Director of Retired Members

Retirement parity under attack

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Beginning with its enactment in 1920, the Civil Service Retirement System (CSRS) has successfully provided letter carriers (and other postal and federal workers) a modestly secure retirement income once they meet certain age plus years-of-service combinations. Those combinations are age 55 with 30 years, age 60 with 20 years or age 62 with five years. CSRS pension payments are drawn from the CSRS trust fund. In 2017, the trust fund had a balance of $898 billion. That large amount of money came from the pockets of the retirees themselves during their working years (along with the required contributions from the employing agencies, interest on the balance in the trust fund, and current contributions from CSRS and FERS employees who still are federally employed). CSRS retirees paid 7 percent of their basic pay into the trust fund throughout their working careers, and current CSRS employees continue to pay 7 percent of their basic pay into the trust fund.

In the mid-1980s, in part to shore up the Social Security trust fund, Congress required that all postal and federal employees hired after 1983 be covered by Social Security[1]; ended CSRS coverage for new hires; and created the new retirement system titled the Federal Employees Retirement System (FERS).

A FERS pension pays roughly half of the amount of a CSRS pension, given the same number of years of service and high-3 average annual salary. However, the FERS was intended to provide a total retirement benefit (FERS annuity plus Social Security benefit) that was roughly equal to the pension benefit of the standalone CSRS. It also was designed so that the amount a CSRS employee pays into the system while working (7 percent of basic pay) was roughly equal to the combined amount a FERS employee pays into the FERS (0.8 percent of basic pay) and Social Security (6.2 percent of all wages, up to a certain limit).[2]

That intended parity in benefits required the creation of a "bridge" benefit for FERS retirees. CSRS employees can retire at age 55 with 30 years of service. FERS employees can retire at minimum retirement age (MRA—which is between 55 and 57, depending on year of birth) with 30 years of service and draw the FERS annuity, but they cannot begin Social Security old-age benefits until age 62. To address that disparity, the FERS includes a temporary benefit known as the Special Annuity Supplement. It is payable only to FERS employees under age 62 who retire at MRA plus 30 years or at age 60 plus 20 years. It is not payable to employees who elect a disability retirement or an MRA + 10 retirement.[3] It is paid by the Office of Personnel Management (OPM) as part of the FERS annuity. It ends at age 62 in all cases. The amount of the Special Annuity Supplement is calculated using a modified Social Security formula reflecting the portion of the Social Security benefit attributable to the years of work under the FERS.

Thus, the Special Annuity Supplement plus the FERS annuity maintains rough parity with CSRS annuities for FERS retirees up until they are age 62, and Social Security Old Age benefits plus the FERS annuity maintains rough parity after age 62.

All current and future retirees should know that intended parity in both cost (7 percent of pay) and benefits (the higher CSRS pension compared with the FERS plus Special Annuity Supplement, or FERS plus Social Security after age 62) is under sustained legislative attack. Some of the attacks have succeeded. Others are dangerously close to succeeding.

In 2012, Congress increased the amount that FERS employees first hired after 2012 pay into FERS from 0.8 percent to 3.1 percent of basic pay. They continue to pay the 6.2 percent Social Security tax. These employees pay a combined 9.4 percent, with no increase in retirement benefits.

In 2013, Congress again increased to 4.4 percent the amount that FERS employees first hired after 2013 pay into FERS. They continue to pay the 6.2 percent Social Security tax. These employees pay a combined 10.6 percent, with no increase in retirement benefits.

President Trump's 2019 budget proposes increasing the amount that FERS employees pay into FERS by an additional 1 percent per year for up to six years.

The same budget proposes slashing the benefits of both CSRS and FERS retirees, by eliminating the Special Annuity Supplement, reducing cost-of-living adjustments, calculating pensions based on a high-5 instead of the current high-3 average annual salary, and more.

These threats are real. Parity between CSRS and FERS employees, between longtime and newer FERS employees, and between generations of letter carrier retirees is under attack. Please do not think these proposals can't happen. The increases in FERS contribution rates for employees hired in 2013 and later prove it can.

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1. The Social Security trust fund benefited, and continues to benefit, from the influx of, eventually, millions of additional (mostly younger) employees paying into it.

2. The annual wage limit subject to the 6.2 percent Social Security tax in 2018 is $128,400.

3. MRA + 10 is an early, reduced retirement available to FERS employees who reach their MRA and have 10 or more years of service, but less than 30. An MRA + 10 pension is reduced by 5 percent for each full year under age 62. There is no entitlement to a Special Annuity Supplement for MRA + 10 retirees.