Director of Retired Members

The strength and solvency of the CSRS/FERS trust fund, revisited

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A previous column in 2014 discussed the financial soundness of the CSRS/FERS trust fund, known as the CSRDF. That trust fund is where the money goes that is withheld from working letter carriers' paychecks to fund their retirement pensions, and where the money comes from when they retire and begin receiving a monthly pension.

Recent legislative and budgetary proposals to reduce our retirement benefits (and increase the amount we pay for them while working) should be considered in light of the strength of the trust fund. This column updates the earlier 2014 column with more recent financial data.

Career letter carriers covered by the Civil Service Retirement System (CSRS) pay 7 percent of their basic pay into the trust fund. The Postal Service also pays 7 percent of their basic pay into the trust fund. Career letter carriers covered by the Federal Employees Retirement System (FERS) pay a percentage of their basic pay that depends on when they were first appointed to a career position: 0.8 percent if hired prior to 2013, 3.1 percent if hired in 2013, or 4.4 percent if hired on or after Jan. 1, 2014. The Postal Service pays 13.2 percent for those hired prior to 2013 or 11.1 percent for those hired in 2013 and later.*

All that money goes into the trust fund (the CSRDF). The money in the trust fund, by law, is invested exclusively in U.S. Treasury bonds. So, how is the trust fund doing?

In FY 2014, the fund paid out $79.8 billion. The administrative expenses were $132 million, or 0.17 percent of total obligations. The amount coming into the fund was $94.1 billion. The balance in the fund at the end of FY 2014 was $850 billion.

Long term projections for the trust fund are even more remarkable. The chart below shows projections measured in billions of dollars:

FY	Income	Outgo	Balance at end of year
2020	132.0	97.1	1,069.0
2025	152.7	112.7	1,256.6
2030	177.4	127.3	1,486.2
2035	205.0	140.7	1,777.0
2040	238.1	153.8	2,156.2
2045	274.5	167.1	2,644.9
2050	322.0	183.5	3,273.8
2060	423.6	241.3	4,954.0
2070	564.8	338.5	7,015.5
2080	759.4	477.3	9,572.0
2090	1,023.4	673.3	12,761.8

Consider these numbers in the context of current legislative and budgetary proposals to increase the amount current employees pay into the retirement fund, and decrease the amount retirees receive in their monthly pensions. These proposals include: changing the formula from high-3 to high-5; reducing or eliminating cost-of-living adjustments; eliminating the Special Annuity Supplement; eliminating the FERS annuity completely and more.

One thing is clear: Proposals to increase the amount current CSRS and FERS employees pay into their retirement, and decrease the amount they receive when retired, cannot rationally be based on a claimed need to shore up the trust fund. There must be some other reason for legislative proposals that take more money out of the pockets of letter carriers while they are working and reduce the amount in their pockets when they retire. That seems like a back-door tax, but one levied only on postal and federal workers and retirees.

It is difficult to understand what the reason is for these proposals. Perhaps the recent comments of a prominent senator, shared in a discussion about proposals to repeal the estate tax**, shed some light on the reason. He is reported to have said, "I think not having the estate tax recognizes the people that are investing, as opposed to those that are just spending every penny they have, whether it's on booze or women or movies."

This is a troubling quote. It seems to reflect the idea that if you manage to become (or remain) very wealthy (worth more than $11 million), when you die, your heirs should be rewarded by having their taxes reduced. If you accept that idea, it logically follows that if you do not manage to become (or remain) very wealthy, and spend every penny, that you should have your taxes increased.

That kind of thinking by our elected senators and representatives may explain the proposals to increase the amount we pay into the retirement fund and decrease the amount we get out of the fund when we retire, even though the trust fund itself is sound.

The Congressional Research Service report showing the trust fund numbers quoted above can be accessed online at fas.org/sgp/crs/misc/RL30023.pdf.

*The law that increased the amount FERS employees pay from 0.8 percent to 3.1 percent also decreased the amount the Postal Service pays by a similar amount, but the law that increased the amount employees pay to 4.4 percent did not decrease the amount the Postal Service pays.

** The estate tax affects only two out of every 1,000 estates. It is levied on heirs who inherit more than $5.49 million (or about $11 million inherited from a married couple) and applies only to the amount above the 5.49 and 11 million. The average effective estate tax rate is less than 17 percent.