105TH CONGRESS 2d Session | HOUSE OF REPRESENTATIVES | REPORT 105–757

CIVIL SERVICE RETIREMENT SYSTEM ACTUARIAL REDEPOSIT ACT OF 1998

OCTOBER 1, 1998.—Committed to the Committee of the Whole House on the State of the Union and ordered to be printed

Mr. BURTON of Indiana, from the Committee on Government Reform and Oversight, submitted the following

REPORT

[To accompany H.R. 2566]

[Including cost estimate of the Congressional Budget Office]

The Committee on Government Reform and Oversight, to whom was referred the bill (H.R. 2566) to amend title 5, United States Code, to expand the class of individuals under the Civil Service Retirement System eligible to elect the option under which the deposit which is normally required in connection with a refund previously taken may instead be made up through an actuarially equivalent annuity reduction, having considered the same, report favorably thereon with amendments and recommend that the bill as amended do pass.

The amendments (stated in terms of the page and line numbers of the introduced bill) are as follows:

Page 1, line 5, strike "1997" and insert "1998".

Page 2, line 14, strike "1997" and insert "1998".

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69–006

I. SHORT SUMMARY OF LEGISLATION

This legislation would expand the class of federal employees under the Civil Service Retirement System (CSRS) who may elect to receive actuarially reduced annuities in lieu of redepositing the amount of retirement contributions previously refunded to them, plus interest.

II. BACKGROUND AND NEED FOR THE LEGISLATION

A limited number of federal employees were impacted by changes in the requirements regarding redeposits of refunds for service for those who leave federal service, withdraw their retirement, and then subsequently return to federal service. These retirement law changes regarding redeposits of refunds were contained in the 1990 Omnibus Budget Reconciliation Act (OBRA). As a result of those changes, employees who had received a refund for a period of service that ended after October 1, 1990 could not elect to receive an actuarially reduced annuity in order to receive credit for such service. They could only redeposit the refund with interest.

Pertinent regulations concerning OBRA were in transition from November 1989 until February 1990. In the absence of published regulations, former employees could not be informed of the consequences of the new statute if they applied for refunds of contributions. Thus, the information available was inadequate to understand the change in redeposit rules if they were to gain reinstatement to federal service. After reinstatement, these employees encountered problems resulting from withdrawals of deposits between the enactment of OBRA and the adoption of relevant regulations.

In order to address these problems, H.R. 2566 allows employees who have received refunds for service to "buy back" CSRS credit by electing to receive actuarially adjusted annuities. They may also elect to repay the refunded retirement contributions with interest. This applies to all employees whose retirement annuity begins after the date of enactment of this Act. The Act does not apply to annuities beginning before the date of enactment.

III. LEGISLATIVE HEARINGS AND COMMITTEE ACTIONS

The Committee held no legislative hearings on H.R. 2566. Rep. Constance A. Morella (MD) introduced H.R. 2566 on September 26, 1997. On September 26, 1997, the bill was referred to the Committee on Government Reform and Oversight. The bill was referred to the Subcommittee on Civil Service on October 1, 1997. The Subcommittee on Civil Service considered the bill on July 21, 1998 and forwarded the bill by voice vote to the Committee on Government Reform and Oversight. On July 23, 1998, the Committee on Government Reform and Oversight considered the bill. An amendment to the title was offered by Rep. Constance A. Morella. The amendment passed by voice vote. By voice vote, the Committee ordered H.R. 2566 to be reported to the House.

IV. Committee Hearings and Written Testimony

The Committee did not hold any hearings related to this legislation.

V. Explanation of the Bill as Reported: Section-by-Section

SECTION 1. SHORT TITLE

This section designates the short title of the bill as the "Civil Service Retirement System Actuarial Redeposit Act of 1998."

SECTION 2. EXPANSION OF CLASS OF ELIGIBLE INDIVIDUALS

This section expands the class of individuals who are eligible to elect an actuarially reduced annuity rather than redeposit the amount of Civil Service Retirement System contributions previously refunded to them, with interest.

Subsection (a) amends clause (I) of title 5, United States Code, section 8334 (d)(2)(A) to encompass all employees who have received a refund of retirement contributions.

Subsection (b) amends clause (ii) by substituting the date of the enactment of this Act for "December 2, 1990."

Subsection (c) provides that this Act does not apply to annuities beginning before the date this Act is enacted.

VI. Compliance With Rule XI

Pursuant to rule XI, clause 2(l)(3)(A) of the Rules of the House of Representatives, under the authority of rule X, clause 2(b)(1) and clause 3(f), the results and findings from Committee oversight activities are incorporated in the bill and this report.

VII. Budget Analysis and Projections

The budget analysis and projections required by section 308(a) of the Congressional Budget Act of 1974 are contained in the estimate of the Congressional Budget Office.

VIII. Cost Estimate of the Congressional Budget Office

U.S. Congress,
Congressional Budget Office,
Washington, DC, September 15, 1998.

Hon. Dan Burton,
Chairman, Committee on Government Reform and Oversight, House of Representatives, Washington, DC.

Dear Mr. Chairman: The Congressional Budget Office has prepared the enclosed cost estimate for H.R. 2566, the Civil Service Retirement System Actuarial Redeposit Act of 1998.

If you wish further details on this estimate, we will be pleased to provide them. The CBO staff contact is Eric Rollins.

Sincerely,

James L. Blum
(For June E. O'Neill, *Director*).

Enclosure.

H.R. 2566—Civil Service Retirement System Actuarial Redeposit Act of 1998

Summary: H.R. 2566 would change the way that retirement annuities are calculated for certain federal employees who are covered by the Civil Service Retirement System (CSRS). The bill would affect employees who have received a refund of retirement contributions for a prior period of service that ended after October 1, 1990. Under current law, these employees must repay their contributions with interest in order to have the prior service included in their annuity calculation. H.R. 2566 would allow these employees to take instead an actuarially equivalent reduction in their benefit.

CBO estimates that this bill would increase direct spending by $90 million over the 1999–2003 period due to higher spending on refunds of retirement contributions. The bill would also decrease revenues by $8 million over the same period because fewer employees would make redeposits for retirement contributions that they withdrew in the past. Over the long run, this bill would increase net spending because employees who would not repay their contributions under current law would receive higher benefits under the bill. Because this bill would affect direct spending, pay-as-you-go procedures would apply.

H.R. 2566 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act of 1995 (UMRA) and would not affect the budgets of state, local, or tribal governments.

Estimated cost to the Federal Government: The estimated budgetary impact of H.R. 2566 is shown in Table 1.

TABLE 1. ESTIMATED BUDGETARY EFFECTS OF H.R. 2566

[By fiscal year, in millions of dollars]

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
CHANGES IN DIRECT SPENDING										
Refunds of retirement contributions	12	16	19	21	23	25	23	21	19	16
CSRS retirement benefits	(1)	(1)	(1)	(1)	−1	−1	−1	−1	−1	−1
Subtotal	12	16	18	21	23	24	22	20	18	15
CHANGES IN REVENUES										
Employee redeposits for prior service	−1	−1	−2	−2	−2	−3	−3	−4	−4	−4
TOTAL COST										
Direct spending and revenues	13	17	20	22	25	26	24	22	19	17

[1] Less than $500,000.

This estimate assumes that H.R. 2566 is enacted on October 1, 1998.

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

The costs of this legislation fall within budget function 600, Income Security.

Basis of estimate: Most federal employees hired before 1984 are covered by the Civil Service Retirement System, a retirement plan that offers a defined benefit that does not include Social Security. Under CSRS, employees generally contribute 7 percent of their basic pay to the Civil Service trust fund. Employees who leave government service for more than 31 days and are not immediately eligible for retirement benefits can have their retirement contributions refunded to them.

Payment of a refund usually voids the employee's right to any retirement benefits related to that period of service. However, employees who later return to government work may still have the prior service included in their annuity calculation. If the prior service ended before October 1, 1990, an employee may get credit for that service by taking an actuarially equivalent reduction in his or her retirement annuity or by redepositing his or her refunded contributions with interest. If the prior service ended after October 1, 1990, an employee may receive credit for that service only by redepositing his or her refunded contributions with interest. H.R. 2566 would allow all prior periods of service for current CSRS employees to be credited through the actuarial reduction method.

Direct Spending

Refunds of Retirement Contributions. Under the bill, some employees who would otherwise leave their retirement contributions in the Civil Service trust fund would have greater incentive to take a refund upon leaving government service. This could be particularly true for people who anticipate returning to government service later in their career. Employees who took a refund would receive a significant amount of money (refunds of $10,000 or more are not unusual for CSRS employees). If they later returned to government employment, they would still be able to include this prior service in their annuity calculation in exchange for an actuarial reduction, which for most employees would be less than 10 percent. For example, an employee retiring at age 60 with 20 years of service (10 of which have been refunded) would face a reduction of about 8 percent.

Past experience suggests that federal employees are quite willing to trade a smaller annuity in exchange for an immediate lump-sum payment. Between 1986 and 1990, federal employees could receive an alternative form of annuity (AFA) when they retired. (The AFA has since been limited to employees who are terminally ill.) Retiring employees who chose the AFA received a lump-sum payment equal to the retirement contributions that they had made over their career. In exchange, their retirement annuities were reduced by an actuarially equivalent amount—typically 10 percent to 15 percent. About 80 percent of retiring employees elected the AFA when it was widely available.

About 67 percent of CSRS employees who quit without being eligible for an immediate annuity get a refund of their retirement contributions. CBO assumed that under the bill this figure would increase to 70 percent in 1999 and then gradually rise to 75 percent over the following five years. CBO estimates that the number of additional people who would take refunds under the bill would be less than 4,000. This increase would raise spending on refunds by $91 million over the 1999–2003 period.

CSRS Retirement Benefits. Under the bill, retirement benefits for individual employees could either rise or fall, depending on whether or not the employees would make a redeposit for their prior service under current law. Benefits would decline for employees who would have made a redeposit but decide instead under the bill to take an actuarial reduction in their annuity. In contrast, benefits for employees who had no intention of making a redeposit would rise, because they would be allowed to include additional service in their annuity calculation.

The bill would affect the benefits of only a small fraction of the approximately 1.2 million employees covered by CSRS. According to the Office of Personnel Management (OPM) about 17,200 CSRS employees have a prior period of service and were rehired after October 1, 1990. However, many of these employees completed their prior service before that date and would not be affected by the bill. CBO assumed that about one-third of the 17,200 employees, or 5,700, have a prior period of service that ended after October 1, 1990. OPM information indicates that about two-thirds of CSRS employees who quit withdraw their retirement contributions. CBO thus estimated that about 3,800 current employees would be affected by the bill. The bill would also affect about an additional 4,300 people with prior CSRS service who will be rehired over the 1999–2003 period.

CBO assumed that affected employees who would retire during the 1999–2003 period have an average of six years of current service. CSRS allows employees to retire at age 55 with a minimum of 30 years of service, at age 60 with at least 20 years of service, or at age 62 with at least five years of service. Since employees with a break in service usually have less total service than career government employees, many affected employees would be retiring under the age 60/20 years option. They would thus have a significant amount, perhaps 15 years or more, of prior refunded service. At a minimum, since CSRS-covered employees were first hired no later than 1982, affected employees would have at least eight years of prior service. For some employees, the refund received from the prior service could be about $25,000.

CBO assumed that 70 percent of the employees affected by the bill would have made a redeposit but decide instead to take an actuarial reduction. For employees with this much prior refunded service, the reduction would be approximately 10 percent, or $125 a month.

In contrast, CBO assumed that this bill would increase benefits for about 10 percent of the affected employees. The amount of the increase would be substantial, since prior service for affected employees would represent more than half of their total service. Furthermore, CSRS retirement benefits equal 1.5 percent of average pay for each of the first five years of service, 1.75 percent of pay for each of the next five years of service, and 2 percent for each additional year beyond that. As a result, the additional service would often be credited at a higher rate than the employee's current service, making it even more valuable. CBO estimates that monthly benefits for these employees would rise by about $600.

Overall, CBO estimates that retirement benefits for the employees affected by the bill would decrease by about 2.5 percent, lowering spending on CSRS retirement benefits by $1 million over the 1999–2003 period.

Revenues

The redeposits that employees make to receive credit for prior service would decrease under the bill because most employees affected by the bill would opt for the reduced annuity. CBO assumed that under the bill the number of employees who elect to make a redeposit would drop 80 percent. This figure is consistent with the percentage of federal employees who chose the AFA option back in the late 1980s. This drop would reduce redeposits, which are treated as revenues, by $8 million over the 1999–2003 period.

Pay-as-you-go considerations: Section 252 of the Balanced Budget and Emergency Deficit Control Act sets up pay-as-you-go procedures for legislation affecting direct spending or receipts. The net changes in outlays and governmental receipts that are subject to pay-as-you-go procedures are shown in Table 2. For the purposes of enforcing the pay-as-you-go procedures, only the effects in the current year, the budget year, and the succeeding four years are counted.

TABLE 2. SUMMARY OF PAY-AS-YOU-GO EFFECTS OF H.R. 2566

[By fiscal year, in millions of dollars]

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Change in outlays	12	16	18	21	23	24	22	20	18	15
Change in receipts	−1	−1	−2	−2	−2	−3	−3	−4	−4	−4

Intergovernmental and private-sector impact: H.R. 2566 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act of 1995 (UMRA) and would not affect the budgets of state, local, or tribal governments.

Estimate prepared by: Federal cost: Eric Rollins; Impact on State, local, and tribal governments: Marc Nicole; Impact on the private sector: Matthew Eyles.

Estimate approved by: Paul N. Van de Water, Assistant Director for Budget Analysis.

IX. Specific Constitutional Authority for This Legislation

Clauses 1 and 18 of Article 1, Sec. 8 of the Constitution grant Congress the power to enact this law.

X. Committee Recommendation

COMMITTEE ON GOVERNMENT REFORM AND OVERSIGHT ROLLCALL

Date: July 23, 1998.
Amendment No. 1.
Description: Amendment to the title.
Offered by: Hon. Constance A. Morella (MD).
Voice Vote: Yea.
Final Passage of H.R. 2566.
Offered by: Hon. Constance A. Morella (MD).
Voice Vote: Yea.

XI. Congressional Accountability Act; Public Law 104–1; Section 102(b)(3)

This bill applies to legislative branch employees who participate in CSRS.

XII. UNFUNDED MANDATES REFORM ACT; PUBLIC LAW 104–4; SECTION 423

H.R. 2566 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act of 1995 (UMRA) and would not affect the budgets of state, local, or tribal governments.

XIII. FEDERAL ADVISORY COMMITTEE ACT (5 U.S.C. APP.) Section 5(b)

The Committee finds that H.R. 2566 does not establish or authorize the establishment of an advisory committee within the definition of 5 U.S.C. App., Section 5(b).

XIV. CHANGES IN EXISTING LAW MADE BY THE BILL, AS REPORTED

In compliance with clause 3 of rule XIII of the Rules of the House of Representatives, changes in existing law made by the bill, as reported, are shown as follows (existing law proposed to be omitted is enclosed in black brackets, new matter is printed in italic, existing law in which no change is proposed is shown in roman):

SECTION 8334 OF TITLE 5, UNITED STATES CODE

§ 8334. Deductions, contributions, and deposits

(a) * * *

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(d)(1) Each employee or Member who has received a refund of retirement deductions under this or any other retirement system established for employees of the Government covering service for which he may be allowed credit under this subchapter may deposit the amount received, with interest. Credit may not be allowed for the service covered by the refund until the deposit is made.

(2)(A) This paragraph applies with respect to any employee or Member who—

⟦(i) separates before October 1, 1990, and receives (or elects, in accordance with applicable provisions of this subchapter, to receive) a refund (described in paragraph (1)) which relates to a period of service ending before October 1, 1990;⟧

(i) has received a refund described in paragraph (1);

(ii) is entitled to an annuity under this subchapter (other than a disability annuity) which is based on service of such employee or Member, and which commences on or after ⟦December 2, 1990⟧ *the date of the enactment of the Civil Service Retirement System Actuarial Redeposit Act of 1998*; and

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