Without objection.

Mr. STOCKMAN. We are currently in a state in which many of us here are being looked upon under the microscope of the public eye while we're asking the people of America to take drastic cuts. It's my belief that we must do the same or we're setting ourselves up, I think, for trouble next fall.

There is an old saying that says, "Good policy is good politics." I think it's good policy to set us on equal footing or a little below the public. We forget that we are servants of the public and we work for the people. Earlier, I heard some of the testimony here today about the long, grueling hours, and I grant that we do work long, grueling hours. I have to say that many in our districts work long, grueling hours.

We're working 5, 7 days a week, that's true. But on the other hand, so are a lot of other people and, yet, they aren't put above us. We are servants of the people, and it's my belief that pension reform will send not only a signal to America, but will also set a precedent which I would hope would be taken up by the rest of the Federal Government. Before we can get the speck out of someone else's eye, we need to get the stick out of ours.

Mr. Chairman, I commend you for the work you have done and I am pleased that you allowed us the opportunity to express our opinions. I thank you for your input.

Mr. MICA. Well, I thank you for contribution and the sincerity of your comments today and for the fresh new perspective that each of these new Members bring to Congress. So if you do have to leave we recognize your pressing schedule. I'd like to defer now to Mr. Dick Chrysler for his testimony.

Mr. CHRYSLER. Thank you, Mr. Chairman and members of this subcommittee. I happen to be 1 of those 45 Members on that list who did make that millionaire category, I guess. As a matter of fact, I'm number 14. But I am glad to live, and proud to live, in a country where you can come up with an idea and you can create jobs and you can put people to work and you can create wealth. And that's why I'm here in Congress, is to be able to create that kind of an opportunity for my children and your children and their grandchildren in this country.

Last November, my freshman colleagues and I arrived in Washington on a mandate of reform that was generated by the American people's frustration with our Federal Government. In 1994, the elections throughout the country dramatically altered the make-up of the House of Representatives. For the first time in history, the voters sent more business people to Congress than any other profession. And, quite frankly, it was about time.

In reference to Ronald Reagan's line that the worst thing an American business person could ever encounter was to open his or her door and to find someone saying, "I am from the government and I am here to help," we have ultimately arrived to Congress to declare, "We are from the business community, so let's get down to business."

Some of those with business backgrounds have a unique perspective to bring to Washington. We do not study business, we conduct it. We understand the relation between investment, productivity, quality and profit. To us it is obvious that we need to redefine how our government manages itself. To the point that where we feel the Federal Government needs to operate much more like a business. It is the largest business in the world, bar none.

Which leads me to today's discussion: Federal pensions.

As members of the new majority we promised to reform ourselves before we made other long overdue sacrifices in the Federal Government. And that's why I was privileged to introduce the first bill in the Contract with America, the one that cut congressional staffs and congressional committees by one-third. And I felt it was important because it is leadership by example. We have to be willing to cut ourselves before we can ask any other branch of government to make the same sacrifices.

And when Congress starts to make tough decisions on those budget cuts, one element cannot be omitted. The element is the enormous burden Federal employees' pensions place on the budgeting process. Additionally, we need to judge whether they merit the benefits they provide in relation to the current private sector equivalents that millions of American taxpayers rely upon for retirement.

The old adage that "there is no better job than a government job" has become riddled with truth among the American people.

The American public knows that Federal workers have more generous retirement packages than that of the average American worker. Currently, my staff is in the process of evaluating the pension benefits of 50 of the Fortune 500 companies.

And to address an earlier question by Mr. Moran, and looking at this sample, an average was taken with the assumption an employee has worked for a company for 15 years starting at a salary of $27,220, retiring at the age 65 with a final annual salary of $57,600. Using this data, the average annual retirement benefit would be $11,318. Using the Federal Employment Retirement System's pension formula of the average high 3-year salary, multiplied by the number of years in service, multiplied by the FERS accrual rate of 1.7 percent, and the assumption a high 3-year average salary would be $52,000, the retirement benefits under FERS would be $13,260. That is a difference of almost $2,000 without taking into account the annual COLAs Federal employees enjoy yearly.

We do not need to look too far to see how Federal COLAs greatly benefit Federal pensions. As Members of Congress we currently enjoy these yearly adjustments while millions of Americans—who, incidentally, pay our salaries—do not.

Former Representative Hastings Keith, a Republican from Massachusetts, now co-chairman of the National Committee on Public Employee Pensions, has given a clear example of the way the Members' pension rates have dramatically increased. In 1973, he retired at age 58, after having served 14 years in Congress, and received $18,720 annually in Federal pension benefits. Since then, with the advantage of COLA, the benefits have swollen to $71,928 in 1994.

I am not saying we should eliminate or haphazardly slash the present government pension program. However, we need to look at new ideas. I believe that ideas have consequences. We need to have a pension program that pays us no more or no less than what the private sector is being paid. We understand why the pension program is the way it is, why it was reformed in 1983, and we need to evaluate the programs we now have in conjunction with the existing Thrift Savings Plan, the Federal workers equivalent of a 401(k) program.

Federal employees under the Thrift Savings Plan can now contribute up to 10 percent of their pre-tax wages into the plan. The Federal Government matches, dollar for dollar, the first 3 percent, and the next 2 percent is matched at 50 percent. The government also contributes 1 percent of compensation to all Federal employees eligible for retired benefits, regardless of their participation in the Thrift Savings Plan. Federal employees are fully vested after 5 years of service. Twice a year, during open season, employees can change their contribution rate and the percentage of the funds that they have invested.

According to the CBO, the Federal Government will pay pensions totaling nearly $66 billion to almost 2.5 million retired civilian workers in fiscal year 1994 alone. Under the current fiscal constraints our Federal Government faces—and we are broke—a continued trend in such expenditures places not only the future of Federal retirees in jeopardy, but the American taxpayer as well.

According to the Office of Personnel Management, the Federal Government spends 25 percent of payroll expenditures on pensions. Despite the 1983 law intended to reform Federal pensions, the OPM expects that amount to grow to 40 percent by the year 2020.

At this rate, our country will arrive at a pension disaster. Public pensions unfunded liability for the Federal pension plan has reached the level of $1.5 trillion. The Federal Government funds Federal pensions on a pay-as-you-go basis. If the Federal Government would have to account for their pensions the same way we did in private industry, the U.S. debt would increase a staggering 32 percent overnight, from $4.7 trillion to $6.2 trillion.

As I said before, I am not advocating the elimination of Federal pensions. No matter what changes are made, every Federal employee who presently participates in a Federal pension program should be, and will be, grandfathered into that plan. However, if we do not make some form of modifications this pension system will collapse like a house of cards.

Thank you, Mr. Chairman.

[The prepared statement of the Honorable Dick Chrysler follows:]

PREPARED STATEMENT OF HON. DICK CHRYSLER, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MICHIGAN

Mr. Chairman and Members of the Subcommittee:

Last November, my freshman colleagues and I arrived in Washington on a mandate of reform that was generated by the American people's frustration with our federal government. In 1994, the elections throughout the country dramatically altered the make-up of the House of Representatives. For the first time in history, the voters sent more business people to Congress than any other profession. And quite frankly, it was about time.

In reference to Ronald Reagan's line that the worst thing an American business person could ever encounter, was to open his/her door to find someone saying "I am from the government and I am here to help," we have ultimately arrived to Congress to declare "we are from the business community, so lets get down to business."

Those of us with business backgrounds have a unique perspective to bring to Washington. We do not study business—we conduct it. We understand the relation between investment, productivity, quality, and profit. To us, it is obvious that we need to redefine how our government manages itself. To the point that we feel the federal government needs to operate much more like a business.

Which leads me to today's discussion: Federal pensions.

As members of the new majority we promised to reform ourselves before we made other long overdue sacrifices in our federal government and when Congress starts to make tough decisions on budget cuts, one element cannot be omitted. That element is the enormous burden federal employee pension plans place on the budgeting process. Additionally, we need to judge whether they merit the benefits they provide in relation to the current private sector equivalents that millions of American taxpayers rely upon for retirement.

The old adage that "there is no better job than a government job" has become riddled with truth among the American people.

The American public feels that federal workers have more generous retirement packages than that of the average American worker. Currently, my staff is in the process of evaluating the benefits of 50 Fortune 500 companies.

According to this sampling, an average was taken with the assumption an employee has worked for a company for 15 years starting at a salary of $27,220, retiring at age 65, and with a final annual salary of $57,600. Using this data, the average annual retirement benefit would be $11,318. Using the Federal Employment Retirement System pension formula of the average high three-year salary, multiplied by the number of years in service, multiplied by the FERS accrual rate of .017, and the assuming a high three-year average salary would be $52,000, the retirement benefit under FERS would be $13,260 (52,000 x 15 years x .017). That is a difference of almost $2000 without taking into account the annual COLAs federal employees enjoy yearly.

We do not need to look too far to see how federal COLAs greatly benefit federal pensions. As Members of Congress we currently enjoy these yearly adjustments while millions of Americans, who incidentally pay our salaries, do not.

Former Representative Hastings Keith (R–MA), now co-chairman of the National Committee on Public Employee Pensions, has given a clear example of the way the Members' pension rates have dramatically increased. In 1973, he retired at age 58 after having served 14 years in Congress and received $18,720 in annual federal pension benefits. Since then, with the advantage of COLAs, the benefits have swollen to $71,928 in 1994.

Pension programs are available to just about every federal employee. By contrast, fewer than 40% of private sector employees work for firms that offer pension plans. According to the U.S. Bureau of Economic Adjustment, over the past three years, federal wages have increased at a rate of roughly 6.2% vs. 3.9% for private sector wages.

According to Money Magazine, less than 1% of private firms give their retirees annual adjustments and only 13% of private plans provide some kind of inflation increase. Social Security benefits also are calculated with COLAs. Taking this into account, after 20 years in retirement, assuming a 4% inflation rate, the typical private-sector worker's pension and Social Security benefits have 78% of the purchasing power as that of a government retiree. The government retiree retains 100% of his/her purchasing power by means of yearly COLAs.

I am not saying we should eliminate or haphazardly slash the present government pension program. However, we need to look at ways we can "tighten our belts" and perhaps leveling federal pensions to the mean average of the private sector might be one avenue to explore. We need to evaluate the program we now have in conjunction with the existing Thrift Savings Plan, the federal workers' equivalent of a 401 (k) program.

Federal employees under the Thrift Savings Plan can contribute up to 10 percent of their pretax wages into the plan. The federal government matches dollar for dollar the first 3% and the next 2% is matched at 50%. The government also contributes 1% of compensation to all federal employees eligible for retirement benefits, regardless of their participation in the Thrift Savings Plan. The employee has a choice to invest their contributions in any combination of three TSP Funds: the Government Securities Investment Fund, the Common Stock Index Investment Fund, and the Fixed Income Index Investment Fund.

Federal employees are fully vested after five years of service. Twice a year, during "open season," employees can change their contribution rates and the percentage of the funds that they have invested.

According to the Employees Benefit Research Institute tabulations of the April 1993 Current Population Survey employee benefits supplement, the average contribution rate among private sector plan participants was 7.1% in 1993. This is compared to a contribution rate of 6.1% in the federal government, and 7.9% between state and local government employees.

According to CBO, the federal government will pay pensions totaling nearly $66 billion to almost 2.5 million retired civilian workers in fiscal year 1994 alone. Under the current fiscal constraints our federal government faces, a continued trend in such expenditures places not only the future of federal retirees in jeopardy but the American taxpayers as well. No one denies the rightful claim to a secure retirement for federal employees—we do however, need to look into streamlining the current system for future employees.

According to the Office of Personnel Management, the federal government spends 25% of payroll expenditures on pensions. Despite a 1983 law intended to reform federal pensions, the OPM expects that amount to grow to 40% by the year 2020.

At this rate, our country will arrive at pension disaster. Public pension unfunded liability for the federal pension plan has reached the level of $1.5 trillion. The federal government funds federal pensions on a pay-as-you-go basis. If the federal government would have to account for their pensions the same way as private industry, the U.S. debt would increase a staggering 32% overnight—from $4.7 trillion to $6.2 trillion.

As I said before, I am not advocating the elimination of federal pensions. No matter what changes are made, every federal employee who presently participates in a federal pension program, will be grandfathered into a plan. However, if we do not make some form of modifications, like expanding the Thrift Savings Plan, or adjusting the existing Federal Employees Retirement Program, the American people will face a taxpayer bailout of the federal pension program sometime in the near future. Lets practice some prevention before a cancer can occur.

Thank you Mr. Chairman.

Mr. MICA. I thank the gentleman, and also for the business perspective he brings to Congress and the panel. I'd like to call now on Representative Phil English, from Pennsylvania, for his testimony.

Mr. ENGLISH. Thank you, Mr. Chairman. And thank you to the entire panel for the opportunity to testify today on this important issue.

I'm here today to testify in support of H.R. 804, the Congressional Members' Pension Limitation Act of 1995—offered by my distinguished colleague, Representative Miller of Florida—of which I'm a co-sponsor. It's a bill to restore fairness to the manner in which we calculate congressional pensions.

Mr. Chairman, the American people can see no reason why Members of Congress should receive a more generous pension than other Federal employees. And in my view, the American people are right.

Over the course of the last several months we have made tremendous strides in our drive to reform Congress and change the way Washington works. We opened committee meetings to the public and press, slashed the size of our staffs, and made Congress abide by its own laws. It's no wonder that approval ratings for Congress have finally reversed a decade-long decline and begun heading upward again. That does not mean that our work is finished, far from it.

In my town meetings, in letters-to-the-editor, and in phone calls and letters from home, my constituents continue to be angered at the prospect of their elected official receiving six figure pensions—pensions far more generous than those available to other Federal employees.

The bill introduced by Representative Miller corrects not only the problem of pension inequality, but simultaneously advances several other important public policy goals.

First, H.R. 804 guarantees that congressional pensions return to a more equitable level. Second, it promotes a citizen legislature by removing the financial incentive for Members to serve more than a dozen years. And, third, the bill makes it clear that this Congress has the guts to clean its own house, even when that cleaning means cutting our own pensions.

Under the Miller plan, Members of Congress would continue to be eligible for Social Security, but the other two elements of our pension plans would be carefully limited. The bill eliminates government contributions to Members' Thrift Savings Plan after a Member has served 12 years in Congress, and, importantly, the pension benefit for Members is abolished.

The plan effectively converts pensions into a 401(k)-style account. Under this plan, no Congressman would leave with a retirement fund that pays more than roughly $34,000 per year—a dramatic change from recent history.

I think it is also important to note that our plan appropriately deals with the issue of previously elected Members who haven't yet vested a pension. The plan freezes contributions to nonvested Members' accounts after 5 years. In that way, the Miller proposal avoids the need to reimburse Members who have already contributed to

the system prior to vesting. It's a simple and cost effective solution to a potentially difficult issue.

As I noted earlier Mr. Chairman, I support this bill not just because it reforms our pensions, but because H.R. 804 advances other important goals. One of the dangers I perceive with the present system is that it gives elected officials a large financial reward for pursuing long careers, with dire consequences for public policy. Rewarding incumbency should not have to fall on the taxpayers' shoulders. Rather, by removing the financial incentive for staying in Congress more than 12 years, we have the chance to remove a powerful disincentive to the creation of a citizen legislature. Since term limits are one of the key planks in the Contract with America, I believe that this reform compliments the Contract in both spirit and substance.

In an age when we're asking the public to sacrifice on very difficult budget cuts, we can't at the same time ask them to finance gold-plated pensions for Members of Congress. Adoption of the Congressional Accountability Act was a great first step. Now we need to finish the job and ensure that a skeptical public won't wonder why we didn't apply the same principles to our pensions.

In sum, Mr. Chairman, I believe this bill is the right thing to do and this is the right time to do it. Thank you for the opportunity to make this presentation.

Mr. MICA. I thank you for your testimony. I think we have 5 minutes, Mr. Salmon, if you don't mind we'll have enough time to get your testimony. Would you like to go ahead?

Mr. SALMON. Yes, Mr. Chairman, I would. Let me just state for the record that I am not a self-made millionaire. I'm a person that has a family of four children and I'm struggling just like many Americans out there just to try to make ends meet from one paycheck to another paycheck. I don't have any real outlandish desires for my family, I'd just like to make sure that they get a good education.

But I didn't come to Congress to collect on a pension. I came to Congress to serve and to try to do the right thing. I didn't come to Congress to become a career politician. I came here, again, to be a servant. I appreciate you holding this important hearing today. This is a very important issue to the American public. It's important to our colleagues, it's important to our constituents.

I'm here to speak on behalf of Mr. Miller's bill because I believe it is a compromise that forges the best solution possible.

I am not here this morning to impugn the institution of Congress. That is not the intent of Mr. Miller's bill, and that is not the purpose of this morning's hearing. Rather, I would like to take this opportunity to explain why we need this legislation and why it needs to be a key component of a broader congressional reform movement.

The American people sent a clear message to Congress last November. Congress has to stay in touch with its constituents, and it wasn't doing so, and the people were fed up. The people, as we know, were right. Congress had exempted itself from many of the laws that it imposed on every American. Congress had not had to comply with the workplace safety laws, environmental regulations, family and medical leave regulations, or any of the regulations sti-

fling productivity and growth in the American private sector. At the same time, Congress had continued to spend more than it was taking in, continued to raise taxes on the American people, and continued to increase the size of government. In short, Congress had become an island of denial in a sea of legislative reality. Congress had been failing the American people, and rewarding itself for the effort.

On the first day of the 104th we passed the Congressional Accountability Act to begin to reverse the course. We have also ordered an audit of the operations of House, which will also help us to bridge the chasm that developed, by forcing us to identify ways to streamline and modernize our operations—the very way that American businesses have been able to innovate, compete and succeed in a very rapidly changing marketplace. In this movement toward making Congress run like a business, we cannot ignore changes in the world of private pension systems.

Within the private sector, we have seen a dramatic shift toward defined contribution pension plans, and away from the defined benefit plans. For better or worse, this trend is a reality. In Congress we already have a defined contribution pension available to us, but we still rely heavily on a defined benefit plan.

As American businesses have adapted we, too, should learn to rely on a pension system that much more is representative of the American business environment and the American worker. This will not impede our ability to draft sound public policy, nor will it create a disincentive for quality individuals to seek office. What it will do, however, is make Congress look more like the Nation that we represent.

As I said earlier, the American people have sent a clear message that we must cut the cost of government, and that we must get our house in order. Spending cuts are never easy to make. Every spending program has a constituency, and these groups are usually quite vocal, as we have seen over the last few weeks. They are quite naturally nervous about the effects that change will have on their interests.

But facing a national debt of $5 trillion and growing, we owe it to our children to work tirelessly to shrink our Federal Government. Again, private recipients of funding and Federal employees will all be affected by the necessary belt tightening. Congress must show that we, too, are willing to make the personal sacrifices to work toward the greater good of the American people. Pension reform will show America that we recognize the enormity of this problem and that we will not insulate ourselves from its solution as we have so many times in the past.

Why pension reform? Congressmen and women are working hard, and loyally serve a noble institution. However, Members of Congress enjoy far more generous pension benefits than any other Federal employee. While it is true that our jobs are different in nature from many Federal employees, the comparison between pension plans certainly sheds some light on the need for reform.

First of all, Members' pensions accrue 70 percent faster annually than those of Federal workers. Further, Members of Congress become eligible for more benefits at an earlier age than other Federal employees. For example, Members will be eligible to receive 34 per-

cent of their high three salary at age 50, while Federal employees do not receive their 20 percent until age 60.

Part of the reason for this disparity is the higher accrual rate used to calculate Members' pensions. Members of Congress are, for some reason, afforded the same high accrual rate used for policemen and firefighters to compensate them for the hazardous nature of their careers.

Admittedly, I have not been in Congress for as long as many of my colleagues, but as far as I can tell, running to the Capitol to cast a vote—as we have to right now—or fighting off lobbyists, appears to be the most hazardous duty that we will ever have to perform.

Congressional pensions were originally intended to serve as an enticement for Members of Congress to retire. From what we've seen, it doesn't entice them to retire, it entices them to stay longer and it encourages careerism. Congressional pensions must be reformed, but we cannot stop there. In order to return to a citizen legislature which was envisioned by our founding fathers, we must move forward with franking reform, term limits and campaign finance reform. Along with the already passed congressional accountability measures, these actions will truly remove the incentives and built in advantages of incumbency.

We must get our house in order. We must share in the belt-tightening. And that will be required to balance the budget. Congressman Miller's pension bill is a sound first step in achieving this goal. I wholeheartedly support this proposal. I urge my colleagues to support it as well.

Thank you, Mr. Chairman and members of the committee, and I would request that my statement be included in the record, without objection.

[The prepared statement of the Honorable Matt Salmon follows:]

PREPARED STATEMENT OF HON. MATT SALMON, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF ARIZONA

Mr. Chairman, thank you for holding this hearing. Congressional pensions are an issue very important to many of our colleagues, and to our constituents. I thank Mr. Miller for having the courage to champion this cause that may be unpopular with some of our colleagues, and I thank Mr. Mica for inviting us to testify this morning.

I am not here this morning to impugn the institution of Congress. That is not the intent of Mr. Miller's bill, and that is not the purpose of this morning's hearing. Rather, I would like to take this opportunity to explain why we need this legislation, and why it needs to be a key component of a broader Congressional reform movement.

The American people sent a clear message to Congress in last November's elections. Congress had lost touch with its constituents and the people were fed up. The people, as we know, were right. Congress had exempted itself from many of the laws that it imposed on every American. Congress had not had to comply with workplace safety laws, environmental regulations, family and medical leave regulations, or any of the regulations stifling productivity and growth in America's private sector. At the same time, Congress had continued to spend more than it was taking in, continued to raise taxes on the American people, and continued to increase the size of government. In short, Congress had become an island of denial in a sea of legislated reality. Congress had been failing the American people, and rewarding itself for the effort.

On the first day of the 104th Congress we passed the Congressional Accountability Act to begin to reverse course. We have also ordered an audit of the operations of the House, which will also help us to bridge the chasm that had developed, by forcing us to identify ways to streamline and modernize our operations—the very way that American businesses have been able to innovate, compete and succeed in

a very rapidly changing marketplace. In this movement toward making Congress run like a business, we can not ignore changes in the world of private pension systems.

Within the private sector, employers and employees are moving away from the Defined Benefit (DB) type of plan toward a Defined Contribution (DC) type. The DB plan is favored by long-term employees who expect to work for the same employer for a long enough period of time to collect their money upon retirement. That pension will be of an amount defined from the outset based on their final salary, their years of service, and a certain accrual rate. More and more individuals are moving away from this type of system toward a more portable DC plan. With this arrangement, such as Congress' Thrift Savings Plan, individuals are responsible for their own retirement future. They determine how much of their salary they will put away, where it will be invested, and they are free to take it with them should they change jobs or become unemployed. As an added incentive for individuals to take advantage of these plans, the employer will match a certain portion of the employee's contribution.

We already have a DC pension available to us, but we still rely heavily on a DB type plan as well. As American businesses have adapted, we too should learn to rely on a pension system much more representative of the American business environment and the American worker. This will not impede our ability to draft sound public policy, nor will it create a disincentive for quality prospective members of Congress to seek office. What it will do, however, is make Congress look more like the nation that we represent.

As I said earlier, the American people have sent a clear message that we must cut the cost of government, and that we must get our house in order. Spending cuts are never easy to make. Every spending program has its constituency, and these groups are usually quite vocal. They are, quite naturally, nervous about the effects that change will have on their interests. But facing a national debt of $5 trillion and growing, we owe it to our children to work tirelessly to shrink our federal government. Again, private recipients of funding, and federal employees will all be affected by the necessary belt-tightening. Members of Congress must show that we, too, are willing to make personal sacrifices to work toward the greater good of the American people. Pension reform will show America that we recognize the enormity of this problem, and that we will not insulate ourselves from its solution as we have so many times in the past.

Why pension reform? Congressmen and women are hard working, and loyally serve a noble institution. However, Members of Congress enjoy far more generous pension benefits than other federal employees. While it is true that our jobs are different in nature from many federal employees, the comparison between pension plans certainly sheds some light on the need for reform. First of all, Members' pensions accrue 70% faster annually than those of other federal workers. Further, Members of Congress become eligible for more benefits at an earlier age than other federal workers. For example, Members will be eligible to receive 34% of their high-3 salary at age 50, while federal employees do not receive their 20% until age 60. Part of the reason for this disparity is the higher accrual rate used to calculate Members' pensions. Members of Congress are, for some reason, afforded the same high accrual rate used for policemen and fire fighters to compensate them for the hazardous nature of their careers. Admittedly I have not been in Congress for as long as many of my colleagues, but as far as I can tell, running to the Capitol to cast a vote, or fighting off lobbyists, appears to be the most hazardous duty that we will ever have to perform.

Moreover, comparing Members' pensions with those available in the private sector shows the continuing disparity between Congress and the United States as a whole. Congressional pensions are based on a high-3 salary average, while most in the private sector are based on a high-5. Members of Congress have up to 5% of their salary matched in the TSP, as opposed to the private sector standard of 3%. Members of Congress are eligible to collect their pension at age 50, as opposed to 62 in the private sector. Finally, and perhaps most telling of the disparity between Members' and private pensions is the regular Cost of Living Adjustment. This is a feature that is enjoyed by 100% of the Members of Congress, but only by 4% of private sector employees. This has allowed pensions, such as that of former Rep. Hastings Keith, to grow quite rapidly. Mr. Keith's annual pension went from $18,720 after he retired in 1973 with 14 years of service to the $71,928 that he took home last year. This is not indexing for the cost of living but, as Mr. Keith would say, an adjustment for the cost of "living it up."

Congressional pensions were originally intended to serve as an enticement for Members of Congress to retire. The pension system has since created a perverse incentive for Members to serve as long as possible and to make a career of Congres-

sional service. I agree with Mr. Miller that Members do not enter Congress for the pension. But, it does provide an incentive to stay. It is time that we bring Members' pensions in line with the rest of the nation, and time that we change the culture of Congress from a culture of careerism to one of service. We must end the enticements and rewards that come with incumbency. Congressional pensions must be reformed, but we cannot stop there. In order to return to the citizen legislature envisioned by our Founding Fathers, we must move forward with franking reform, term limits, and campaign finance reform. Along with the already passed Congressional Accountability measures, these actions will truly remove the incentives and built-in advantages of incumbency.

We must get our house in order, and we must share in the belt-tightening that will be required to balance the federal budget. Congressman Miller's pension reform bill is a sound first step toward achieving this goal. I wholeheartedly support this proposal and I urge my colleagues to lend their support as well.

Thank you again, Mr. Chairman, for the opportunity to testify this morning. I would be happy to answer any questions that you or the Committee may have.

BACKGROUNDER ON MEMBERS' RETIREMENT BILLS

H.R. 575—Goodlatte

A. Highlights

1. Does not affect CSRS; applies only to FERS.
2. Does not affect congressional employees, only members.
3. Prospectively changes rules on computation of members' annuities, members' contributions, and government contribution to those covering most federal employees.
4. Annuities based wholly on service before effective date of act are computed under present rules; annuities based only on service after effective date are computed under new rules; "mixed annuities," those based in part on service before and in part on service after effective date, are computed as follows: the portion based upon pre-act service is computed under the present rules, and the part based upon post-act service is computed under the new rules.
5. Effective date: first day of first pay period beginning 12 months after date of enactment.

B. Section by section analysis

1. Section 1. Computation of annuity

a. Present law: under 5 U.S.C. 8415(a), annuities for most federal employees and for members and congressional employees with less than 5 years service as member or congressional employee are computed by multiplying 1.1% of member's or employee's average salary times years of service. (Reduced to 1% if retirement is before age 62.)

For members and congressional employees with at least 5 years service as member or congressional employee, annuities are computed by multiplying 1.7% of average pay times years of service as member or congressional employee (up to a maximum of 20 years). (Portion of annuity based on other service is calculated same way as most employees).

b. Under H.R. 575: annuities for members and most other federal employees are calculated by multiplying 1.1% of average salary times years of service. (1% for retirement before age 62.) Congressional employees' computation unaffected.

2. Section 2. Contributions

a. Deduction from pay

i. Present law. Under 5 U.S.C. 8422(a), for most employees the deduction is computed by multiplying basic pay by 7% and subtracting from that figure an amount equal to the social security deduction required by the internal revenue code.

For members and congressional employees the deduction equals 7.5% of basic pay less the social security deduction.

ii. Under H.R. 575: changes members' contribution to 7% of basic pay less social security deduction.

b. Government contribution

i. Present law. The government's contribution for most employees (other than members, congressional employees, and certain others, such as law enforcement officers) is calculated by multiplying the "normal-cost" percentage for such employees by the agency's aggregate payroll for such employees.

The contribution for members and congressional employees and certain others is determined by multiplying the "normal-cost" percentage for mem-

bers and those employees by the agency's aggregate payroll for members and such employees.

ii. Under H.R. 575. The same "normal-cost" percentage used for most employees will also be used to calculate the government's contribution for members.

3. Section 3. Effective date and savings provision

a. Present law. None

b. Under H.R. 575. The effective date is the first day of the first pay period beginning 12 months after the date of enactment. Any annuity or portion of an annuity based on service before the effective date of this act shall be computed by using the present rules.

H.R. 804—Miller

1. Under CSRS—

Bars deductions and withholding of retirement contributions from members after they have completed 5 years of civilian service or after effective date for those who have 5 years or more of civilian service on the effective date. (Bars deposits for periods when deductions prohibited; repeals requirement that deductions be made during last five years of service for member or survivor to be eligible for retirement.) Does not bar government contribution after limit reached.

Members with more than 5 years civilian service but less than 12 years service as a member will be allowed to contribute up to 10% of basic pay to thrift savings plan (rather than 5% limit now in effect) and receive government contributions (18 and matching, both now barred).

Members with more than 12 years service as a member may contribute up to 10% of basic pay, but may not receive government contribution.

Members to be given written notice and opportunity to change level of individual contributions whenever change in level of individual or government contributions is required by act.

2. Under FERS.

Bars deductions and withholding for any member with more than 5 years of civilian service or who first becomes a member on or after effective date. Period for which deductions and withholding are barred cannot be included in years of service for computing amount of basic annuity or for other purposes relating to benefits based on service.

Bars government contributions to thrift savings plan (1% and matching) for member with more than 12 years of service as a member.

Member to be given written notice and opportunity to change amount of individual contributions whenever member's eligibility for government contributions terminates.

Preserves credibility of service creditable under Section 302 of the federal employees retirement system act of 1986 for members who elected to switch from CSRS to FERS.

3. Effective date: first day of first congress after enactment.

H. Con. Res. 2—Coble

Expresses the sense of congress that members' annuities should not be subject to cost-of-living adjustments to the extent they are based upon service as a member of congress.

H.R. 165—Coble

1. Bars members of congress from participating in FERS from date of enactment forward.

2. Bar would not apply to members who would be eligible for a FERS annuity on date of enactment (i.e., those who have 5 years creditable civilian service on that date).

3. Members who become ineligible to participate in FERS as a result of this act would be entitled to a refund of their contributions as if they were separated.

4. Does not affect:

a. Members in CSRS

b. Former members or spouses of former members who would be entitled to a FERS annuity on the date of enactment

c. Congressional employees.

H. Con. Res. 15—Gutierrez

Expresses the sense of congress that all of the following be done within the first 100 days of the 104th congress: retirement benefits available to members and those

available to other employees be examined to determine whether members' benefits are more generous; that hearings be conducted by committee on government reform and oversight to review those findings; and that legislation be drafted to remove privileges afforded only to members and not available to other federal employees.

H.R. 907—Browder

1. Bars members from receiving colas.
2. CSRS and FERS annuities of members and congressional employees to be computed by the same formula used for most federal employees.
   A. Under current CSRS law, in computing annuities for members and congressional employees (with more than 5 years such service), 2.5% of average pay is multiplied by years of service as a member or congressional employee; bill will change multiplier to 1.5% for the first 5 years of total service, 1.75% for second five years, 2.0 for service over 10 years.
   B. Under current FERS law, annuity computations for members and congressional employees (with more than 5 years such service) use multiplier of 1.7% for up to 20 years service as member or congressional employee. Under bill, multiplier would be 1.1% for all service for members or congressional employees retiring at age 62 or older with 20 years service, otherwise 1.0%.
3. Changes CSRS contribution rates for members (currently 8%) and congressional employees (currently 7.5%) to the rate used for most federal employees (7%). Bars deposits to cover periods of service as member or congressional employee after effective date of act.
4. Changes FERS contribution rate for basic annuity for members and congressional employees from 7.5% minus social security to 7% minus social security.
5. Authorizes Secretary of Senate and Clerk of House, in consultation with OPM, to issue regulations to carry out act.
6. Effective dates:
   A. Colas—date of enactment and shall apply to annuities commencing after 11/6/96.
   B. Years of service—date of enactment, applies only to service as member or congressional employee after 11/6/96.
   C. Contribution rates—first day of 1st pay period beginning on or after 11/6/96.

Committee recommendation

1. Align members' and staff pensions with civil service levels by applying civil service rules to all new and non-vested members and staff and by permitting senior, vested members and staff to retain accrued benefits, but applying standard civil service rules to any benefits acquired through service after January 1, 1996, i.e., "blending" old and new benefit levels.

Mr. MICA. Without objection, so ordered. I want to thank all of our freshmen panelists who have remained and given their testimony, for their insights and fresh perspectives to this issue.

We do have a vote on, and I will excuse the panel and ask that if you have additional comments, please submit them for the record. We will reconvene at 12 o'clock and take the third and final panel. Thank you.

[Recess.]

Mr. MICA. If I could have your attention, please, we would like to call the hearing back to order, and call forward our third panel and final panel: Nancy Kingsbury, Director of Federal Human Resource Management Issues, Government Accounting Office; and Mr. Jack Stair. Mr. Stair is chairman of the Committee on Employee Benefits of the Financial Executives Institute, from the private sector.

We appreciate so much your patience with the votes that have occurred, your understanding in the delay in the process here. It is also customary for non-Members of Congress, since this is an Investigation and Oversight Subcommittee, to swear in our witnesses, so if you don't mind, would you stand.

[Witnesses sworn.]

Mr. MICA. Let the record reflect that the witnesses answered in the affirmative. With that, I'd like to first call on Nancy Kingsbury for her testimony. Thank you so much for being with us.

STATEMENT OF NANCY KINGSBURY, DIRECTOR, FEDERAL HUMAN RESOURCE MANAGEMENT ISSUES, GENERAL ACCOUNTING OFFICE; AND JACK STAIR, CHAIRMAN, COMMITTEE ON EMPLOYEE BENEFITS, FINANCIAL EXECUTIVES INSTITUTE

Ms. KINGSBURY. Thank you, Mr. Chairman, I appreciate the opportunity to be here and your patience in hanging in until the bitter end of this discussion this morning.

I would suggest that my statement be entered into the record and I will try to be as brief as I can.

Mr. MICA. Without objection, so ordered.

Ms. KINGSBURY. A lot of the specific facts that we present in our testimony have been touched on this morning, and I'd like to emphasize in the oral statement a couple of specific things just for clarification.

With respect to the portion of our testimony about the benefits currently given to Members of Congress, I think it's important to recognize that under FERS, Members get essentially the same benefits as several other groups of Federal employees, namely law enforcement officers and air traffic controllers and the like. They have slightly different age and years of service requirements than those groups, but their benefit accruals are essentially the same as those groups. I just wanted to clarify that for the record.

And then we were asked in preparation for this testimony to revisit some of our work that we did in the run-up to the creation of FERS about private sector pension plans. I just want to highlight a few things for the debate this morning.

We are in the middle of updating that work. We have looked at some additional current studies, beyond what we've done in the past, and generally find that the patterns, while they're changing somewhat, are not vastly different from our earlier work.

With respect to the issue of high three versus high five, depending a little bit on which study you look at and whether you're looking at relatively larger firms or smaller firms, over half of the private plans that are reported by these studies appear to require high five. But in the larger ones—the ones done in the biggest corporations—almost half permit retiring under high three. So I think that's something we may want to look at with a little more specificity as we move this debate ahead.

It has been said several times this morning with respect to contributions that it's relatively rare in the private sector for employees to have to actually contribute to their pension plans. In one recent study, which was of employees done by the Bureau of Labor Statistics, about 97 percent of the employees reported that they made no contributions to their pension plans at all.

In another study, 88 percent of the plans covered required no contribution. Of the 12 percent that did require a contribution, it was on the order of 5 or 6 percent. Of course, those private plans also have Social Security, which requires employee contributions.

Finally, there has been a good bit of debate this morning with respect to COLAs. While it's true that most private sector plans do not provide regular, periodic COLAs, many of them do provide ad hoc adjustments. One study estimated that, for the larger plans, those ad hoc adjustments had averaged close to 60 percent of the Consumer Price Index over a period of a decade.

While the government program for CSRS, on paper, requires a 100 percent replacement of CPI, I think the practice has been something less than that. One of your witnesses at the hearing last week suggested it was on the order of 80 percent. We have not actually looked at that at this point in time. I think it's important to recognize that under FERS there is no COLA at all until age 62.

One of the things we did in our earlier study to try to estimate the relative generosity, if you will, of Federal pension plans was to estimate the proportion of salary replaced by those pension plans in the private sector—including with Social Security and capital accumulation plans—which sometimes is left out of the debate. What that analysis showed 10 years ago was that if you retire at age 55 with 30 years of service—and that level of retirement is not uncommon in the private sector—CSRS benefits were relatively more generous than private sector plans. That is to say, they replaced 56 percent of pay compared to 46 percent of pay with private sector plans.

However, if employees worked until age 62 with 30 years of service—and I would remind you that the current average retirement age in the Federal Government is almost age 62—private plans ended up replacing a greater amount of salary than CSRS did, and it was the difference between 70 percent and 56 percent. Now, I will acknowledge that this data is somewhat old, and we are going to be looking at this again more specifically as this debate plays out this spring.

So with that, Mr. Chairman, I'll be happy to answer your questions when my co-panelist is done.

[The prepared statement of Ms. Kingsbury follows:]

PREPARED STATEMENT OF NANCY KINGSBURY, DIRECTOR, FEDERAL HUMAN RESOURCE MANAGEMENT ISSUES, GENERAL GOVERNMENT ISSUES, U.S. GENERAL ACCOUNTING OFFICE

In this statement, GAO discusses its ongoing work which addresses two issues related to federal employee retirement programs. First, GAO compares the retirement provisions for Members of Congress and congressional staff in the Civil Service Retirement System (CSRS) and the Federal Employees Retirement System (FERS) with the provisions applicable to other employees covered by the systems. Second, GAO discusses its analyses of retirement programs in the private sector and state governments.

GAO is finding that the retirement provisions for Members of Congress in the CSRS are more beneficial than the provisions for other federal employee groups, particularly general employees. Members can retire at younger ages and with fewer years of service than can general employees and congressional staff, and the formula for determining Members' benefit amounts, which also applies to congressional staff, yields greater benefits than the formula applicable to general employees. Members' benefits may also be calculated on a higher salary base than other employees. The CSRS provisions for law enforcement officers, firefighters, and air traffic controllers generally fall between the congressional and general employee provisions.

The relative advantages over general employees afforded to Members and congressional staff in CSRS were generally continued under FERS. However, Member provisions in FERS are very similar to the FERS provisions for law enforcement officers, firefighters, and air traffic controllers.

In analyses of private and state retirement programs completed in the mid-1980s, GAO found that the relative benefits provided by CSRS and typical nonfederal plans depended heavily on when employees retired and how much service they had. When employees retired at age 55 with 30 years of service, CSRS gave greater benefits. However, nonfederal benefits were superior for employees retiring at age 62 when Social Security benefits were available to nonfederal employees. GAO is in the process of updating its analyses of nonfederal plans and comparisons with CSRS and will also compare the benefit levels in FERS with those in nonfederal programs. GAO's initial inquiries indicate that no significant changes in the design of nonfederal retirement programs or the level of benefits they provide have occurred since the earlier analyses were completed.

Mr. Chairman and Members of the Subcommittee:

We are pleased to be here today to discuss our work on federal retirement matters. Specifically, we were asked to address the question of how the retirement benefits afforded to Members of Congress and congressional staff compare with the benefits available to other federal employees and to provide any insights we might have on retirement programs in private companies and state governments.

At your request and a similar request by the Chairman of the Subcommittee on Post Office and Civil Service of the Senate Governmental Affairs Committee, we are in the process of examining both these issues. Our work is not yet complete, but we can share some preliminary observations as well as information from earlier reports that relate to the areas of interest.

CONGRESSIONAL RETIREMENT

Depending on when they were elected, Members of Congress may be covered by either the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS). These systems cover most federal civilian employees. However, unlike other employees, Members had the option of not participating in either system. We have no information on how many Members, if any, have opted not to participate.

In general, FERS applies to individuals who first entered federal service after December 31, 1983. It was instituted in response to the Social Security Amendments of 1983 that extended Social Security coverage to federal civilian employees hired after that date. (The amendments required all Members of Congress to be covered by Social Security on January 1, 1984, regardless of when they entered Congress.) FERS includes a defined benefit pension plan, a Thrift Savings Plan to which the government contributes, and Social Security as a three-part retirement package. CSRS was established in 1920, and is a stand-alone pension system with no Social Security coverage or government contributions to the Thrift Savings Plan or any other capital accumulation plan. CSRS was closed to new entrants on December 31, 1983. Currently, CSRS and FERS each cover about half of all federal employees who are not in one of the government's other retirement systems for civilian employees, such as the Foreign Service, Central Intelligence Agency, and Federal Reserve Board retirement systems.

The CSRS has separate provisions for the various groups it covers. Differing provisions apply to Members of Congress, congressional staff, law enforcement officers and firefighters, air traffic controllers, and all other employees (which we call "general employees" in this statement).

As a rule, the retirement provisions for Members of Congress in the CSRS are more beneficial than the provisions for other employee groups, particularly general employees. While there are a number of differences between congressional and general employee provisions, the major differences are found in the eligibility requirements for retirement and the formulas used to calculate benefit amounts.

Members can retire at younger ages and with fewer years of service than can general employees and congressional staff. General employees and congressional staff are eligible for optional retirement at age 55 with 30 years of service, at age 60 with 20 years, or at age 62 with 5 years. Members can retire at the same age and service combinations, but may also retire at age 50 with 20 years and at any age with 25 years. Additionally, Members may retire at age 60 with 10 years of Member service and at age 50 with service in 9 Congresses.

The formula for determining Members' benefit amounts gives greater benefits than the formula applicable to general employees. The Member formula also applies to congressional staff. Congressional staff and all other employees' benefits are calculated on the average of the salaries they earned during their 3 consecutive highest-paid years (known as the "high 3"), while Members' benefits are calculated on their high 3 or their final salary as a Member or in a subsequent appointive office, whichever is higher. Thus, for example, a Member who retires at age 60 after 30

years of service receives 75 percent of a salary base as high or higher than his or her high 3, and congressional staff receive 75 percent of their high 3. General employees with 30 years of service receive 56.25 percent of their high 3.

We noted only one instance where Member provisions were not better than those for congressional staff and general employees. When Members retire before age 60, their accrued benefits are reduced. The reduction is 1 percent for each year they are between ages 55 and 60 and 2 percent for each year they are younger than age 55. There is no reduction for congressional staff and general employees who take optional retirement before age 60. Thus, a Member who retires at age 55 after 30 years of service receives a benefit equal to 71.25 percent of his or her salary base rather than the 75 percent he or she would receive without the age reduction. Since the reduction does not apply to congressional staff, they would receive 75 percent of high 3 at age 55 with 30 years of service, and general employees would receive 56.25 percent.

In recognition of the greater retirement benefits available to Members of Congress, the CSRS law requires them to contribute 8 percent of salary to the retirement fund compared with 7.5 percent for congressional staff and 7 percent for general employees. Thus, at their current salary rate of $133,600, Members contribute each year $668 and $1,336, respectively, more than congressional staff and general employees would contribute at the same salary rate.

The CSRS provisions for law enforcement officers, firefighters, and air traffic controllers generally fall between the congressional and general employee provisions. Law enforcement officers and firefighters may retire at age 50 with 20 years of service. Their benefit formula is the same as the congressional formula for the first 20 years of service and reverts to the general employee formula for each year of service longer than 20 years. Air traffic controllers may retire at age 50 with 20 years of service or at any age after 25 years of service. Their benefit formula is the same as the general employee formula, but they are guaranteed to receive no less than 50 percent of their high 3 at retirement.

Law enforcement officers and firefighters contribute 7.5 percent of their salaries to the retirement fund, and air traffic controllers contribute 7 percent.

FEDERAL EMPLOYEES RETIREMENT SYSTEM

The relative advantages afforded to Members of Congress and congressional staff over general employees in CSRS were continued under the pension plan part of FERS. However, Member provisions are very similar to the provisions for law enforcement officers, firefighters, and air traffic controllers under the new system. (Unlike CSRS, the FERS provisions for air traffic controllers are the same as those for law enforcement officers and firefighters.)

FERS raised the retirement age for most covered employees under the system. It adopted a Minimum Retirement Age (MRA) concept that gradually increases, from age 55 to age 57, the earliest age at which congressional staff and general employees will be eligible for optional retirement. FERS allows these employees to retire at the MRA with 30 years of service, at age 60 with 20 years, and at age 62 with 5 years. Members of Congress are eligible to retire at the same age and service combinations, but, like law enforcement officers, firefighters, and air traffic controllers, they may also retire at age 50 with 20 years of service or at any age with 25 years with no reduction in their accrued benefits.

Members, congressional staff, and general employees are also allowed to retire at the MRA with 10 years of service. However, the accrued benefits for persons who retire under this provision are reduced by 5 percent for each year they are younger than age 62.

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

In contrast, benefits for general employees who are at least age 62 and have completed at least 20 years of service are calculated at 1.1 percent of high 3 for all years of service. For general employees who retire before age 62 with 20 years of service or do not have 20 years of service at age 62 or older, the formula is 1 percent of high 3 for all years of service. To illustrate the effect of the different benefit formulas under FERS, Members of Congress, congressional staff, law enforcement officers, firefighters, and air traffic controllers would all receive 44 percent of their high-3 salaries after 30 years of service, while general employees would receive 33 percent if they were age 62 or older and 30 percent if they were younger than 62.

The FERS law requires employee contributions to the pension plan and Social Security that are generally comparable to the employee contributions required under

CSRS. The law set general employee contributions at 7 percent of salary less the Social Security taxes they are required to pay. Members of Congress, congressional staff, law enforcement officers, firefighters, and air traffic controllers contribute 0.5 percent of salary more than general employees.

Anyone covered by the FERS pension plan is also covered by Social Security and can participate in the Thrift Savings Plan, to which the government contributes 1 percent of his or her salary regardless of whether the employee contributes to the plan. The government also matches, dollar-for-dollar, the employee contribution to the thrift plan up to 3 percent of pay and 50 percent of the employee contribution of the next 2 percent of pay. Employees may contribute another 5 percent of their pay, but with no government matching. Depending on the extent to which employees participate in the thrift plan (and the investment experience of the thrift plan), their benefits from the FERS pension plan, Social Security, and the thrift plan can be comparable to the benefits available to employees covered by CSRS.

PRIVATE SECTOR AND STATE GOVERNMENT RETIREMENT PROGRAMS

When FERS was being developed, the congressional committees of jurisdiction asked us to assist by identifying the features and benefit levels typically found in nonfederal retirement programs. We issued two reports in response to this request.[1]

At your and the Senate Subcommittee's request, we are updating these analyses. We do not expect to complete this work for some time. However, we believe our earlier findings are informative and, based on our preliminary inquiries, we have seen nothing to indicate that significant changes have occurred in the design of nonfederal retirement programs or the level of benefits they provide.

We found that, like the eventual design of FERS, private companies' retirement programs typically consisted of three parts—a defined benefit pension plan, one or more capital accumulation plans (most commonly, a thrift savings plan to which the employees and companies contributed, but also including programs such as profit-sharing plans and stock-ownership plans), and Social Security. All the states had pension plans, and most states also covered their employees under Social Security. At the time of our work, the states often had capital accumulation plans as well, but the plans generally did not provide for employer matching of employee contributions.

In general, we found the major features of nonfederal pension plans to be as follows:

—The majority of private plans based benefit amounts on employees' average salaries earned during their 5 highest paid years. Some private plans and a majority of the state plans used a high 3-year average.

—Very few private pension plans required employee contributions. In contrast, state pension plans generally required employee contributions. Most states with Social Security coverage required employees to contribute 6 percent of pay or less to the pension plan.

—Employees in the majority of private plans could receive unreduced benefits at age 62 or younger. In state plans, unreduced benefits were typically available by age 60. From 11 to 24 percent of private plans (depending on the plans included in each of our various data sources) and 44 percent of state plans allowed employees to retire without benefit reductions at any age or by age 55. These plans generally required employees to have 30 years of service to qualify for retirement under these circumstances.

—Retirement by age 55 with as few as 10 years of service was typically available in both private sector and state plans. In most cases, accrued benefits were reduced by about 4 percent for each year a retiree was younger than age 62.

—The majority of plans provided periodic adjustments to retirees' pensions in addition to the full inflation indexing of their Social Security benefits. The overall average adjustments granted by private plans amounted to about 40 percent of the increase in the Consumer Price Index (CPI). Companies with more than 10,000 employees granted adjustments averaging close to 60 percent of the increase in the CPI.

Our analyses disclosed that benefit formulas in the nonfederal pension plans varied considerably. The benefit accrual rates differed, and the approaches to recognizing Social Security benefits and the early retirement reduction provisions also differed from plan to plan. We could not identify one formula as being representative of all plans included in our various data sources. Accordingly, we applied the plan formulas to a series of salary levels, retiree ages, and years of service and calculated

[1] Features of Nonfederal Retirement Programs (GAO/OCG-84-2, June 26, 1984) and Benefit Levels of Nonfederal Retirement Programs (GAO/GGD-85-30, Feb. 26, 1985).

the benefit amounts produced by the formulas as a percentage of final salary. In this manner, the average benefit levels provided by the plans could be determined. We also calculated the benefits available from Social Security and the typical thrift savings plan to determine the total retirement income the retirees would receive. The benefits varied somewhat by salary level, but, to illustrate our findings, Table 1 shows the retirement income available to private sector and state employees from all three sources at a final salary of $40,000 and at various ages and years of service.

Table 1: Benefits as a Percentage of Final Salary

Age	Years of service	Private sector retiree *	State retiree
55	10	12.2 to 14.0	9.6
55	30	38.8 to 45.5	35.9
62	20	45.6 to 48.7	40.5
62	30	65.1 to 70.3	57.8
65	20	53.9 to 56.5	48.5
65	30	74.2 to 77.3	64.5

* Because our various data sources covered different pension plans, the average benefits available from the plans also varied somewhat by data source. The higher amounts were generally provided by the larger plans.

The retirement amounts for state retirees were generally lower than the amounts for private sector retirees principally because, at the time of our analyses, most state governments did not make contributions to employee capital accumulation plans. Thus, we did not include any benefits from capital accumulation plans in the retirement calculations for state retirees.

Although our reports did not compare nonfederal benefit levels with those in federal plans, it was apparent that the relative benefits of CSRS and nonfederal programs depended heavily on when employees retired and how much service they had. CSRS provided greater benefit amounts to general employees retiring optionally at age 55 and 30 years of service than did the typical nonfederal program. However, nonfederal benefits were superior for employees retiring at age 62 when Social Security benefits were available to the nonfederal employees. On average, federal employees retire at about age 61. Also, even though the benefit amounts available to nonfederal employees at age 55 with 10 years of service were rather small, general employees in CSRS can receive no optional retirement benefits at age 55 unless they have at least 30 years of service.

It is possible that the more current data we are developing will show different results. However, nonfederal employers would have had to make major changes to their retirement programs in the 10 or so years since we did our earlier work if appreciable differences in comparisons with the CSRS are to be found. Our initial follow-up efforts are indicating that such changes have not occurred. It also appears that the basic structure of nonfederal programs has not changed. As one 1994 study[2] of nonfederal retirement programs noted, "Defined benefit pension plans . . . continue to play an integral role in most organizations' benefit packages. A majority [of the organizations studied] offer a defined benefit plan, and almost all of these . . . supplement their plan with some type of [capital accumulation plan]." Nonfederal employees, of course, continue to be covered by Social Security. We have not yet made any comparisons of the benefit levels in FERS with nonfederal programs.

This concludes my prepared statement. I will be pleased to answer any questions you or the Members of the Subcommittee may have.

Mr. MICA. We thank you for your testimony. Now, we'll hear from Mr. Jack Stair. Thank you, again.

Mr. STAIR. Thank you, Mr. Chairman. Thank you. It's a real pleasure to be here today and give you some feel for what is going on in the private sector.

I am a senior consultant with DuPont's Finance Function, and chairman of the Financial Executives Institute's Committee on Employee Benefits, or CEB. I want to thank you for inviting CEB to

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provide information on the private sector plans as your subcommittee examines the Federal Civil Service Retirement System.

Financial Executives Institute is a professional association of senior financial officers with over 14,000 members from 8,500 companies. CEB is the Institute's policymaking committee on all benefits issues. We look at benefit issues from a public policy, corporate and especially financial, perspective. I'd like to share that perspective with you today, and some observations about the Federal Civil Service Retirement System as it compares to those in the private sector, as well as some comments on trends we see developing in benefits in the private sector.

The present Federal system is a mixture of about 50 percent old system and 50 percent new system. Benefits under the old system, essentially before 1984, were high relative to industry plans. In recognition of that, benefits were reduced after 1984 in the new system. However, as I will discuss shortly, I believe benefits continue to be high relative to industry plans.

The three-tiered system, composed of the Social Security layer, a defined benefit or DB layer, and a defined contribution or DC layer, provides substantial benefits, as well as additional opportunity for individuals to provide for their own retirement. Many companies do not offer both a DC plan and a DB plan. This combination is typical in larger companies such as DuPont. It is certainly not unusual for only one of the two plans to be offered in small and mid-sized companies.

There are, in looking at it, four areas which distinguish the Federal DB plan from private sector plans, which I wanted to point out today.

First is that employee contributions are required at 0.8 percent of pay. It is very unusual to find any employee contributions in a defined benefit plan in the private sector. Another thing, the funding level is relatively low. Accrued liabilities far exceed plan assets, while most private sector plans are fully funded.

Another point, the benefit accrual rates under the plan's terms are generous compared to those you'll find in industry.

And, last of all, the automatic cost of living adjustments, or the COLAs, at 100 percent of the Consumer Price Index far exceed industry practices. DuPont recently concluded a study on COLAs. We found ourselves on the high side within a group of very competitive companies. And our practice has been to adjust on an ad hoc basis for about half of the CPI.

Benefit levels in the Federal defined contribution plan also seem high relative to those in industry. For example, a 1-percent contribution to all individuals' accounts is unusual. Most companies require at least some contribution from employees.

The Federal system has a relatively high matching percentage. It starts with a one-to-one match and then goes down to 50 cents on the dollar. A flat 50 cents matching is more typical, particularly when both a DB and a DC plan are offered.

The absence of any deferral percentage testing, required by ERISA, allows every employee to contribute up to 10 percent of pay. In the private sector, depending on the results of this test, companies must limit contributions of the so-called "highly compensated" employees. Those highly compensated employees are de-

fined to be employees earning over $66,000 in 1995. That number is indexed with inflation. Contributions can be limited because of this test to well below 10 percent of pay. In our case, roughly 6 percent of pay is the limit.

Now for some trends. There seems to be movement toward placing more responsibility on the individual to get their jobs done. This philosophy is also reflected in companies being less paternalistic and acting more as facilitators for individuals to provide for their own needs. While this movement started with health care, it is also reflected in more DC-type plans being newly adopted, rather than DB-type plans, as somebody mentioned earlier today.

Some of the reasons for this may include the following: the fact that the DC benefits are more portable. They're more visible to younger participants and funds are accessible through loans or withdrawals. Whereas DB plans reward long term service which may create an artificial incentive to stay on with a company.

COLAs become a moot issue since benefits, or account balances, would automatically grow with time. Account balances continue to increase as employees work beyond age 65, while the value of a DB annuity would begin to decrease due to the shorter time over which the annuity would be paid.

Compliance with ERISA and the Internal Revenue Service requirements: DC plans are simpler to administer and do not usually require complex actuarial valuations, as the DB plans do. However, there are still reporting, disclosure and other discrimination testing requirements which are a substantial burden to employers.

In summary, it would seem that the benefits provided under the Federal system are more generous compared to industry practice. They are not as well funded and they include costly automatic COLAs in excess of industry practice. These areas should be explored for significant cost savings.

Also, funding of the Federal system needs to be examined to ensure these pension promises can be met without overburdening taxpayers. Additional funds should be contributed. Investment management of the plan's assets should be reviewed as well for opportunities for improvement.

Thank you for the opportunity to present our views. I would be happy to respond to any questions.

Mr. MICA. Again, I thank both of our witnesses for their testimony and their patience. Ms. Kingsbury, we're going to continue to rely on you to provide us with some data. We've heard different statistics and facts bantered about here, some that I think may be in error. But we're relying on you to provide our subcommittee with some accurate information on some of the fiscal impact and the real figures involved.

It's my understanding that you stated in your testimony that the average age of retirement among Federal employees is 61 years; is that correct?

Ms. KINGSBURY. It's 61.5, between 61 and 62.

Mr. MICA. Well, one of my concerns and something that has motivated my action in this area is that we are having more and more employees—they're going to advise us there will be no further votes—one of the things that has driven my particular interest and action is that we are seeing the downsizing of Federal Government.

And while we won't see any more people come into CSRS, the old retirement system, most of the people who will be retiring, if I interpret this correctly, will come out of CSRS, because, I think from your testimony today, under FERS—there are no COLAs until 62. There is no real impact and most of these people aren't eligible for retirement because we've only had the FERS for a short period of time. Is that a correct assumption?

Ms. KINGSBURY. That's a correct assumption, and FERS is essentially fully funded.

Mr. MICA. Right. The pressure is coming, then, from the other end on the CSRS. And, again, we have this monthly outflow. That is the preventive approach that I'm trying to take. If we downsize the Federal Government by 12½ percent, which the administration has recommended, or 25 percent, such as the Senate has recommended, most of those people who would be eligible would come out of CSRS, the old system. Would that be correct?

Ms. KINGSBURY. To the extent the downsizing is accomplished by retirements that's probably correct.

Mr. MICA. Yes. Most people who would be eligible would only come out of that category because of the age of FERS. Isn't that correct?

Ms. KINGSBURY. That's correct, but it's not clear that some of the downsizing isn't going to require layoffs. And layoffs would affect other people as well.

Mr. MICA. The first hearing we had was dealing with work force reduction and not too long ago it didn't appear that many were coming out of the current system.

Ms. KINGSBURY. Not yet.

Mr. MICA. Again, I'm trying to approach this from a business standpoint, and hopefully we can act prudently before we get into big trouble with this system. I appreciate both of your testimonies.

Mr. Stair, you indicated that the trend in the private sector is away from a defined benefits plan. Could you elaborate? Do you think we have a model that we should look to in the Federal system?

Mr. STAIR. Yes. There is no question about it that over the past several years the trend in the benefits design has been more toward defined contribution type plans. And I certainly think that that's the wave of the future.

There are a lot of reasons for that. There are tremendous complications associated with operating a defined benefit plan. Many of these complications disappear with defined contribution plans. There has been a change in the contract or relationship between an employer and an employee, to the point where employees are being held personally much more responsible for their own retirement needs.

In a sense, we have many flexible benefit programs in place today which offer employees choices. Employees, more and more, are making those choices. And the employer is no longer the paternalistic role there, it's more of a facilitator in bringing tools to employees, bringing options to employees to let them make up their own minds and make their own choices about what they're going to do in their own retirement needs.

So I would say that definitely there is a trend here that is not going to go away. I mean, this is a definite shift in benefits design in the private sector.

Mr. MICA. The common denominator I've heard in both of your testimonies is that both COLAs and the accrual rate have driven up the cost of operating this retirement system. Is that correct, COLAs and accrual rates?

Mr. STAIR. It's my understanding that it's almost all COLAs—I mean, I pointed out in my remarks that I believe the accrual rates, the 1.7 percent——

Mr. MICA. Well, that has been adjusted.

Mr. STAIR. Even after it has been adjusted it could still be viewed as a little high versus industry practices. But that isn't going to kill you. What is going to kill you is your COLA.

From my understanding, almost half of the total liability of the plans—I heard a figure of $1.7 trillion—almost half of that is due to the COLA. And I'll tell you, there is no need for 100 percent adjustment of CPI in anybody's pension check. There have been dozens of studies showing that people just simply don't need that much, you're not affected in your retirement years by all the things that are included in the Consumer Price Index. There is simply no need for those increases to be made in the first place. It's a gift.

Mr. MICA. I appreciate your comments and I will yield now to the gentleman and ranking member, Mr. Moran.

Mr. MORAN. Well, I think one of the pivotal issues here really is what would people at the level of Members of Congress with comparable responsibilities, skill experience, educational level, be receiving in the private sector in terms of pay and comparable benefits.

With regard to Federal employees I think we have the same question to ask, but there are other complicating factors. For example, we are trying to reduce the size of the Federal work force, and so we ought not enact policies that conflict with each other. For example, if we are now offering $25,000 buyouts to senior management personnel to reduce the size of the Federal work force by 272,900 people, our other actions should be consistent with those.

Now, let me ask Ms. Kingsbury first, is this proposal consistent with that objective, or based upon your understanding of human resources within the Federal Government which is your area of expertise, do you think this is going to cause an unnatural reaction with regard to the number of retirements? For example, would they try to retire under the old system immediately, so that you might negate the intent of the legislation? Or do you think by raising the average pension retirement benefit by using the high five instead of the high three that this might be inconsistent with the other objective of downsizing the government?

Let me ask for your comments as to the consistency of this legislation vis-a-vis the other companion legislation on downsizing.

Ms. KINGSBURY. Well, I think there are a substantial number of people in the Federal Government who are currently fully eligible to retire. And consistent with their behavior and, in fact, consistent with some public policies that suggest people should be encouraged to retire later, many of them have, in fact, stayed on.

I don't know of any particular survey—the Senior Executives Association may have one—of the number of people who would retire if the rules of the game were significantly changed, as some of these proposals would do. But I think it's probably a nontrivial number and, if the number of people who have been in and out of my own office in the last couple of days who knew I was coming up to appear before this subcommittee is any indication, there are a number who would change their plans fairly dramatically if the rules of the game were changed. So I think that that's an important issue.

FERS was designed to be comparable to some synthesis of private sector plans. And that principle, it seems to me, is still valid. It's a principle we supported in the run-up to the creation of FERS and I think it's a principle we would continue to support today.

You touched on a particularly sensitive area in your introductory remark concerning the comparability of Members of Congress to roles in the private sector, and that's something that we are, frankly, struggling to do.

While, as Mr. Stair said, there are some limits under ERISA to the contributions to thrift payments plans, those limits only apply for purposes of the tax deductibility issues. We are aware that a number of firms, particularly larger firms, have fairly significant programs for senior managers—profit sharing programs, other kinds of pension contribution programs—largely out of the public domain because they don't have to be reported.

We are, frankly, struggling at the moment to get some information about that because, insofar as it relates to Members of Congress, I think that debate ought to play out at that level.

Mr. MORAN. Thank you, Ms. Kingsbury. I think that's terribly important to bear in mind if we're looking at comparability, we're looking at the compensation that is afforded someone based upon their experience, their education level, their skill level, whatever achievement level they have accomplished through their career.

And the private sector profit sharing plans, stock options and so on, are a very important aspect of compensation. And, in fact, with senior executives, which is probably the level that would be comparable to Members of Congress, you're talking about some very generous plans that are significantly higher oftentimes than the visible salary levels.

Let me ask Mr. Stair, again, matching the Members of Congress as to their relative level of expertise, experience, responsibility, what do you think would be comparable compensation?

Mr. STAIR. Well, let's start with the defined benefit plan. At DuPont, senior management of the company participate in the same pension plan that I do. And our accrual rate is 1.5 percent of pay times service, minus half of the primary Social Security benefit. That's your pension formula.

When you collect that pension, you can collect it as early as age 58 with no reduction. If you collect it sooner than that, you'll be looking at reduction factors of 5 percent a year.

Mr. MORAN. Are you a senior executive, Mr. Stair?

Mr. STAIR. I would consider myself to be middle management.

Mr. MORAN. Do you mind my asking what your salary is, since the topic of this issue is salaries?

Mr. STAIR. My salary is approximately $95,000.

Mr. MORAN. And so your total benefit package when you retire—you're what, in your 40's? No?

Mr. STAIR. Thank you very much.

Mr. MORAN. Well, I don't know. [Laughter.]

Mr. STAIR. I'm 52.

Mr. MORAN. Fifty-two. So in another 10 years what would you anticipate your total retirement benefits to be?

Mr. STAIR. Well, we'll all have to plug in our computers and make some projections as to what we think might happen in the future. But at a 1.5 percent accrual rate—let's just start there—with let's say 40 years of service, that would give you a factor of 60 percent of your pension. But then there is that offset of Social Security benefits. So after the offset and everything you would probably be looking at something more like around 40 percent of pay, or pre-retirement pay coming from your pension.

Mr. MORAN. So you would be getting about $40,000 total benefit, no profit sharing, nothing on that——

Mr. STAIR. Well, I was about to say, no profit sharing. But in addition to that we have a defined contribution plan similar to yours, except that I'm limited to putting in 6 percent of my pay in that plan, whereas you could put in 10 percent in yours. And so I'll have whatever that benefit will accumulate to by the time I retire. And then when I do retire, those funds could be drawn down in several different ways.

Mr. MORAN. But that's your pay—that comes directly out of your pay. Is that after tax?

Mr. STAIR. It is before tax.

Mr. MORAN. Yes. And ours would be before tax, too. It comes out of our salary.

Mr. STAIR. That's correct.

Mr. MORAN. And that's optional. Now, you say you're middle management. Senior management is, what, $150,000, $200,000 at DuPont?

Mr. STAIR. Well, we'll go all the way up to the chairman of the board, we're talking about a whole different kind of animal.

Mr. MORAN. Yes. Senior executives are $200,000?

Mr. STAIR. $200,000, $250,000.

Mr. MORAN. $250,000. OK.

Mr. STAIR. It is extremely difficult to make these comparisons—as I see that you're struggling to do this, I would do the same thing.

But I would caution you a couple of things. One is the amount of benefit that I'll receive when I retire won't be adjusted for a full CPI. I expect to be retired quite a long time, and I would expect that most people would expect to be retired for quite a long time.

If you start looking at what your benefit would be down the road, you're in many cases looking at benefits that exceed pay levels when people retire. Full COLA adjustments really start to make more difference than anything else. I mean, I could start at a lower pension than you, but if I have 100 percent COLA adjustments to that every year versus somebody else who only has an adjustment of half the COLA once in a while, it won't be too many more years before I'll pass that other person, and then I'll just keep going.

Mr. MORAN. Well, I appreciate what you're saying, although Mr. Murtha testified earlier that the Federal plan was deliberately designed not to provide full COLAs. In fact, if the inflation rate is 2.5 percent this year, the congressional cost of living increment would be 2 percent. If it's 3 percent, it would be 2 percent. It will probably fall somewhere between 2 and 3 percent. So that's significantly less than the cost of living. It's either half or two-thirds.

I know Mr. Mascara wants to ask some questions so I don't want to take up too much time, Mr. Chairman. Again, I would only make a point—I was going to make it of Mr. Chrysler that I'm not sure that in trying to determine what is appropriate compensation for the Members of Congress where we should be focusing is the lowest common denominator of employees.

I think this economy and our society really is based upon the merit system and that I agree with the comment that Mr. Mascara made, that for the kind of people that the American public wants to be in public office, particularly in the U.S. House of Representatives, it seems to me it ought to be a very competitive position and there ought to be some comparable incentive, regardless of our tendency to denigrate our profession and ourselves that whenever the public chooses to suggest that it's appropriate.

I think that the public has an insatiable appetite for reducing public officials' compensation and anything else that is afforded them. If it were up to them we would be giving money back, putting money in their pockets with zero salary. So I don't think that we ought to be looking at some of the factors we've looked at as much as considering what is the anticipated retirement security that people at a very competitive level in the private sector would be receiving.

I thank you, Mr. Chairman.

Mr. MICA. I thank the gentleman for his comments and for your response. I'd like to yield now to Mr. Mascara.

Mr. MASCARA. Good. Thank you very much, Mr. Chairman. Apparently, Ms. Kingsbury and Mr. Stair, you do not agree. I could see——

Ms. KINGSBURY. About some things.

Mr. MASCARA. Yes. And I was curious, Mr. Stair, who do you work for?

Mr. STAIR. The DuPont Co.

Mr. MASCARA. The DuPont Co. And you apparently represent this group—what is it, Financial Executives Institute?

Mr. STAIR. That's correct.

Mr. MASCARA. And you've been invited here today to give some balance to the testimony that——

Mr. STAIR. Well, I'm not sure about the balance part, but I was more interested in providing some perspective from the private sector.

Mr. MASCARA. Well, that's fine, and we welcome that. But I did detect early on that there was a difference of opinion between you and Ms. Kingsbury.

One is, and specifically, I noted that Ms. Kingsbury indicated that one study showed that 97 percent of the people in the private sector made no contribution to their pension. And then she noted

that there was a second study whereby—88 percent, was it, Ms. Kingsbury?

Ms. KINGSBURY. The first was 97 percent of the individuals surveyed. That was a Bureau of Labor Statistics study.

Mr. MASCARA. OK.

Ms. KINGSBURY. The second one was a study of benefit plans, and the 88 percent applies to the benefit plans.

Mr. MASCARA. OK. Well, let me go on with the question. We have heard several times that the Federal Government bears too great of a share of providing employees' retirement benefits. However, and here it is, the Bureau of Labor Statistics says that 95 percent of all private pension plans do not require employee contributions at all. The first cost of these private plans being borne by the employer.

On the other hand, Federal employees contribute a large share of their income to purchase retirement benefits. Last year, cash payments to the civil service retirement fund totaling $9½ billion were made by Federal employees—the Postal Service and the District of Columbia. As a result, employees paid 26 percent of the cost of providing retirement benefits in fiscal year 1994.

In other words, if the Federal retirement system worked like most private plans, the Federal Government would have had to pay an additional $9½ billion last fiscal year.

What is your reaction to this? You seem to be arguing that the Federal program should run more like private plans. But if the Federal plan were more like private plans the government's contribution would have to increase, not decrease, would it not?

Mr. STAIR. Well, you have to draw your base line somewhere before you begin these arguments, otherwise you just wind up spending more money.

By that I meant that there is a substantial body of thought, particularly amongst union representatives, that states that really the company's cost for pension benefits are deferred wages, that employees have over the years decided to take less in pay and more in pension benefits and are trading them off between the two.

So if you were to apply the same sort of logic and rationale to that, what I would suggest is—to the Federal system—what you would wind up with is that if there is a 0.8 percent payroll contribution by the employee into the system, and you wanted to get rid of that, then that would mean that the employee's pay would go down by 0.8 percent so that the government would have the money to put in. So, you see, it's a zero sum game, you can't keep adding to it.

The other point is, and it's one which I agree with, is that it is unusual to find employee contributions or defined benefit plans. The notions sort of really struggle and fight against each other. And I would definitely recommend that this is an area that you ought to investigate for change. But I don't think that it also means that there is a 0.8 percent pay raise in the offing.

Mr. MASCARA. I heard you use the word several times, "paternalistic." And it appears to me that the private sector in this country, as well as this huge government, is talking about employees worrying about their own future, that the question of whether even—and I've heard someone question whether Social Security should con-

tinue, and that we should all go to some kind of thrift plan or 401(k).

And I recall the recession, many recessions when transfer payments were a blessing, that the country did not go down the chute because we had pension plans that were paying pension fund benefits as well as Social Security.

Is it your opinion or do you have a feel for where this country is going and where the private sector is going in regards to pensions for their employees?

Ms. KINGSBURY. Are you asking me, sir?

Mr. MASCARA. Either.

Mr. STAIR. Go ahead, Nancy.

Ms. KINGSBURY. Well, our preliminary examination of this so far is that I think it's correct to say that there is a shift toward defined contribution plans, although one recent study that we looked at suggested that 63 percent of the plans in that study had both, had a FERS-type combination of defined benefit plans and defined contribution plans.

So it's not clear to me that the shift is in the interest of reducing paternalism, so much as it is in the interest of increasing portability. I think there is a concern in this country, and certainly there is in the Federal Government, of, in effect, trapping people in an employment situation because their benefits are tied solely to that entity, as opposed to being something that they can pick up and take with them.

And I think that's more the reason for this shift than some notion that companies don't have an interest in sustaining the financial future of their employees. I personally believe—and I think this is supported by human resource professional studies—that if you look at it from a long term perspective in terms of your capacity as an entity, be it government or private, to recruit and retain the quality of the work force you need, some consideration of future pension and retirement living has to be a part of that mix. I think it has to be. What the exact right mix is remains to be seen. But people in this country are not given to saving for the long term very well, and I think we need to help facilitate that.

Mr. MASCARA. I just want to show it was not out of greed that the companies no longer want to be paternalistic. That concludes my remarks, Mr. Chairman.

Mr. MICA. I thank the gentleman for his questions. I want to take this opportunity to also thank our panelists for their participation. This is a very sensitive question when you deal with employee and member compensation and benefits and retirement. But we thank both of you.

Ms. Kingsbury, we have additional questions both from the majority and the minority that we will submit to you, and without objection they will be part of the record.

Mr. MORAN. Mr. Chairman, I have some for Mr. Stair, as well as Ms. Kingsbury.

Mr. MICA. We have some questions, then, also for you, Mr. Stair, that we will also make a part of the record.

I want to particularly thank Mr. Stair coming from the private sector, for his participation and, for giving us the benefit of his experience and knowledge of retirement systems. We, on the sub-

committee, do appreciate your participation and your contributions, and also your patience today.

Today, we've had an opportunity to hear from just about every Member of Congress who requested an opportunity to be heard. And as you can see, there is a wide diversity of opinion. We're going to try to take that information, digest it, working with both the majority and the minority, and all the members of this panel, and do our best job.

I think I've expressed an interest in trying to be fair, trying to be equitable, and trying to realize that we are dealing with real people and real life situations and their fortunes and their retirements and their families.

With that in mind, I think it has been a good hearing today. I appreciate the participation of the minority members and the ranking member, the whole panel and our witnesses. With that I declare this meeting adjourned.

[Whereupon, at 1:20 p.m., the subcommittee was adjourned, subject to the call of the chair.]

[Additional information submitted for the record follows:]

GAO RESPONSES TO WRITTEN QUESTIONS RECEIVED AFTER THE HEARING

Following the Subcommittee's hearing of March 10, 1995, on federal retirement issues, a number of additional questions were forwarded to us for written responses. The questions were asked by Congressman Moran. Following are our responses to each question.

Question 1. Do you believe that the provisions in the Republicans' retirement reform proposal serve to make the CSRS and FERS programs more like or unlike the typical private sector retirement program?

Response:

That is a difficult question to answer in regard to CSRS. Its basic design is quite dissimilar to that of private programs as it was implemented before the advent of the Social Security program and before capital accumulation plans became an integral part of private sector retirement packages. CSRS is a "stand alone" system with no Social Security coverage or employer contributions to a capital accumulation plan. Thus, there is no private sector counterpart to CSRS to which meaningful comparisons of program design can be made. On the other hand, FERS was designed with the private sector model in mind. It incorporated the three-part retirement package concept.

Since private companies almost always pay the full costs of the pension plan component of their retirement packages, the fact that FERS participants must contribute to their pension plan at all is a departure from private sector practices. Raising the FERS employee contributions by 2.5 percent of pay would be a further departure from private practices. It must also be noted that the FERS designers were not necessarily determined to copy private programs in all respects. Rather, the employee contribution provisions, at least in part, were designed to require FERS participants to pay the same total percentage of salary to the pension plan and Social Security as CSRS participants were required to contribute to their retirement program.

Similarly, the proposal to move from a high-3 to a high-5 salary base for benefit calculations must be viewed in a larger context. The salary base is actually part of the benefit formula. That is, the benefit accrual percentages and the salary base are both essential parts of the formula for determining benefit amounts. It is the benefit amount that is the more important consideration in comparing CSRS and FERS to private programs. As mentioned in our prepared statement, we found that private programs often provided greater benefits than CSRS at age 62 and older. A high-5 salary base for CSRS would increase the private sector advantage. We have not yet made any comparisons of the benefit amounts provided by FERS and private sector retirement programs.

Question 2. What was the rationale for basing federal retirement benefits under CSRS and FERS on the average salary earned during the employee's three highest paid years?

Response:

Before 1969, CSRS used a high-5 salary base. Legislation enacted in that year adopted the high 3. According to our review of the history of the 1969 legislation,

the change was made because of concern that the high 5 had tended to keep employees working beyond the time they normally would have or should have retired. It was found that, since the highest 5 years of earnings were usually the most recent years of employment, employees eligible for retirement postponed retiring in order to improve their high 5 average, which with pay raises, would increase appreciably with each additional year of service. Thus, the high 3 was intended to serve as a personnel management tool more so than an attempt to copy other employers' retirement program designs.

We would presume that FERS included the high-3 salary base, in large measure, to be consistent with the high-3 provision in CSRS.

Question 3. Your statement indicates that while most private plans' benefits are based in the high five, some private plans and a majority of state plans use the high three.

a. Why have most private sector firms chosen to base their benefits on a high five rather than a high three computation?

Response:

We asked this question during visits to a number of private companies a few years back. Almost without exception, the then current managers of the companies' retirement programs said the programs had been in place for so many years that the persons responsible for designing the pension plans were gone. Thus, they did not know the actual reasons for the salary base used in the plans, regardless of whether it was a high 5, high 3, or some other salary base. However, they often speculated that the salary base was one of many factors the plan designers considered in determining the level of benefits the plans would provide. As discussed above, the salary base is just one part of a plan's benefit formula.

b. Why do some private plans use the high three computation rather than the high five?

Response:

Again, based on our discussions with the managers of private pension plans, we have to presume that, like the high 5, use of the high 3 was one of the factors considered in determining the level of benefits a plan would provide. We also noted that a high-3 salary base is fairly common among the larger plans. For example, a compilation by the Wyatt Company of the features of pension plans sponsored by 50 of the largest Fortune 500 companies showed that 16 of the companies used a high-3 salary base; 28 used a high 5; and 1 used a high 4. The other five used variations of a career average salary base.

c. Why do the majority of state pension plans use the high three computation?

Response:

We have not discussed pension program design with any state officials. Thus, we have no information on why the states usually have a high-3 salary base. It may be that they simply copied the federal model.

Question 4. The Republican proposal would base federal benefit amounts on the average salaries earned during the employee's five highest paid years. Do you have any view on the appropriateness of this policy change?

Response:

A more informed answer to this question will be available when we complete the comparison of federal and nonfederal retirement programs requested by Chairman Mica and Chairman Stevens of the Senate Post Office and Civil Service Subcommittee. If this updated comparison shows that CSRS and FERS now generally provide greater benefit amounts than nonfederal retirement programs, changes such as adopting a high-5 salary average may be in order.

Question 5. The Republican plan would increase the federal employees' retirement contribution to 9.5 percent for CSRS and 3.3 percent for FERS. You point out, however, that very few private plans require any employee contribution whatsoever. Therefore, does the proposed change serve to make the federal plan more like or unlike the private plans?

Response:

As discussed above in our response to question 1, private employers typically pay all the costs of the pension plan portion of their retirement packages. Employees' cost are limited to their Social Security contributions and any contributions they make to a capital accumulation plan. Unlike most private sector employees, FERS employees must contribute to their pension plan. They also make Social Security contributions and contribute to the Thrift Savings Plan if they wish to participate. CSRS employees contribute the same percentage of salary to CSRS as FERS employees contribute to the FERS pension plan and Social Security combined. Thus, aside from any contributions to a capital accumulation plan, federal employees already contribute a greater percentage of their salaries toward the cost of their retirement benefits than do most private sector employees.

Question 6. You pointed out in your statement that CSRS and FERS each cover about half of all federal employees who are not in the Foreign Service, CIA, and Federal Reserve Board systems. Does the Republican proposal also impose the retirement benefit changes it calls for on civilian employees in the Foreign Service, CIA, and Federal Reserve Board retirement systems?

Response:

From our reading of the proposal, it applies only to CSRS and FERS. Moreover, the proposed increase in employee contribution requirements does not apply to Postal Service employees covered by CSRS and FERS.

Question 7. a. What was the rationale for providing federal law enforcement officers and firefighters better retirement benefits under both CSRS and FERS than general employees?

Response:

According to the legislative history of CSRS, the objective of providing preferential benefits to law enforcement officers and firefighters was to improve the quality of these services by helping to maintain a young and vigorous work force. Thus, they are permitted to retire earlier with fewer years of service than other employees. However, it was clear from the legislative history that the purpose of the more generous annuity formula for law enforcement officers and firefighters was not to reward these employees for carrying out demanding or hazardous service. Rather, it was designed to make earlier retirement economically feasible.

The special retirement benefits are not available to all federal law enforcement officers. By law, the benefits cover employees whose primary duties are (1) investigating, apprehending, or detaining persons suspected or convicted of federal crimes or (2) controlling and extinguishing fires or maintaining and using fire apparatus and equipment. Excluded from coverage are employees whose primary duties involve (1) maintaining law and order, (2) protecting life and property, or (3) guarding against or inspecting for violations of law, or investigating persons other than those suspected of violating criminal laws. Also excluded are employees whose duties only occasionally or incidentally require the investigation, apprehension, or detention of persons suspected or convicted of violating federal criminal laws.

In a 1977 report, "Special Retirement Policy for Federal Law Enforcement and Firefighter Personnel Needs Reevaluation" (FPCD-76-97, Feb. 24, 1977), we concluded that the continued need for the special retirement policy was questionable and recommended that Congress reevaluate the need for the special benefits. However, the CSRS provisions were not changed, and the policy of allowing firefighters and some law enforcement officers to retire earlier than other employees and with more generous benefits was continued under FERS.

b. What was the rationale for the difference between law enforcement officers' and firefighters' retirement benefits under CSRS?

Response:

The retirement provisions for law enforcement officers and firefighters under CSRS are essentially the same. Both groups may retire at age 50 with 20 years of service, and their benefit amounts are calculated using the same formula. The only difference of which we are aware is a 1992 change that raised the mandatory retirement age for law enforcement officers from 55 to 57. Previously, the mandatory retirement age for both groups had been 55. The same change was made to FERS. We do not know the reason for the change in the mandatory retirement age for law enforcement officers.

c. If the rationale for treating these occupations differently from general employees is that the nature and demands of their jobs is quite different, doesn't that same rationale apply to Members and congressional staff and provide justification for their higher level of benefits?

Response:

The Congress' presumption in allowing law enforcement officers and firefighters to retire earlier with benefits calculated at a more generous formula than other employees was that young, vigorous employees were needed in these occupations. Accordingly, they are the only federal employee groups to which mandatory retirement provisions apply. Law enforcement officers generally must retire at age 57 and firefighters at age 55 unless their agency heads determine it is in the government's best interests to allow them to work longer.

It seems to us that it would be difficult to apply the rationale behind the law enforcement and firefighter retirement provisions to Members of Congress and congressional staff. We have seen no suggestion that being young is a criterion for successful performance by Members or staff, or by any other federal employee for that matter.

When CSRS was enacted in 1920, neither Members of Congress nor congressional staff were covered. Congressional staff were subsequently added in 1937, and Mem-

bers were given the option to participate in 1946. According to the legislative history, granting Members of retirement age or with infirmities the right to participate in the system was in recognition of the arduous labors imposed on all Members. It was felt that, by allowing Members to participate in the system, a sense of security would result and would contribute to an independence of thought and action by Members. It was also believed that coverage would bring a larger number of younger Members with fresh energy and new viewpoints into the legislative service.

The current benefit formula for Members and congressional staff was established in 1960. The Member formula is quite similar to the formula initially adopted when Members were allowed to participate in 1946. However, congressional staff were covered by the same benefit provisions as general employees until 1954. In that year, a separate provision was adopted giving congressional staff the option of continuing under the general employee formula for all their federal service or receiving a higher formula for up to 15 years of congressional service and a lesser formula for all other federal service they had, including any congressional service longer than 15 years. According to the legislative history, the purpose of the new provision was to recognize the uncertain tenure of congressional staff and their limited opportunity to establish an adequate retirement annuity based on years of service under the general employee formula. The 15-year limitation on application of the higher formula was eliminated in 1960.

Question 8. Your statement indicated that the majority of private sector plans provide for periodic adjustments to retirees' pensions which averaged 40 percent of the increase in the Consumer Price Index (CPI).

a. What are these adjustments based on since they don't closely track the CPI?

Response:

The information we have at present on private plan cost-of-living adjustments (COLA) is quite dated. As pointed out in our statement, our work on nonfederal retirement programs was completed about 10 years ago when FERS was being developed. Much of the COLA information came from a study done by North Carolina State University for the Department of Labor. The study examined pension payments during 1973 to 1979 to a statistical sample of all private sector retirees who were retired in 1972. The study found that 75 percent of the retirees had received adjustments during the 1973–79 time period, with one-third to one-half of all retirees receiving adjustments in any given year. About 25 percent had received adjustments every year. A BLS study we used showed that 40 percent of the participants in its survey were in plans that had granted at least one adjustment during 1978 to 1981. The other studies we used showed that from 57 to 78 percent of the plans they covered had granted adjustments in about the same time period.

Other than the Labor-sponsored study showing that adjustment amounts varied considerably by plan size, but averaging close to 40 percent over time, we could find no information on the basis for the adjustments.

b. How frequently do these adjustments occur?

Response:

Other than the above data and evidence that the adjustments generally were granted on an ad hoc basis, we found no information on how frequently the adjustments occurred.

c. Why do large employers tend to provide a higher adjustment (close to 60 percent)?

Response:

We have no information on this. However, we are aware that large employers tend to provide more generous retirement programs in general than do smaller employers.

Question 9. a. How frequently during the last decade have federal retiree COLAs been reduced or delayed?

Response:

In 1986, no COLAs were paid to CSRS retirees. In 1994, COLA payments were delayed to April instead of the scheduled January effective date. Similar delays are to be imposed in 1995 and 1996. While these were the only changes to the COLA provisions during the past decade (1985 through 1994), other changes were made immediately before that period. Legislation was enacted in 1982 to delay COLA payments (scheduled at that time to be paid in March of each year) by one month in 1983 and limit the 1983 COLA to one-half the increase in the CPI for nondisability retirees under age 62. The legislation also called for the 1984 COLA to be delayed by 2 months until May 1984, but this legislation was later amended to delay the 1984 COLA to January 1985 and to make all future COLAs effective in January of each year.

b. Do you have any idea how much income has been lost by federal retirees during the last decade due to COLA delays or reductions?

Response:

According to our calculations, the COLA delays and reductions imposed during 1985 through 1994 caused COLA payments to CSRS retirees to be equal to about 80 percent of the increase in the CPI during that period. Put another way, a person who was on the retirement rolls for the entire 10-year period did not have 20 percent of his or her loss of purchasing power restored.

Question 10. You point out that the total retirement benefits available to private sector workers retiring at age 62 are superior to federal workers in the CSRS system who retire on average at age 61. How much more generous are the benefits received by private sector employees in that age bracket?

Response:

Again, the information we have on nonfederal benefit levels comes from work we completed about 10 years ago. At that time, we calculated the benefit amounts provided by the retirement programs included in our various data sources at particular ages, years of service, and salary levels. Table 1 on page 9 of our prepared statement shows the retirement income we determined was available at that time to private sector and state employees with final salaries of $40,000. For example, as the table shows, private sector programs provided benefits averaging 45.6 to 48.7 percent of final salary to employees retiring at age 62 with 20 years of service, and state programs provided an average of 40.5 percent. In comparison, a federal employee in CSRS retiring at age 62 with 20 years of service would receive 36.25 percent of high-3 salary. Since an employee's high-3 year average salary is generally smaller than his or her final salary, the CSRS benefit expressed as a percentage of final salary would be somewhat less than 36.25 percent.

Likewise, in all the other examples in the table where employees retired at age 62 or older, the private sector and state programs provided greater benefits than would CSRS. CSRS provides 36.25 percent of high 3 after 20 years of service and 56.25 percent of high 3 after 30 years of service. In all cases, the average private sector and state retirement benefit percentages exceeded the CSRS percentages.

Question 11. What do you think the impact of the Republican proposal will be on federal employee morale and productivity?

Response:

Our work shows that the government already has a very poor employment image among prospective employees and that federal employees have many concerns about the government's employment policies. Efforts to cut the retirement programs could well serve to exacerbate these problems, particularly since the proposal calls for significant increases in employee contributions while reducing the benefits those contributions help to pay for.

Question 12. The Chairman expressed concern at Tuesday's hearing that federal workforce downsizing will lead to a rapid increase in outlays for retirement benefits as CSRS participants leave the workforce faster than they otherwise would have. Would you agree that the Republican proposal will itself accelerate retirements—and increase program costs—as employees rush to leave government before the proposal takes effect?

Response:

While it is difficult to predict what decisions retirement-eligible employees would make if the proposal were to be enacted, we would expect the changes would make it more likely that they would retire earlier than they otherwise had planned. If so, program outlays would increase. Similarly, employees who are not yet eligible to retire might change their ultimate retirement plans and retire earlier than they had expected.

Question 13. Since it appears that there is little economic benefit to be gained from the Republican proposal relative to the stated goal of substantially reducing the $36 billion annual cost of the retirement program—the $7 billion in savings generated falls short of all the targets they claim to be shooting at: $12 billion; $19.7 billion: or $26 billion—does the benefit outweigh the cost?

Response:

This is a value judgment that we prefer not to take a position on. The estimated $7 billion savings is a significant amount of money. However, our assessments of retirement matters have traditionally used the criteria of what practices make reasonable retirement policy. In our view, the increase in employee contributions cannot be justified from a retirement policy standpoint. Federal employees already contribute more toward the cost of their retirement programs than do most private sector workers, and it seems rather incongruous to increase employee contributions when changes to reduce benefits are also being made. Moreover, government studies show that federal employees receive considerably less salary than private sector employees with comparable jobs. Increasing employee contributions would, in effect, increase the pay gap with the private sector. Similarly, lowering the salary base from

a high 3 to a high 5 would reduce benefit levels for federal employees retiring at age 62 and older even further below the amounts our past work indicates nonfederal employees usually receive at those ages.

Question 14. The Republican proposal exempts the Postal Service from the contributions increase because "theirs is an entirely self-funded system." However, FERS, also an entirely self-funded system, is not exempted. Do you have a view on the fairness of this policy?

Response:

Since the inception of CSRS in 1920, all employees have always paid the same percentages of their salaries toward the cost of the retirement system, regardless of where they work. Similarly, FERS requires the same contributions from all covered employees. Postal Service employees would enjoy a distinct advantage over other employees in CSRS and FERS if they were excluded from the higher contribution requirements, particularly since Postal employees will continue to receive the same benefits from CSRS and FERS as other employees. To us, such disparate treatment would be unfair to nonpostal employees.

We agree that FERS is fully funded. If funding status is to be the criterion for changing employee contribution requirements, there is no reason to increase employee contributions to FERS. However, it must also be recognized that CSRS employees have always made their contributions required by law, and they are not responsible for any failure by the government to fully fund the remaining costs of CSRS as they accrued.

Two other questions from Congressman Moran were included in the package forwarded to us for response. However, they did not appear to be of a nature appropriate for us to address. We discussed the questions with a member of the minority staff, and he agreed that the questions were not intended for us.