Gnawing at the foundation

A recent legislative attack on Federal Employees Retirement System (FERS) benefits is interesting to consider in the larger context of the radical nature of the ongoing assault on the middle class. The legislation, introduced in the Senate on Oct. 12, 2013, proposes to end the defined benefit portion of the FERS package for new employees.

As background, there are currently three components to a FERS retirement: Social Security, Thrift Savings Plan and a Basic Benefit Plan (otherwise known as a defined benefit). The basic benefit plan provides a modest annuity when employees become eligible in accordance with certain age and years-of-service combinations. The amount of the annuity is computed at 1 percent times the number of years worked under FERS, times the average consecutive high-three years of salary. (The formula is increased to 1.1 percent for employees who retire at or past age 62 with at least 20 years of service.) Thus, for example, a letter carrier who retires under FERS at age 59 with 30 years of service and an annual average salary of $56,000 has earned an annuity of approximately $16,800, paid monthly at $1,400. That $1,400 is a gross figure—subtract 10 percent for survivor annuity, $300 or more for health benefit premiums, state and federal income tax withholdings, $100-plus for Medicare Part B premiums starting at age 65, and the take home is more like $800.

The money that funds those modest FERS annuities is paid by the employees themselves over the course of their work careers. A set percentage is deducted from each FERS employee’s paycheck, and the employer provides another set percentage (instead of paying higher wages). That money is then placed in a trust fund, which is used to pay the annuities when employees become eligible.

The idea underlying FERS is a fundamental one. People who work productively for 30 or 40 or more years should not have to continue working into the final years of their lives, nor should they have to live in poverty when they stop working. America decided long ago that that fundamental idea was just and appropriate.

So why is there a legislative proposal to end the defined benefit component of the FERS? Is it because the other two components (Social Security and the Thrift Savings Plan) are adequate to provide a modest but comfortable retirement? Not at all. The average monthly Social Security benefit is about $1,200. Aggressive Thrift Savings Plan contributions and investments over the course of a working career can result in significant TSP balances, but the historically rock-bottom interest rates currently in effect mean reduced annuities purchased with those savings. Moreover, there are additional legislative proposals to reduce Social Security benefits, to reduce Thrift Savings Plan accounts by ending employer matching contributions, and other similar attacks.

According to a press release by one senator, the legislative proposal “is necessary because “…federal government workers receive far more generous retirement benefits than private sector employees” and “(T)he cost to taxpayers of these benefits is unsustainable and we simply cannot afford it.”

Neither of those purported reasons is convincing. The claim that FERS retirement benefits are “far more generous than private sector employees” is certainly true if the comparison is to fast-food service workers, Walmart workers, and others who must rely solely on Social Security because their employers offer zero retirement benefits. However, if the comparison is to CEOs, other executives or, for that matter, U.S. senators and representatives, then the reality is that typical FERS-covered employees receive benefits that are far less generous. Grossly inflated golden parachutes, exit payouts and similar retirement packages for departing CEOs have been highlighted in news stories for many years. A news report in USA Today in late 2011 noted multiple recent retirement packages for CEOs that exceeded $100 million. That is not a typo—more than $100 million each. While retiring U.S. senators don’t receive CEO-level retirement packages, and, in fact, are covered by FERS themselves, they are entitled to a higher FERS benefit based on a revised formula that pays 1.7 percent per year of covered employment, as opposed to the 1 percent per year for regular federal employees.

Moreover, even if the argument that federal employees’ retirement benefits are far more generous than private-sector employees’ is simply accepted as factual, it does not reasonably lead to the conclusion that federal employee benefits should be gutted, at least without further analysis. If federal employees’ retirement benefits are exorbitant and far exceed private-sector employee benefits, then the appropriate solution is to reduce the exorbitant benefits. But if federal employees’ retirement benefits are modest and result only in moderately comfortable retirement lifestyles, and far exceed private-sector employee benefits, then the solution is to increase the retirement benefits of private-sector employees. See last month’s column advocating increased Social Security benefits.

Nor is the argument that the “cost to the taxpayers is unsustainable” convincing. The predecessor to FERS, the Civil Service Retirement System (CSRS), was first enacted in 1920 and has paid annuities calculated at roughly 2 percent per year of service ever since then. Its trust fund remains sound. America has increased its overall wealth since 1920.

There is no good reason to gut FERS. There is every reason to maintain it.