UNITED STATES OFFICE OF PERSONNEL MANAGEMENT
Washington, DC 20415

The Director

May 4, 2018

The Honorable Paul D. Ryan
Speaker
United States House of Representatives
H-232 Capitol
Washington, DC 20515

Dear Mr. Speaker:

I have enclosed legislative proposals for consideration of the Congress. OPM is responsible for administering the Civil Service Retirement System (CSRS) and the Federal Employees Retirement System (FERS) under chapters 83 and 84 of title 5, United States Code, respectively. These programs serve nearly 2.6 million Federal retirees and survivors who receive monthly annuity payments. These legislative proposals would amend chapters 83 and 84 of title 5, United States Code, to bring Federal benefits more in line with the private sector.

The legislative proposals included in this transmittal are as follows:

- **Elimination of Federal Employees' Retirement System Annuity Supplements**

This proposal would amend section 8421 of title 5, United States Code, to eliminate the Federal Employees' Retirement System (FERS) annuity supplement for new retirees and the supplementary annuity for survivor annuitants. The proposal retains language that requires OPM to apportion a FERS annuity supplement to a former spouse when a court order expressly divides a FERS annuity for purposes of annuitants who retain a FERS annuity supplement under prior provisions of section 8421. Also, the proposal retains language that requires OPM to reduce or eliminate an annuitant's FERS annuity supplement based on earnings for those who retain FERS annuity supplements under prior provisions.

- **Increase of CSRS and FERS Average Pay Period to Five Years**

This proposal would amend sections 8331(4) and 8401(3) of title 5, United States Code, to increase the period of service used to compute an annuitant's average salary under the Civil Service Retirement System and Federal Employees' Retirement System by averaging an employee's basic pay in effect over a five-year consecutive pay period rather than over a three-year consecutive pay period as is required under current law.

- **Increased Contributions to Federal Employees Retirement System**

This proposal amends parts of section 8422 of title 5, United States Code, to increase the employee deduction rates for the Federal Employees' Retirement System (FERS). The rate increase will be one percent per year until the employee is contributing half of the current regular FERS employee normal cost percentage.

Currently, most employees pay 0.8 percent of basic pay as the FERS employee retirement deduction. Some groups (Members of Congress, congressional staff, law enforcement officers, firefighters, and others) pay an additional one half of one percent (1.3%) of basic pay. Employees hired after 2012 pay a higher employee deduction rate, 3.1 or 4.4 percent depending on when first hired. Under this proposal, FERS employee deduction rates will increase by 1 percent per year until they reach 7.25 percent of basic pay.

FERS is a fully funded system with the "normal cost" of benefits paid through employee deductions and agency contributions. The FERS normal cost percentage is an estimate of the percentage of pay that must be contributed for a group of employees over their entire working careers in order to fully pay for their FERS basic retirement benefits. The normal cost must be computed by OPM in accordance with generally accepted actuarial practices and standards (using dynamic assumptions). The normal cost calculations depend on economic and demographic assumptions. Subpart D of part 841 of title 5, Code of Federal Regulations, regulates how normal costs are determined. OPM generally revises the FERS normal cost percentage every three years. The employing agency contribution is the FERS normal cost percentage minus the employee deduction rate. Employee groups that receive enhanced retirement benefits (such as law enforcement officers) or are able to retire under other special provisions (such as air traffic controllers) have a higher normal cost percentage.

This proposal would require FERS employees to fund a greater portion of their retirement benefit. The current normal cost percentage for regular FERS employees is 14.5 percent. Regular employees will reach a 7.25 percent deduction rate (one-half of the current normal cost rate) on October 1, 2024, paying an equal share of their normal cost with their employer. Deduction rates are scheduled to increase by one percent per fiscal year, with any remainder less than 1 percent in the final year of the schedule. Because of the differences in deductions paid by employee groups, the various groups will reach the end of scheduled increases at various times ranging from October 1, 2020, to October 1, 2024, when a regular FERS employee will have half of the normal cost percentage withheld from basic pay for retirement (currently 7.25). After October 1, 2024, when the normal cost percentage fluctuates up or down, the employee deduction will also change so that it remains at half of the normal cost percentage for regular FERS employees. For non-regular employees, the employee deduction rate under this proposal is fixed at half of the normal cost percentage for regular FERS employees. Therefore, these non-regular employees will pay less than half the normal cost of their FERS retirement benefit.

- **Reduction or Elimination of Retirement Cost-of-Living Adjustments**

This proposal would amend sections 8340 and 8462 of title 5, United States Code, to reduce the cost-of-living adjustments (COLAs) under the Civil Service Retirement System (CSRS) by one half of one percent and to eliminate COLAs under the Federal Employees' Retirement System (FERS) for current and future retirees.

The proposal would retain the provisions requiring OPM to update a FERS disability annuitant's average salary by all COLAs payable for the period during which the annuitant was receiving a disability annuity when the annuity is redetermined at age 62; however, CSRS COLAs would be used in lieu of the FERS COLAs after those COLAs are eliminated.

The amendments would eliminate the provision requiring a reduction to an annuitant's FERS disability annuity by the amount of the annuitant's Social Security "assumed disability insurance benefit," and would require the reduction to be based on an annuitant's actual Social Security disability benefit. Under current law, a FERS disability benefit computed under section 8452(a) of title 5, United States Code, is reduced by the "assumed disability insurance benefit" when the annuitant is entitled to a Social Security disability insurance (SSDI) benefit. The assumed disability insurance benefit differs from the annuitant's actual Social Security disability insurance (SSDI) benefit because the assumed disability insurance benefit is based on the SSDI benefit amount increased by FERS COLAs, whereas the actual Social Security disability insurance benefit is updated by CPI increases. With the elimination of FERS COLAs the reduction for SSDI would be based on the actual amount of the SSDI benefit.

The FERS Basic Employee Death Benefit and child annuities would be updated by CSRS COLAs, albeit at the reduced COLA rate proposed under the amended COLA provisions.

In summary, the employee retirement landscape continues to evolve as private companies are providing less compensation in the form of retirement benefits. The shift away from defined-benefit programs and cost-of-living adjustments for annuitants is part of that evolution. By comparison, the Federal Government continues to offer a generous package of retirement benefits. Consistent with the goal of bringing Federal retirement benefits more in line with the private sector, adjustments to reduce the long term costs associated with these benefits are included in these proposals. OPM estimates that the interactive savings of enacting these proposals together to be $143,509,000,000 over ten years. I urge the Congress to give prompt and favorable consideration to these legislative proposals.

The Office of Management and Budget (OMB) has advised there is no objection to the transmittal of these legislative proposals to the Congress and that their enactment would be in accord with the program of the President. OMB further advises that it is willing to work with the Congress to ensure deficit savings are realized from the proposal to increase the contributions of Federal employees and reduce the agency share of such costs by enacting legislation to reduce the non-defense discretionary caps starting in Fiscal Year 2019, as outlined in the President's Fiscal Year 2018 Budget.

Sincerely,

Dr. Jeff T.H. Pon
Director

Enclosures