

Subcommittee Hearing
Federal Workforce, Postal Service, and the District of Columbia
Written Statement of James P. Moran
August 2, 2007

Introduction

Chairman Davis and Ranking Member Marchant, I want to thank you and the other Members of the Subcommittee for holding this hearing today on the retirement benefits offered to federal employees. I am proud to represent more than 98,000 Virginians who have served our country within the ranks of the federal civil service. Protecting the quality of life of these beneficiaries and ensuring the future strength of the federal retirement system are two of the most important issues to my district. In doing my best to represent these interests, it is imperative that I remain steadfast to maintain the integrity, quality and vitality of the federal workforce. I know that these are interests that the Subcommittee shares.

During the past several years, I have worked with both the Office of Personnel Management (OPM) and labor organizations representing millions of federal employees and retirees to introduce legislation that will fix an inequity in the current retirement system that may affect thousands of future retirees. I believe my proposal will help support the federal government's ability to retain current employees in the face of the oncoming wave of retirement that will hit the federal workforce in less than a decade. H.R. 2780, a fix to the calculation of retirement benefits, is a result of a collective effort, and I look forward to working with this Subcommittee to offer the best policy prescription possible as the federal workforce confronts the challenges of this new century.

State of the Federal Workforce

It has been well documented that over the next ten years, the federal workforce will undergo significant demographic changes that threaten the federal government's strength and effectiveness. As the baby-boom generation, which makes up a disproportionately large part of the overall workforce, nears retirement age, federal agencies will face a crisis in manpower, especially within its senior executives and management ranks. Information from OPM shows that approximately "60 percent of the government's 1.6 million white-collar employees and 90 percent of about 6,000 Federal executives will be eligible for retirement over the next ten years."

This likely wave of retirement threatens to drain the federal workforce of its most experienced and talented employees at a pace that will be difficult to replace with a well-qualified, trained workforce. Congress, in coordination with the Executive Branch, must develop an overall strategy with specific policy solutions so that the potential "brain drain" doesn't threaten the efficient delivery of government services.

One leading factors that influences the retention of senior personnel is the retirement package offered by the federal government. As currently structured, the federal retirement system for some workers actually penalizes employees that wish to extend their careers by

working part-time. As the federal workforce faces the prospect of losing an unprecedented number of employees over the next 10 years, many of the anticipated shortages can be met with part-time employees. The obstacle that these potential part-time employees face is the negative impact of part-time employment on their federal pensions.

H.R. 2780 – Part-Time Employment Retirement Computation

I have introduced H.R. 2780 to address the annuity computations of federal employees retiring under the Civil Servant Retirement System (CSRS). I believe that this legislation can serve the dual purpose of correcting a longstanding inequity for retiring federal employees, as well as offering employees nearing retirement the option for continued part-time service without negatively impacting their retirement benefits.

Over 10 years ago, the 100th Congress included a provision in the Consolidated Omnibus Budget Reconciliation Act (COBRA) of 1986 (P.L. 99-272) that amended the civil service retirement law for federal workers with part-time service. Section 15204 prevented part-time employees from being credited with the same number of years of service as those who worked full-time over the same period. Before the law's passage, an individual who had worked part-time for most of his or her career could switch to full-time work the last three years of his or her career and receive the same retirement benefits as someone who worked full-time throughout the same period.

As the Subcommittee knows, federal annuities are calculated by multiplying the average three highest continuous years of salary, times years of service, by an accrual rate. The new methodology determines the proportion of a full-time career that a part-time employee works and scales annuities accordingly. Under the formula, a part-time salary is calculated on a full-time equivalent basis (FTE) for retirement purposes. Thus, a worker's "high-three salary" could occur during a period of part-time service. This often happens when a senior-level worker cuts back on his or her hours. The disproportionate share of these workers appears to be women, who leave the federal service to care for others.

The problem with the new formula is that it has negative consequences for workers hired before 1986. First, it fails to provide the accrued full year of credit for each year of part-time service of workers who, before 1986, had completed part-time service for which they had understood they would receive full-time credit. Second, the formula can have a negative impact on retirees' annuity if the computation of the "high-three salary" occurs during part-time service. Specifically, the formula incorrectly minimizes full-time employment before 1986, which hurts agencies' ability to retain experienced federal workers by offering part-time employment. Finally, this complex formula can lead to computational errors involving annuities with part-time service. There are possibly thousands of civil servants who are eligible under CSRS that may be impacted by the inequity in this law.

My legislative proposal will restore full credit for part-time work performed before 1986, eliminate the adverse effect of part-time service performed late in an employee's career, and provide a simplified annuity computation in cases involving part-time service. Though it is

important to eliminate the inequity for future retirees, it is perhaps more important to tear down the artificial barrier to part-time service at the end of an employee's career.

For the past several sessions of Congress, I have submitted this proposal to change the retirement calculation for not only future retirees, but also for current retirees that suffered a reduction in pension benefits as a result of part-time work. One of the main reasons that I introduced legislation years ago was because of federal retirees informing me of this problem.

While I would have strongly preferred that the legislation that may ultimately gain favor in this Subcommittee contain a retroactive component for the current retirees, I understand and recognize that such a provision could weaken the bill's chances of success. There are two concerns that the Subcommittee and OPM have brought to my attention. First, applying the annuity calculation to current retirees would exacerbate the debt that the CSRS retirement fund already faces. Ultimately this debt will be passed on to the Federal Employee Retirement System (FERS) as the last CSRS employees retire, and at some point Congress will either have to increase FERS taxes or limit benefits. Though it is important to right the inequity of the current part-time calculation, I do not wish to add to the burdens of the next generation.

Second, I have been informed that retroactively recalculating federal annuities would set a new precedent within the federal retirement system. I am not adverse to changing precedent, but I understand the reluctance of the Subcommittee to make such changes in light of the difficult financial times facing CSRS and the pressures of our looming national debt.

The Subcommittee and OPM's concerns are legitimate, and I respect their perspective. I understand that dropping the retroactive provision of my proposal may lose me some support of the federal retirees that are experiencing this retirement inequity, but I believe that the only way that this legislation moves forward is with bipartisan cooperation and coordination. I believe that the changes that I have offered in the attached amendment reflect this effort. Ultimately, a perfect bill must not be the downfall of a good one.

Conclusion

Mr. Chairman and Mr. Ranking Member, I want to thank you for this opportunity to be heard. In orchestrating this hearing, the Subcommittee's staff has been tremendously helpful. I would like to particularly thank Ms. Tania Shand, who has been supportive in reaching out to my office and ensuring that our questions and concerns were answered in a professional and timely manner.

I believe that this proposal will correct a long-standing obstacle to part-time service and may help agencies retain qualified federal employees nearing retirement for part-time service. I ask for your support in moving this bill through the Committee on Oversight and Government Reform, and through the House of Representatives.

I look forward to your questions, and I thank you.