The strength and solvency of the CSRS/FERS trust fund

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Letter carriers in career positions earn entitlement to retirement pensions. They pay for their pensions during their work years. Those covered by the Civil Service Retirement System (CSRS) have 7 percent of their basic pay deducted from every paycheck. Those covered by the Federal Employees Retirement System (FERS) have 0.8 percent* of their basic pay deducted from every paycheck.

When the Postal Service deducts these mandatory contributions from every paycheck, it adds its own mandatory contributions, and transfers the money to the Civil Service Retirement and Disability Fund (CSRDF). The CSRDF was set up when Congress established the CSRS in 1920.

Individual letter carriers (and other postal and federal employees) do not have separate accounts within the CSRDF. Instead, all of the contributions by individual employees and agencies are transferred to the fund in general. This makes sense because the dollar amount of an individual's entitlement to a pension is not calculated based on how much that individual contributed during his or her work years. It is calculated based on a formula using set criteria: 1) years of service, 2) high-3 average annual salary, and 3) a percentage factor. Under FERS, the percentage factor is 1 percent multiplied by years of service, or 1.1 percent if retirement occurs on or after age 62 with 20 or more years of service. Under CSRS, the percentage factor is 1.5 percent multiplied by each of the first five years of service, 1.75 percent multiplied by years five through 10, and 2 percent multiplied by all years over 10.

The CSRDF is required by law to invest exclusively in U.S. Treasury bonds. In this way, and others, it is similar to the Social Security Trust Fund. Since the long-term solvency of the Social Security Trust Fund often is trumpeted in the media in alarmist terms, letter carriers might like to know about the solvency of the CSRDF.

So, how is the CSRDF doing? Two recent reports by the well-respected Congressional Research Service answer that question in great detail.

In FY 2013, the CSRDF paid annuities totaling about $77 billion.

In FY 2013, the administrative cost was about $128 million (about 0.17 percent of total obligations).

In FY 2013, the CSRDF income from employee and employer contributions, interest on securities and general fund receipts was about $93 billion.

At the beginning of FY 2013, the CSRDF balance was about $819.7 billion. At the end of FY 2013, the balance was about $835.6 billion.

One of the Congressional Research Service reports notes the following Office of Personnel Management (OPM) and Council of Economic Advisors projections regarding the CSRDF (amounts in billions):

FY	Income	Expenses	Assets at end of year
2015	115.2	82.7	923.4
2020	137.0	98.8	1,104.7
2045	287.1	174.4	2,794.6
2090	1,094.8	715.8	13,707.1

And it includes the following quote: "Unlike the Social Security trust fund, there is no point over the next 80 years at which the assets of the Civil Service Retirement and Disability Fund are projected to run out."

The two Congressional Research Service reports can be accessed online at http://fas.org/sgp/crs/misc/98-810.pdf and http://fas.org/sgp/crs/misc/RL30023.pdf.

There appears to be no question regarding the fiscal soundness of the Civil Service Retirement and Disability Fund. However, there is an unanswered question about why Congress decided it was a good idea to raise the mandatory employee contribution to FERS from 0.8 percent to 3.1 percent for career employees first hired in 2013 and then raise it again, to 4.4 percent for career employees first hired in 2014 or later.

It is significant that while there was an increase in the amount these employees must contribute to FERS, there was no increase in benefits. The law that raised the mandatory contribution to 3.1 percent of basic pay was titled "The Middle Class Tax Relief and Job Creation Act of 2012." I would like to know how a reduction in basic pay of 2.3 percent (the difference between 0.8 percent and 3.1 percent) and 3.6 percent (the difference between 0.8 percent and 4.4 percent) constitutes "middle-class tax relief." It doesn't, of course. Congress should have titled the bill the "The Federal/Postal Employee Tax Increase Act."

* Except that FERS employees first hired into career positions in 2013 pay 3.1 percent of basic pay and those first hired into career positions in 2014 or later pay 4.4 percent of basic pay.

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