# 30 years of FERS

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**There are two major federal** retirement systems: the Civil Service Retirement System (CSRS) and the Federal Employees Retirement System (FERS). At the beginning of FY 2013, only about 10 percent of federal employees, including postal employees, were enrolled in CSRS.[1] This means that, today, well more than 90 percent of current career federal and postal employees are enrolled in FERS.

Generally, career federal and postal employees hired since Jan. 1, 1984, have been covered by FERS. This 30-year milestone presents a timely opportunity to review the establishment of FERS and examine current legislative attempts to chip away at it.

CSRS is a relatively simple defined benefit plan. The CSRS annuity benefit is based on a retiring employee's high-3 average salary and years of service. The years-of-service component calculates to a little less than 2 percent per year.[2]

**FERS is a multi-component benefit plan. FERS has a de-**fined benefit component and a defined contribution component, with Social Security as a cornerstone (along with the FERS special annuity supplement[3]). The FERS annuity defined benefit component is based on a retiring employee's high-3 average salary and years of service. The years-of-service component is computed at 1 percent per year.[4] The FERS defined contribution component is the Thrift Savings Plan (TSP).

Prior to 1984, federal and postal employees did not pay into Social Security and did not earn Social Security benefits. Instead, the CSRS pension was intended as a standalone pension. In 1983, Congress mandated Social Security coverage for federal employees hired on or after Jan. 1, 1984. This was done in part to bolster Social Security's solvency by infusing it with additional contributions.

At the time FERS was created, the employee contributions to, and benefits received from, a FERS retirement were intended to be roughly equivalent to the contributions to, and benefits from, a CSRS retirement. On the contribution side, the employee contribution to the FERS annuity was set at 0.8 percent of basic salary. When added to the Social Security employee payroll tax of 6.2 percent, this equaled the CSRS contribution rate of 7 percent.

Unfortunately, Congress has recently increased the amount that FERS employees are required to pay into the FERS annuity. For employees first hired on or after Jan. 1, 2013, the employee contribution rate is 3.1 percent of basic salary. For employees first hired on after Jan. 1, 2014, the rate is 4.4 percent. While the contribution rates have increased, there are no increases in benefits.

On the benefit side, the FERS defined benefit of 1 percent times years of service is approximately half of the CSRS defined benefit, which is about 2 percent times years of service. However, the intent was for the combination of Social Security benefits and TSP payouts to roughly equal the difference between the 2 percent CSRS calculation and 1 percent FERS calculation. That, however, is a very complex calculation, because TSP payouts and Social Security benefits are highly variable.

**While the amount that new FERS employees pay for their** retirement has risen from 0.8 percent to 4.4 percent of basic salary, the benefits they receive upon retirement have not changed. There have been, however, many legislative attempts to reduce those benefits.

Sens. Richard Burr (R-NC), Tom Coburn (R-OK) and Saxby Chambliss (R-GA) recently introduced legislation that would completely end the defined benefit component of FERS. If passed, this would logically have ended retirees' rights to keep their Federal Employees Health Benefits coverage.

The House budget passed in the 112th Congress (January 2011 to January 2013) would have increased the amount that FERS employees pay for their retirement annuity to 6.25 percent of basic salary.

The House budget proposed in late March 2014 would increase the amount that FERS employees pay even more, by requiring employees to pay 50 percent of the entire cost.

H.R. 3813 from the 112th Congress would have completely eliminated the FERS special annuity supplement. H.R. 3813 would have significantly reduced FERS and CSRS annuities by changing the calculation formula to average high-5 years of service from the present average high-3 years of service. H.R. 3813 would have slashed annuities for employees first hired beginning in January 2013, by changing the formula from 1 percent times years of service to 0.7 percent times years of service. H.R. 3813 would have increased the amount that current CSRS employees pay into their retirement.

**It is apparent that recent political attacks on federal and** postal retirements have been relentless. It is a sad and intolerable situation because together, the CSRS and FERS have successfully provided modest retirement incomes to retired federal and postal employees for more than three-quarters of a century.

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1. Congressional Research Service report dated March 24, 2014: Federal Employees' Retirement System: Budget and Trust Fund Issues.

**2.** The formula is 1.5 percent times each of the first five years, plus 1.75 percent times each year from 6 through 10, plus 2 percent for each year after 10.

**3.** The special annuity supplement is a temporary supplement paid to retirees who meet certain age and years-of-service criteria (30 years plus minimum retirement age or 20 years plus age 60) until they reach the Social Security retirement age of 62.

**4.** The calculation increases to 1.1 percent for employees who retire at or after age 62 with at least 20 years of service.