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STATEMENT OF

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114823

DIRECTOR

FEDERAL PERSONNEL AND COMPENSATION DIVISION

BEFORE THE SUBCOMMITTEE ON
CIVIL SERVICE, POST OFFICE, AND GENERAL SERVICES
SENATE COMMITTEE ON GOVERNMENTAL AFFAIRS

ON

S. 677, THE CIVIL SERVICE RETIREMENT COST-OF-LIVING
ADJUSTMENT ACT OF 1981

Mr. Chairman and Members of the Subcommittee:

I am pleased to be here today to discuss S. 677, the proposed Civil Service Retirement Cost-of-Living Adjustment Act of 1981.

Under present law, all civil service annuities are adjusted semiannually by the full percentage increase in the Consumer Price Index (CPI). The proposed act would make several changes in this policy. Under the bill, retirees and survivors age 65 and over would continue to receive full, semiannual adjustments. However, retirees and survivors under age 65 would receive adjustments only once a year. The annuities of retirees and of surviving spouses between the ages of 60 and 64 and all

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surviving children's annuities would be adjusted once a year in an amount equal to the full percentage increase in the CPI. The annuities of retirees and of surviving spouses under age 60 would also be adjusted once a year, but in an amount equal to one-half the percentage increase in the CPI.

The General Accounting Office has long been concerned about the equity and costs of the Government's policy of full, semiannual cost-of-living increases for Federal civilian and military retirees. This policy is far more generous than the adjustment provisions found in most private industry and State and local government pension programs. The increases received by Federal retirees have also been greater than pay increases granted Federal workers. We have recommended that adjustments be granted once-a-year and that consideration be given to limiting the adjustment to something less than the full CPI increase.

In the interest of brevity, I will not present here the findings which led us to conclude that the adjustment process should be revised. I would like to request, however, that a copy of our latest report (B-130150, July 1, 1980) containing our detailed findings on the subject be included in the record.

The proposed legislation addresses concerns we have had with the adjustment process and would reduce the retirement systems' costs considerably. However, there are several observations and comments we would like to offer for your consideration in the deliberation on this bill.

It is our understanding, based on the Chairman's comments when introducing the bill, that it is an alternative to the Administration's proposal for annual cost-of-living adjustments. As the Chairman indicated, fiscal year 1982 savings under S. 677 would be less than the estimated $510 million savings from annualized adjustments. But in the long run, retirement outlay reductions would be much greater under S. 677 than once-a-year increases.

The Office of Personnel Management estimated fiscal year 1982 savings of $273 million based on the S. 677 proposed changes excluding any changes to disability retirees and surviving spouses. By fiscal year 1984, the savings would increase to $514 million, which exceeds the estimated savings of $388 million from annual adjustments for that year. The amount of savings would continue to grow substantially each year thereafter.

It should be recognized that the savings from S. 677 would initially come from a relatively small group of retirees. Seventy-five percent of the retirees on the rolls at September 30, 1980, would not be affected by the changes. About 60 percent of the survivors are also unaffected. The civil service retirees who would receive only 50 percent of the CPI increases would bear the burden of inflation more than retirees in other programs while other civil service retirees would get far more.

In general, non-Federal retirees are covered by social security, which provides for full, once-a-year inflation adjustments. In addition, most State and local government retirees and about 50 percent of all private industry retirees also receive employer-provided pensions which are partially indexed. We estimated that 70 to 80 percent of the typical non-Federal retirees' total pension (including social security) is indexed to inflation.

When introducing the bill, the Chairman indicated his intention to retain full, semiannual annuity adjustments for disability retirees. While we can appreciate the Chairman's concerns, it should be pointed out that continuing to provide such adjustments for civil service disability retirees would be inconsistent with the recently enacted annual adjustment process for Federal employees with job-related disabilities (workers' compensation) and with the process applicable to non-Federal employees who are receiving social security disability benefits.

Also, continuing to provide full, semiannual adjustments to civil service disability retirees would create a substantial economic incentive for employees under age 65 who are eligible for optional retirement to seek disability retirement. This would increase the disability retirement caseload, could be subject to potential abuse, and might necessitate further legislative changes in the disability retirement eligibility criteria.

Another concern we have is that the bill applies only to the civil service retirement system. If enacted, it would apply by law and Executive Order to other civilian retirement systems. Military retirees, who typically retire in their early to mid-forties, would continue to receive full inflation protection. While further study may be needed to assess the impact of applying similar changes to the military retirement system, we believe that limiting such a major policy change only to civilian retirees is inappropriate.

In view of the above, we believe that full, once-a-year adjustments to all Federal retirement programs would be preferable because (1) all retirees and survivors would be treated equally, (2) the adjustment provisions would be consistent with both the Federal workers' compensation and social security programs, and (3) the provisions would be more consistent with prevailing non-Federal practices.

In addition, I would like to suggest that the Committee consider another change to the cost-of-living adjustment provisions which would clarify how increases should be applied to annuities payable from the fund for those retirees who elect survivor benefit coverage. We addressed this matter in our recent report, "Changes Needed in Calculation of Reductions in Civil Service Annuities for Survivor Benefits" (FPCD-81-35, Feb. 26, 1981). Currently, the law does not specify whether cost-of-living adjustments are to be applied to reduced annuities or unreduced annuities. The Office of Personnel Management has elected to apply the increases to the reduced annuities. Because of a mathematical anomaly, this results in a higher cost to the Government and creates monetary inequities between prior and new retirees. New retirees always pay more than earlier retirees for the same survivor coverage.

We believe it would be more equitable to recalculate the annuity reduction each time there is a cost-of-living adjustment. This would insure that past and future retirees pay the same amount for the same survivor benefits. This change would also result in a savings to the Government of at least $76.8 million annually. We have recommended that OPM make this change administratively; however, they told us it would be better to clarify the law. Our suggested language to make this change is attached.

This concludes my statement, Mr. Chairman. We would be pleased to answer any questions you may have.

<u>Be it enacted by the Senate and House of Representatives in Congress assembled</u>, That section 8340 of title 5, United States Code, is amended by adding at the end thereof the following new subsection:

"(g) In applying the percentage increases authorized under subsection (b) of this section to an annuity reduced under sections 8339(j) or (k) of this title, the percentage increase shall be applied to the full unreduced annuity and then the annuity shall be reduced as provided in sections 8339(j) or (k) of this title."

Sec. 2. Section 8339(j) of title 5, United States Code, is amended by striking out the last sentence thereof and, in its place adding the sentence "Such reduction shall be effective the first day of the first month beginning 1 year after the date of remarriage."

Sec. 3. The amendments made by this Act shall apply to the first increase under section 8340(b) of title 5, United States Code, that occurs not less than 90 days after the enactment of this Act, and shall apply to all annuities subject to reduction under sections 8339(j) or (k) of title 5, United States Code, except that the amendments made by this Act shall not cause a decrease in the amount of any annuity being paid on or before such first increase.