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## **Federal Employees' Retirement System: Summary of Recent Trends**

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# Federal Employee Retirement Programs: Summary of Recent Trends

## Summary

This report describes recent trends in the number of civil service annuitants and the financial status of the Civil Service Retirement and Disability Fund. Among the results presented:

- In fiscal year 2002, 66% of civilian federal employees were enrolled in the *Federal Employees Retirement System* (FERS), which covers employees hired since 1984. Thirty-four percent were enrolled in the *Civil Service Retirement System* (CSRS), which covers only employees hired before 1984.
- 2.4 million people received civil service annuity payments in fiscal year 2002. Ninety-three percent of these annuitants were covered by CSRS.
- More than one-third of all federal employee annuitants and survivor annuitants reside in five states: California, Florida, Texas, Maryland, and Virginia.
- The average civilian federal employee who retired in 2002 was 58 years old and had completed 26.7 years of federal service.
- The average monthly annuity payment to workers who retired under CSRS in 2002 was \$2,595. Workers who retired under FERS received an average monthly annuity of \$867. (The FERS retirees had shorter average length of service than CSRS retirees. They also earned Social Security benefits and received an employer match on their contributions to the Thrift Savings Plan.)
- At the end of FY2002, the balance of the Civil Service Retirement and Disability Fund was \$570 billion, an amount equal to 11 times the amount of outlays from the fund during 2002. The trust fund balance is expected to reach \$633 billion by the end of fiscal year 2004.
- From 1970 to 1985, the number of people receiving civil service annuities rose by one million, an increase of 105%. Between 1985 and 2002 the number of civil service annuitants rose by 412,000, an increase of 20%.
- As of September 2002, civilian federal employment, including the Postal Service, totaled 2.62 million workers, a decline of 500,000 (16%) since 1990.
- Employees of the federal government are older on average than workers in the private sector. Fifty-nine percent of all federal employees were age 45 or older in 2000, and 40% were age 50 or older. In contrast, only 34% of wage and salary workers in the private sector were 45 or older in 2000, and just 23% were 50 or older.

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# Federal Employee Retirement Programs: Summary of Recent Trends

**Fundamentals of the Civil Service Retirement Programs.** The *Civil Service Retirement System* (CSRS) was established by P.L. 66-215 in 1920, 15 years before Congress created the Social Security system for workers in the private sector. Because CSRS was designed to provide adequate retirement and disability benefits on its own, federal employees were excluded from participating in Social Security. State and local governments were permitted to bring their employees into the Social Security program in the early 1950s, and most state and local governments have chosen to do so.

In the *Social Security Amendments of 1983* (P.L. 98-21), Congress mandated participation in Social Security by all civilian federal employees initially hired on or after January 1, 1984. Because Social Security provides both retirement and disability benefits, and because enrolling federal workers in both CSRS and Social Security would have required each employee to contribute more than 13% of pay, Congress directed the development of a new federal employee retirement system with Social Security as the cornerstone. The result of these efforts was the *Federal Employees Retirement System* (FERS), created by P.L. 99-335 and enacted on June 6, 1986. The new system, patterned after the retirement programs typical of medium and large employers in the private sector, is comprised of three elements: (1) Social Security, (2) a *defined benefit plan* (the FERS basic annuity), and (3) a *defined contribution plan* (the Thrift Savings Plan).<sup>1</sup>

All permanent federal employees whose initial federal employment began after December 31, 1983, are covered by FERS, as are employees who voluntarily switched from CSRS to FERS during “open seasons” held in 1987 and 1998.<sup>2</sup> Former federal employees who have completed at least 5 years of service under CSRS and are rehired after a break in service of less than 1 year can either join FERS or participate in both CSRS and Social Security through the “CSRS offset plan.” Under this plan, 6.2% of the employee payroll contribution and an equal share of the employer contribution are paid into Social Security. In retirement, these employees’ CSRS annuities are reduced (“offset”) by the amount of the Social Security benefit.

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<sup>1</sup> In a defined benefit plan, the amount of the retirement benefit is based on an employee’s salary and number of years of service. With each year of service, a worker accrues a benefit equal to a fixed dollar amount or a percentage of pay. A defined contribution plan is like a savings account maintained on behalf of each participating employee. The amount of retirement benefits that a worker receives will depend on the balance in the account, which is the sum of contributions, plus interest, dividends, and capital gains (or losses).

<sup>2</sup> P.L. 105-61 (October 10, 1997) authorized an open season to be held from July through December 1998, during which employees still enrolled in CSRS could transfer to FERS.

Under FERS, workers who have completed at least 30 years of service can retire at age 55. The minimum retirement age will increase beginning with workers born in 1948, eventually reaching age 57 for those born in 1970 or later. Employees with 20 or more years of service can retire at age 60, and those with at least 5 years of service can retire at age 62. Federal employees and former employees who have completed at least 10 (but fewer than 30) years of service can receive a *reduced* FERS pension benefit at age 55. For those who choose this option, the FERS pension benefit is permanently reduced by 5% multiplied by the number of years between the worker's age at retirement and age 62. For example, the pension of a federal employee who retires at age 55 with fewer than 30 years of service would be permanently reduced by 5% multiplied by 7, or 35%.

Under CSRS, the minimum retirement age is 55 for employees with 30 years of federal service, age 60 for those with 20 years of service, and 62 for employees with at least 5 years of service. CSRS has no provision for early retirement with a reduced benefit, except for special circumstances such as a reduction in force. Agencies undergoing a reduction in force can, with the approval of the Office of Personnel Management, offer retirement to employees age 50 or older with 20 or more years of service or at any age with 25 or more years of service. An employee under CSRS who is offered and accepts an offer of voluntary early retirement has his or her retirement annuity permanently reduced by 2% multiplied by the number of years between the worker's age at retirement and age 55.

Under both CSRS and FERS, the amount of an employee's retirement annuity is based on the average of the individual's highest 3 consecutive years of basic pay multiplied by their years of service and the rate at which benefits accrue for each year of service.<sup>3</sup> Under FERS, this *accrual rate* is one percent of base pay per year. Workers with 20 years or more of service under FERS who work until at least age 62 are credited with an accrual rate of 1.1% for each year of service.<sup>4</sup> For example, a worker covered by FERS who retires at 61 with 25 years of service will receive a FERS annuity equal to 25% of high-3 average pay. Delaying retirement by one year would increase the annuity to 28.6% of high-3 average pay ( $26 \times 1.1 = 28.6$ ).

Accrual rates are higher under CSRS than under FERS because employees covered by CSRS do not pay Social Security payroll taxes or earn Social Security retirement benefits. Under CSRS the benefit accrual rate increases with length of service. Workers accrue benefits equal to 1.5% of high-3 average pay for each of their first 5 years of service; 1.75% of high-3 pay for years 6 through 10; and 2.0% of high-3 pay for each year of service after the tenth year. This yields a pension equal to 56.25% of high-3 average pay after 30 years of federal service under CSRS.

For all federal workers covered by FERS, the agency where they are employed contributes an amount equal to 1% of the employee's base pay to the *Thrift Savings Plan* (TSP), even if the employee makes no voluntary contributions to the TSP. In

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<sup>3</sup> The calculation of "high-3 average pay" is based on nominal or "current dollars" rather than indexed or "constant dollars."

<sup>4</sup> Note that because FERS coverage began in 1984, no federal workers will have 30 years of service exclusively under FERS until 2014.

2004, workers covered by FERS will be permitted to contribute as much as 14% of their pay to the TSP, up to the annual limit defined in the Internal Revenue Code (\$13,000 in 2004).<sup>5</sup> These contributions are made on a pre-tax basis, and neither the employee's contribution nor any investment earnings are taxed until the money is withdrawn from the account. In addition, the first 5% of employee pay contributed to the TSP generates agency matching contributions.<sup>6</sup> Workers covered by CSRS also may participate in the TSP, but their total contribution is limited to 9% of pay, and they receive no matching contributions from their employing agency.

**Retirement Coverage of Current Federal Employees.** Because enrollment in CSRS has been closed to new entrants since 1984, the proportion of federal workers covered by FERS has been rising and coverage under CSRS has been declining. (See **Table 1.**) Fiscal year 1995 was the first year in which a majority of civilian federal employees (51%) were covered by FERS. During FY2002, 65.5% of federal employees were covered by FERS.

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<sup>5</sup> P.L. 106-554, the FY2001 Appropriations Act for the Departments of Labor, Health and Human Services, and Education (H.R. 4577 of the 106<sup>th</sup> Congress), will increase the maximum allowable employee contribution to the TSP by 1 percentage point each year for 5 years. The percentage-of-pay limits on contributions to the TSP then will be eliminated, and employee contributions will be subject only to the limits applicable under Internal Revenue Code § 402(g). Beginning in July 2001, employees covered by FERS are allowed to contribute up to 11% of pay to the TSP, and employees covered by CSRS are allowed to contribute up to 6% of pay to the TSP. The maximum permissible contribution will rise by 1 percentage point each fiscal year until reaching 15% for FERS and 10% for CSRS in FY2005. In fiscal year 2006, the percentage-of-pay limits will be eliminated, but, the contribution limits under IRC § 402(g) will continue to apply.

<sup>6</sup> All employees covered by FERS receive "agency automatic contributions" of 1% of pay. Employee contributions are matched dollar-for-dollar on the first 3% of pay and at \$.50 on the dollar on the next 2% of pay. Thus, the maximum agency contribution is 5% of pay.

**Table 1. Retirement Systems Coverage of Federal Employees, by Fiscal Year**

<b>Covered active employees *</b>	<b>CSRS</b>	<b>FERS</b>	<b>Total</b>
Fiscal Year 2002	906,000	1,717,000	2,623,000
<i>Percentage distribution</i>	<i>34.5%</i>	<i>65.5%</i>	<i>100%</i>
Fiscal Year 2001	987,000	1,689,000	2,676,000
<i>Percentage distribution</i>	<i>36.9%</i>	<i>63.1%</i>	<i>100%</i>
Fiscal Year 2000	961,000	1,629,000	2,590,000
<i>Percentage distribution</i>	<i>37.6%</i>	<i>62.4%</i>	<i>100%</i>
Fiscal Year 1999	1,009,000	1,536,000	2,545,000
<i>Percentage distribution</i>	<i>39.6%</i>	<i>60.4%</i>	<i>100%</i>
Fiscal Year 1998	1,108,000	1,550,000	2,658,000
<i>Percentage distribution</i>	<i>41.7%</i>	<i>58.3%</i>	<i>100%</i>
Fiscal Year 1997	1,194,000	1,487,000	2,681,000
<i>Percentage distribution</i>	<i>44.5%</i>	<i>55.5%</i>	<i>100%</i>
Fiscal Year 1996	1,235,000	1,385,000	2,620,000
<i>Percentage distribution</i>	<i>47.1%</i>	<i>52.9%</i>	<i>100%</i>
Fiscal Year 1995	1,311,000	1,371,000	2,682,000
<i>Percentage distribution</i>	<i>48.9%</i>	<i>51.1%</i>	<i>100%</i>
Fiscal Year 1994	1,402,000	1,296,000	2,698,000
<i>Percentage distribution</i>	<i>52.0%</i>	<i>48.0%</i>	<i>100%</i>

**Source:** *Federal Civilian Workforce Statistics: 2002 Fact Book*, Office of Personnel Management and *Report of the Civil Service Retirement and Disability Fund* for the Fiscal Year ended September 30, 2002. \*Number of employees on a full-time equivalent basis. Includes U.S. Postal Service. Does not include employees on leave without pay.

**Coverage of Current Civil Service Annuitants.** Although the majority of current federal employees are covered by FERS, most *retired* federal workers and their surviving spouses and dependents receive benefits from employment that was covered by CSRS. At the beginning of FY2002, 93% of current annuitants were receiving pension benefits that were accrued under CSRS, while just 7% had retired under FERS. (See **Table 2.**) Under both CSRS and FERS, employee and agency contributions are paid into – and pension annuities are paid from – the Civil Service

Retirement and Disability Fund.<sup>7</sup> The number of FERS annuitants is comparatively small because the FERS is still a relatively new program when compared to the average length of a worker's career. The program was established in 1987 and was made retroactive for all employees initially hired on or after January 1, 1984.

**Table 2. Retirement Plan Coverage of Civil Service Annuitants, FY2002**

	<b>CSRS</b>	<b>FERS</b>	<b>Total</b>
Employee annuitants	1,593,123	155,797	1,748,920
<i>Percentage</i>	<i>91.1%</i>	<i>8.9%</i>	<i>100%</i>
Survivor annuitants	620,041	14,089	634,130
<i>Percentage</i>	<i>97.8%</i>	<i>2.2%</i>	<i>100%</i>
<b>Total annuitants</b>	<b>2,213,164</b>	<b>169,886</b>	<b>2,383,050</b>
<i>Percentage</i>	<i>92.9%</i>	<i>7.1%</i>	<i>100%</i>

**Source:** *Statistical Abstracts, Fiscal Year 2002, Federal Employee Benefits Program*, U.S. Office of Personnel Management.

**State of Residence of Civil Service Annuitants.** Nearly 2.4 million people received civil service annuities in 2002, either as retired federal employees, surviving spouses, or surviving dependents. California had the largest number of annuitants with 223,806 and Vermont had the fewest with 3,928. Five states — California, Florida, Texas, Maryland, and Virginia — accounted for 35% of all civil service annuitants in 2002.

<sup>7</sup> Under CSRS, both the employee and the employing agency contribute an amount equal to 7.0% of base pay to the retirement and disability fund. This does not provide sufficient resources to pay the retirement benefits that are accrued annually by federal employees covered under CSRS. The shortfall (equal to about 10% of pay) is made up through transfers from the general fund of the U.S. Treasury. Retirement benefits accrued under FERS are fully funded through contributions from employees (0.8% of base pay) and their employing agencies (10.7% of payroll in 2004).



**Table 3. State of Residence of Civil Service Annuitants, 2002**

<b>State</b>	<b>Number of annuitants</b>	<b>Percent of national total</b>
Alabama	55,899	2.4%
Alaska	6,636	0.3%
Arizona	47,605	2.0%
Arkansas	23,700	1.0%
California	223,806	9.5%
Colorado	43,384	1.8%
Connecticut	14,503	0.6%
Delaware	6,752	0.3%
District of Columbia	43,700	1.9%
Florida	163,019	6.9%
Georgia	73,425	3.1%
Hawaii	23,889	1.0%
Idaho	11,619	0.5%
Illinois	64,015	2.7%
Indiana	33,888	1.4%
Iowa	19,518	0.8%
Kansas	23,184	1.0%
Kentucky	30,836	1.3%
Louisiana	25,321	1.1%
Maine	13,074	0.6%
Maryland	141,092	6.0%
Massachusetts	46,049	2.0%
Michigan	38,495	1.6%
Minnesota	25,393	1.1%
Mississippi	23,758	1.0%

<b>State</b>	<b>Number of annuitants</b>	<b>Percent of national total</b>
Missouri	50,408	2.1%
Montana	10,812	0.5%
Nebraska	13,046	0.6%
Nevada	19,269	0.8%
New Hampshire	11,431	0.5%
New Jersey	56,057	2.4%
New Mexico	24,879	1.1%
New York	99,029	4.2%
North Carolina	58,271	2.5%
North Dakota	5,788	0.2%
Ohio	73,045	3.1%
Oklahoma	47,802	2.0%
Oregon	29,678	1.3%
Pennsylvania	105,743	4.5%
Rhode Island	9,410	0.4%
South Carolina	38,637	1.6%
South Dakota	8,748	0.4%
Tennessee	39,272	1.7%
Texas	150,374	6.4%
Utah	32,395	1.4%
Vermont	3,928	0.2%
Virginia	133,800	5.7%
Washington	59,939	2.6%
West Virginia	14,798	0.6%
Wisconsin	23,873	1.0%
Wyoming	5,257	0.2%
<b>Total</b>	<b>2,348,249</b>	<b>100%</b>

**Source:** *Statistical Abstracts, Fiscal Year 2002, Federal Employee Benefits Program*, U.S. Office of Personnel Management.

**Average Age and Years of Service at Retirement.** More than 74,000 civilian federal employees (including U.S. Postal Service employees) retired during fiscal year 2002. (See **Table 4.**) Of this number, 50,149 (68%) were normal retirements<sup>8</sup> and another 6,250 (8%) were voluntary early retirements. Under both

<sup>8</sup> Normal retirements include all retirements except disability retirements, voluntary early (continued...)

CSRS and FERS, normal retirement can occur as early as age 55 with 30 years of service, age 60 with 20 years of service, or age 62 with 5 years of service. The minimum retirement age under FERS is scheduled to increase beginning with workers born in 1948, eventually reaching age 57 for employees born in 1970 or later. The average age of workers taking voluntary, normal retirement in 2002 was 60 for employees covered by CSRS and 62.6 for those covered by FERS. Workers taking normal retirement under CSRS in 2002 had completed an average of 32.5 years of service, while those retiring under FERS had an average of 16.4 years of service.

More than 6,000 federal employees took voluntary *early* retirement in 1999. These workers were younger on average (53.4 years old) than those who took normal retirement, and their average length of service (27.5 years) was slightly less than that of those who took normal retirement. Approximately 14% of all retirements among federal employees in 2002 were taken for reasons of disability. Disability retirees were, on average, 49.8 years old with 16.6 years of service. Involuntary retirements (such as those resulting from agency down-sizing) and retirements taken under other special circumstances accounted for 10% of all retirements by federal employees in 2002.

***Average Annuity Amounts under CSRS and FERS.*** The average monthly annuity paid to civilian federal employees who retired under CSRS in 2002 was \$2,595, while new FERS annuitants received an average annuity of \$867 per month. Employees retiring under CSRS received larger annuities than those covered by FERS both because of their longer average length of service and because CSRS was designed to provide an adequate retirement income from a single source. FERS was designed to provide a smaller annuity than CSRS for any given length of service and level of compensation because federal employees covered by FERS participate in Social Security and they also can elect to save for retirement on a pre-tax basis with agency matching contributions through the Thrift Savings Plan.<sup>9</sup> Employees in FERS who retire at 55 or older with 30 years of federal service are eligible to receive a supplement to their FERS annuity between their retirement and age 62. The supplement is approximately equal to the Social Security payments they will receive for their years of federal employment. (Employees with 20 years of service receive this supplement if they are at least age 60 at retirement.)

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<sup>8</sup> (...continued)

retirements, involuntary retirements, and special provision retirements.

<sup>9</sup> In 2002, federal employees covered by CSRS may contribute up to 7% of pay (pre-tax) to the TSP, but they receive no agency matching contributions. For more information on the TSP, see CRS Report RL30387, *Federal Employees' Retirement System: Role of the Thrift Savings Plan*, by Patrick Purcell.

**Table 4. Number, Average Age and Years of Service, and Average Annuity of Civil Service Annuitants Who Retired in 2002**

2002 civilian federal retirements	CSRS	FERS*	Average or Total
<i>Normal Retirements</i>			
Number	38,999	11,150	50,149
Average age at retirement	60.0	62.6	60.6
Average years of service	32.5	16.4	28.9
Average monthly annuity	\$2,733	\$651	\$2,271
<i>Disability Retirements</i>			
Number	4,031	6,509	10,540
Average age at retirement	51.5	48.7	49.8
Average years of service	23.8	12.2	16.6
Average monthly annuity	\$1,608	\$1,017	\$1,243
<i>Involuntary retirements</i>			
Number	2,009	218	2,227
Average age at retirement	55.0	55.6	55.0
Average years of service	28.0	23.4	27.5
Average monthly annuity	\$2,372	\$1,292	\$2,266
<i>Voluntary early retirements</i>			
Number	5,721	531	6,252
Average age at retirement	53.3	53.7	53.3
Average years of service	27.9	23.9	27.6
Average monthly annuity	\$2,156	\$1,170	\$2,072
<i>Special provision retirements</i>			
Number	2,480	348	2,828
Average age at retirement	54.4	53.1	54.2
Average years of service	29.7	29.3	29.7
Average monthly annuity	\$4,292	\$4,792	\$4,354
<i>Total retirements in 2002 **</i>			
Number	54,627	19,526	74,153
Average age at retirement	58.3	57.3	58.0
Average years of service	30.7	15.4	26.7
Average monthly annuity	\$2,595	\$867	\$2,141

**Source:** CRS analysis of data from the Office of Personnel Management.

\* Employees covered by FERS also participate in Social Security. In January 2002, the average monthly Social Security benefit for workers retiring at age 62 was \$936.

\*\* Includes other, unclassified retirements.

### Average Age at Retirement of New Federal Retirees, 1989 to 2002.

In 2002, the average age of federal employees taking normal retirement was 60.6. (See **Table 5.**) Over the period from 1989 to 2002, the average age of normal retirements was 61.4. The average age for *all* retirements in 2002 was 58.1, which was the same as the average for the period from 1989 to 2002. Under the terms of the *Homeland Security Act* federal agencies undergoing a major reorganization can request permission from the Office of Personnel Management to offer their employees voluntary early retirement or voluntary separation incentive pay (“buyouts”). Under voluntary early retirement, an employee can retire as early as age 50 with 20 years of service. Voluntary separation incentives are cash payments of up to \$25,000 (before taxes) offered to employees who retire or otherwise separate from federal employment voluntarily. Because these incentives are generally offered to retirees who have not yet reached the combined age and years of service that are required for normal retirement, they tend to reduce the average age of those who retire in any given year.

**Table 5. Average Age at Retirement for New Federal Retirees, 1989 to 2002**

Fiscal year	Average age at retirement		Normal retirements as a percentage of all retirements
	All retirements	Normal retirements	
1989	59.4	61.3	77.4%
1990	59.4	61.3	79.0
1991	55.4	61.2	78.1
1992	59.1	61.5	70.6
1993	57.9	61.5	52.4
1994	58.1	61.8	56.8
1995	58.0	62.0	53.2
1996	57.6	62.0	52.8
1997	57.5	61.8	55.4
1998	57.6	61.5	57.1
1999	58.1	61.3	63.2
2001	58.0	61.0	64.5
2002	58.1	60.6	67.6

**Source:** Office of Personnel Management.

**Note:** Normal retirements include all retirements except disability retirements, voluntary early retirements, involuntary retirements, and special provision retirements.

**Total and Average Annuity Payments to Retirees and Survivors in 2002.** The Civil Service Retirement and Disability Fund paid annuities to 1.75 million retired federal employees and 634,000 survivor annuitants in fiscal year 2002. Of these beneficiaries, 2.2 million (93%) received benefits earned under CSRS and 170,000 (7%) received benefits under FERS. Employee annuitants under CSRS received an average monthly annuity of \$2,048. Survivors of CSRS annuitants received an average monthly CSRS annuity of \$1,040. Employee annuitants under FERS received payments, averaging \$735 per month for retirees and \$317 for survivors. As was noted earlier FERS benefits are smaller than those under CSRS both because employees covered by FERS have fewer years of service than workers who retired under CSRS, and because FERS benefits are intended to be supplemented by Social Security and the Thrift Savings Plan.<sup>10</sup>

**Table 6. Total and Average Annuity Payments to Retirees and Survivors in 2002**

(in thousands of dollars)

	CSRS	FERS	All retirees and survivors
<b>Employee annuitants</b>	1,593,123	155,797	1,748,920
<i>Percent of Total</i>	91.1%	8.9%	100%
Mean monthly benefit	\$2,048	\$735	\$1,931
Median monthly benefit	\$1,812	\$481	\$1,716
<b>Survivor annuitants</b>	620,041	14,089	634,130
<i>Percent of Total</i>	97.8%	2.2%	100%
Mean monthly benefit	\$1,040	\$317	\$1,024
Median monthly benefit	\$916	\$235	\$895
<b>Total annuitants</b>	2,213,164	169,886	2,383,050
<i>Percent of Total</i>	92.9%	7.1%	100%

**Source:** *Statistical Abstracts, Fiscal Year 2002, Federal Employee Benefits Program*, Office of Personnel Management.

<sup>10</sup> In December 2002, the average monthly Social Security benefit among all retired workers was \$895. The average monthly benefit for a surviving spouse was \$861.

**Cost-of Living Adjustments under CSRS and FERS.** Cost-of-living adjustments (COLAs) for both CSRS and FERS are based on the rate of inflation as measured by the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W). COLAs are determined by the percentage change in the average monthly CPI-W during the third quarter (July to September) of the current calendar year compared to the third quarter of the previous year. The “effective date” for COLAs is December, but they first appear in benefit checks issued in January.

All CSRS retirees and survivors receive yearly COLAs equal to the annual percentage change in the CPI-W. Under FERS, COLAs are paid only to retired workers who are age 62 and older and to disabled and survivor beneficiaries of any age. COLAs paid under FERS are less than the rate of inflation whenever the increase in the CPI-W is greater than 2.0%. If the rate of inflation during the measurement period is between 2.0% and 3.0%, the FERS COLA is 2.0%. If inflation is greater than 3.0%, then the COLA for FERS benefits is equal to the CPI-W minus one percentage point.<sup>11</sup> In January 2004, CSRS beneficiaries received a COLA of 2.1%, and FERS beneficiaries received a COLA of 2.0%. (See **Table 7.**)

**Table 7. Cost-of-Living Adjustments under CSRS and FERS**

<i>Date paid</i>	CSRS COLA	FERS COLA	Change in CPI from 3rd Qtr to 3rd Qtr
January 1989	4.0%	3.0%	4.0%
January 1990	4.7%	3.7%	4.7%
January 1991	5.4%	4.4%	5.4%
January 1992	3.7%	2.7%	3.7%
January 1993	3.0%	2.0%	3.0%
April 1994	2.6%	2.0%	2.6%
April 1995	2.8%	2.0%	2.8%
April 1996	2.6%	2.0%	2.6%
January 1997	2.9%	2.0%	2.9%
January 1998	2.1%	2.0%	2.1%
January 1999	1.3%	1.3%	1.3%
January 2000	2.4%	2.0%	2.4%
January 2001	3.5%	2.5%	3.5%
January 2002	2.6%	2.0%	2.6%
January 2003	1.4%	1.4%	1.4%
January 2004	2.1%	2.0%	2.1%

**Source:** Office of Personnel Management.

\* COLAs are first included in benefits paid during the month after the effective date.

<sup>11</sup> Workers who switched from CSRS to FERS receive a COLA that is weighted by the proportion of their federal service that was spent under each retirement system.

**Income and Expenditures of the Civil Service Retirement and Disability Fund, 2002.** The Civil Service Retirement and Disability Fund (CSRDF) ended FY2002 with a balance of \$569.5 billion. By law, these assets are invested in special-issue U.S. Treasury bonds. The balance of the trust fund represents the amount of *budget authority* available to pay benefits under both CSRS and FERS. The fund's balance at the end of 2002 was more than 11 times the value of the CSRS and FERS annuities paid from the fund that year.

The Civil Service Retirement and Disability Fund receives income from several sources. Some of the fund's income results from *cash transactions*. Other income comes from *intra-governmental transfers*. The largest cash transaction (\$4.0 billion in 2002) consists of employee contributions to CSRS and FERS. These contributions are equal to 7.0% of base pay under CSRS and 0.8% of pay under FERS.<sup>12</sup> Smaller cash payments are received from the District of Columbia to finance retirement benefits for its employees, and from additional cash contributions made by federal workers. These usually are former federal employees who are returning to government service and who had previously withdrawn their retirement contributions.

The fund's largest sources of income are (1) interest payments on the U.S. Treasury bonds it holds, (2) a payment from the general fund of the Treasury to make up for the insufficient funding of benefits accrued under CSRS, and (3) payments from federal agencies and the Postal Service on behalf of their employees.<sup>13</sup> Agency contributions under CSRS are equal to 7.0% of payroll, and are supplemented by transfers from the general fund of the Treasury equal to approximately 10% of payroll. Agency contributions to FERS are required by law to be equal to the full actuarial cost of the program minus employee contributions. Agency contributions to FERS equal 10.7% of pay in 2004.

These three sources of income are not cash transactions, but *intra-governmental transfers* which result in an increase in the fund's budget authority as recorded in the accounts of the U.S. Treasury. The fund receives Treasury bonds as a record of this budget authority, which it redeems periodically as annuity payments come due.<sup>14</sup>

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<sup>12</sup> Under the *Balanced Budget Act of 1997* (P.L. 105-33), employee contribution rates under CSRS and FERS rose by 0.25% in January 1999 and by a further 0.15% in January 2000. They were to increase by another 0.1% in January 2001 before reverting to their previous levels — 7.0% under CSRS and 0.8% under FERS — after December 31, 2002, but the increased contributions were repealed by P.L. 106-346.

<sup>13</sup> At the time CSRS was created in 1920, it was common for private employers to pay some retirement benefits directly from their sales revenues rather than from reserves held in a pension fund. Because CSRS was not designed to be funded entirely from employee and agency contributions, some of the benefits accrued by workers covered by CSRS are financed through transfers from the general revenues of the U.S. Treasury.

P.L. 108-18 (April 23, 2003) will reduce future Postal Service Payments to the Civil Service Retirement and Disability Fund. For more information, see CRS Report RL31684, *Funding Postal Service Obligations to the Civil Service Retirement System*.

<sup>14</sup> Also see CRS Report RL30023, *Civil Service Retirement Programs: Budget and Trust* (continued...)



Expenditures from the retirement and disability fund consist almost entirely of payments to retired federal employees and their surviving spouses and dependents. Annuity payments totaled \$48.5 billion in 2002, while payments to the estates of decedents and payments to separating employees accounted for another \$285 million. Administrative expenses for the fund were \$131 million, just 0.27% of expenditures.

**Table 8. Income and Expenditures of the Civil Service Retirement and Disability Fund, 2002-2004**  
(amounts in millions)

	FY2002	FY2003(est.)	FY2004(est.)
<b>Beginning balance</b>	<b>\$542,639</b>	<b>\$573,738</b>	<b>\$602,596</b>
<b>Income to the fund</b>			
<i>Cash transactions:</i>			
Employee contributions	\$3,998	\$3,930	\$3,858
District of Columbia	\$61	\$52	\$46
Other employee deposits	\$477	\$494	\$520
<i>Intragovernmental transfers:</i>			
Agency contributions	\$10,731	\$9,975	\$10,739
Postal Service (total)	\$6,763	\$7,026	\$7,221
Interest on securities	\$35,902	\$37,266	\$38,768
General fund receipts	\$22,108	\$22,484	\$22,787
Re-employment offset	\$29	\$29	\$30
<b>Total income to the fund</b>	<b>\$80,069</b>	<b>\$81,256</b>	<b>\$83,969</b>
<b>Expenditures from the fund</b>			
Employee annuities	-\$40,764	-\$42,479	-\$43,671
Survivor annuities	-\$7,790	-\$8,086	-\$8,497
Payments to estates	-\$150	-\$163	-\$169
Separated employees	-\$135	-\$127	-\$114
Administration	-\$131	-\$136	-\$148
<b>Total expenditures from the fund</b>	<b>-\$48,970</b>	<b>-\$50,991</b>	<b>-\$52,599</b>
Legislation (Postal Service Payments)	—	-\$1,407	-\$626
<b>Ending balance</b>	<b>\$573,738</b>	<b>\$602,596</b>	<b>\$633,340</b>

**Source:** U.S. Office of Management and Budget, *Budget of the United States Government, FY2004*.

<sup>14</sup> (...continued)  
*Fund Issues.*

**Recent Trends in the Balance of the Civil Service Retirement and Disability Fund.** Between 1989 and 2002, the balance of the Civil Service Retirement and Disability Fund rose from \$215 billion to \$574 billion, an increase of 167%. (See **Table 9.**) The balance of the fund has been rising partly because the civil service retirement programs are in a long-term transition from pay-as-you-go financing under CSRS to advance-funding under FERS.

For most of its history, CSRS benefits were funded on a pay-as-you-go basis with a small reserve equal to about one year of benefit payments to meet unexpected contingencies. Employee contributions and agency contributions were less than the actuarial value of the benefits that were accrued each year by federal employees. In 1969, P.L. 91-93 mandated annual payments to the fund from the general revenues of the U.S. Treasury to make up most of this shortfall.<sup>15</sup> When Congress passed the legislation that created FERS in 1986, it required that the *full actuarial value* of benefits accrued each year by federal employees covered by the program (including the value of future COLAs) must be funded by the sum of employee and agency contributions. The Office of Personnel Management estimates that at some time in the 21<sup>st</sup> century, the trust fund will reach a steady state in which it holds sufficient budget authority to finance about 20 years of retirement and disability benefits.

**Table 9. Income and Expenditures of the Civil Service Retirement and Disability Fund, 1989 to 2004**  
(in billions of dollars)

Fiscal year	CSRDF income	CSRDF expenditures	Ending balance
1989	\$48.8	-\$29.2	\$214.6
1990	\$52.2	-\$31.1	\$235.6
1991	\$56.2	-\$33.3	\$258.5
1992	\$59.5	-\$33.7	\$284.4
1993	\$62.2	-\$34.9	\$311.8
1994	\$63.5	-\$36.4	\$338.9
1995	\$65.7	-\$38.4	\$366.2
1996	\$66.6	-\$39.8	\$393.0
1997	\$70.2	-\$41.7	\$421.5
1998	\$72.2	-\$43.1	\$450.7
1999	\$74.5	-\$43.9	\$481.3
2000	\$76.0	-\$45.2	\$512.1
2001	\$77.9	-\$47.4	\$542.6
2002	\$80.1	-\$49.0	\$573.7
2003(est.)	\$79.8	-\$51.0	\$602.5
2004(est.)	\$83.3	-\$52.6	\$633.2

**Source:** Office of Management and Budget, *Budget of the United States Government*, various years.

<sup>15</sup> The Office of Management and Budget has estimated that employee and agency contributions and the transfers from the general fund are sufficient to meet all of the actuarial costs of CSRS except for the increase in benefits represented by COLAs.

**Number of Civil Service Annuitants and Total Annuity Payments, 1970 to 2006.** The number of people receiving civil service annuity payments has more than doubled since 1970, but the rate of increase has slowed since 1985. (See **Table 10.**) The rapid rise in the number of civil service annuitants from less than one million in 1970 to approximately two million in 1985 resulted from the increase in federal employment that occurred between 1940 and 1955. (See **Table 11.**) Throughout the 1930s, civilian federal employment (including postal employees) was less than one million. 1940 was the first year in which there were more than one million people in the federal workforce. By 1955, civilian federal employment had reached 2.4 million. There were brief upward spikes in federal employment during World War II and the Korean War, but relatively few of these war-time workers remained in service long enough to become vested in pension benefits.

After 1955, civilian federal employment increased much more slowly. It reached 2.9 million in 1970, due in part to the war in Vietnam and the creation of such large-scale social programs as Medicare and Medicaid in the 1960s. The slower but still steady increase in the number of federal employees in the years between 1955 and 1970 has had as one of its consequences the slower but steady increase in the number of civil service annuitants in the years since 1985. Between 1985 and 2000, the number of civil service annuitants rose from around 2 million to about 2.4 million. The Office of Management and Budget estimates that by 2006 there will be approximately 2.5 million people receiving federal civil service annuities.

Expenditures for civil service annuities have grown by a greater percentage than the number of annuitants because they are affected not only by the number of people employed by the federal government, but also by increases in average life-span, growth in real wages, and inflation. Cost-of-living adjustments — which have been applied to civil service annuities since 1962 — do not represent an increase in the real value of these annuities. They merely keep purchasing power from eroding due to the effects of inflation.<sup>16</sup>

Under current law, the real value of a civil service annuity either remains constant (CSRS) or declines (FERS) during retirement.<sup>17</sup> Therefore, the increase in the real value of annuities has been the result of increases in the average value of the “high-3” average pay on which these annuities are based. Rates of increase in the high-3 average pay of retiring federal employees are in turn affected by adjustments to pay for each grade-and-step level;<sup>18</sup> special pay increases such as locality pay

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<sup>16</sup> On the revenue side of the equation, federal tax revenues increase each year partly as a result of inflation, and income tax brackets are indexed in recognition of increases in personal income that result solely from inflation.

<sup>17</sup> Some CSRS COLAs in the 1970s exceeded the rate of inflation because P.L. 91-93, enacted in 1969, called for COLAs of “CPI plus one percentage point.” The additional one percentage point was repealed by P.L. 94-440, enacted in 1976. FERS annuities are only partially indexed for annual increases in the general price level that exceed 2.0%, as measured by the Consumer Price Index (CPI-W.)

<sup>18</sup> Adjustments in the pay for each grade and step affect the real value of pay only to the extent that they exceed the rate of inflation, which has only rarely occurred. In the long run, (continued...)

adjustments; the distribution of federal employees among various grade-and-step levels over time; and average length of service (since each additional year of service tends to increase the high-3 average pay). The average real value of civil service annuities per annuitant can be expected to decline in the future as a growing number of new retirees are covered by FERS rather than CSRS. FERS annuities are supplemented by Social Security benefits and the Thrift Savings Plan.

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<sup>18</sup> (...continued)

wages increase faster than prices in the economy at large because of increases in worker productivity (measured as output per worker per hour work.) Increases in productivity are the chief source of growth in economic output and worker incomes.

**Table 10. Annuitants and Annuity Payments, 1970 to 2006**

Year	Total annuitants (000s)	Payments in nominal dollars (millions)	Payments in constant 2002 dollars (millions)
1970	962	\$2,746	\$12,732
1971	1,026	3,228	14,339
1972	1,166	3,772	16,234
1973	1,277	4,515	18,294
1974	1,335	5,661	20,657
1975	1,391	7,048	23,568
1976	1,452	8,267	26,138
1977	1,522	9,531	28,294
1978	1,589	10,867	29,984
1979	1,656	12,369	30,650
1980	1,675	14,662	32,011
1981	1,779	17,597	34,826
1982	1,829	19,405	36,176
1983	1,869	20,717	37,420
1984	1,910	21,813	37,769
1985	1,971	23,012	38,475
1986	2,008	23,942	39,299
1987	2,055	25,713	40,720
1988	2,095	28,047	42,651
1989	2,122	29,134	42,268
1990	2,143	31,036	42,719
1991	2,184	33,188	43,836
1992	2,185	33,545	43,013
1993	2,242	34,792	43,315
1994	2,263	36,254	44,009
1995	2,311	38,319	45,234
1996	2,333	39,670	45,485
1997	2,343	41,604	46,633
1998	2,361	42,943	47,395
1999	2,369	43,828	47,327
2000	2,372	45,072	47,087
2001	2,380	47,244	47,991
2002	2,383	48,838	48,838
*2003	2,400	50,854	49,711
*2004	2,446	52,450	50,167
*2005	2,486	54,844	51,227
*2006	2,526	57,197	52,122
*2007	2,559	59,582	52,971
*2008	2,595	61,982	53,761

**Source:** Office of Personnel Management and Office of Management and Budget.

**Note:** Depending on the day that the fiscal year begins, a year can have 11, 12, or 13 payments.

\* Estimated number of annuitants and nominal outlays from the *Budget of the United States*.

**Civilian Federal Employment, 1940 to 2002.** Since 1990, the number of civilian federal employees (including the U.S. Postal Service, which participates in both CSRS and FERS) has fallen by 505,000. (See **Table 11.**) Civilian federal employment outside the Postal Service has fallen by 498,000, a decline of 21.5% since 1990. These reductions yield immediate savings in payroll costs, and ultimately they will result in lower expenditures for retirement annuities for federal employees. In the near-term, however, reductions in the federal work force may result in a greater number of annuitants to the extent that the reductions are achieved by inducing employees to retire early. Note that in 2002, employment in the Judicial Branch exceeded employment in the Legislative Branch. Between 1983 and 2000, employment in the Legislative Branch declined from 40,000 employees to 31,000 employees. Over the same period, employment in the Judicial Branch rose from 15,000 to 33,000.

**Table 11. Civilian Federal Employment, 1940 to 2002**  
(In thousands, as of September 30 each year)

Year	Legislative Branch	Judicial Branch	Executive Branch	Postal Service	Total
1940	20	2	758	312	1,091
1945	25	3	3,181	379	3,588
1950	23	4	1,449	485	1,961
1955	22	4	1,860	512	2,397
1960	23	5	1,808	563	2,398
1965	26	6	1,900	596	2,528
1970	31	7	2,158	726	2,922
1975	39	10	2,149	699	2,897
1976	39	11	2,157	676	2,883
1977	39	13	2,131	658	2,841
1978	39	13	2,164	656	2,872
1979	40	13	2,161	662	2,876
1980	40	15	2,161	660	2,876
1981	39	16	2,143	663	2,861
1982	39	16	2,110	660	2,825
1983	39	17	2,157	663	2,876
1984	39	17	2,171	683	2,910
1985	39	18	2,214	750	3,021
1986	38	19	2,193	774	3,024
1987	38	20	2,235	798	3,091
1988	38	22	2,222	832	3,114
1989	38	22	2,238	826	3,124
1990	38	24	2,250	817	3,129
1991	39	26	2,244	804	3,113
1992	39	28	2,227	792	3,086
1993	38	28	2,157	790	3,013
1994	35	28	2,085	823	2,971
1995	33	29	2,012	845	2,919
1996	32	30	1,934	852	2,848
1997	31	30	1,867	854	2,782
1998	30	32	1,856	871	2,789
1999	30	32	1,821	866	2,749
2000	31	32	1,784	861	2,708
2001	33	32	1,738	831	2,634
2002	31	33	1,750	810	2,624

**Source:** Office of Personnel Management.

**Note:** Table shows total persons employed, including part-time.

**Age Distribution of Executive Branch Employees.** Employees of the federal government are older on average than workers in the private sector. Forty-one percent of employees in the Executive branch were under age 45 in 2001. Nineteen percent were between the ages of 45 and 49, and 40% were age 50 or older. (See **Table 12.**) In contrast, according to data collected by the U.S. Bureau of the Census, an estimated 66% of all wage and salary workers in the private sector were under age 45 in 2000. Eleven percent of private sector employees were ages 45 to 49, and 23% were age 50 or older.<sup>19</sup>

Under both CSRS and FERS, an employee can retire with an immediate, unreduced annuity at age 55 with 30 years of service or at age 60 with 20 years of service. Nearly 40% of federal employees will reach age 55 within 10 years, but not all of them will have 30 years of service at that age. Of those who do, not all will retire immediately. The average age among *all* federal employees who retired in 2002 was 58. The average among those who took *normal* retirement – as opposed to early retirement or disability retirement, for example – was 61.<sup>20</sup>

**Table 12. Age Distribution of Full-time, Permanent Employees**  
(Employees in thousands, as of September 30, 2001)

Age	Under Age 45	45 - 49	50 - 54	55 - 59	60 - 64	65 or older	Total
Number	646	304	333	186	74	27	1,569
Percent	41.1%	19.4%	21.2%	11.8%	4.7%	1.7%	100%

**Source:** U.S. Office of Personnel Management

<sup>19</sup> CRS analysis of data from the March 2002 *Current Population Survey*. Based on wage and salary workers employed in the private sector.

<sup>20</sup> Retirements other than normal retirements include disability retirements, voluntary early retirements, involuntary retirements, special retirements for law enforcement officers and firefighters, and other unclassified retirements.