Office of Personnel Management

Retirement and Insurance Service

CSRS Civil Service Retirement System 1920 | FEGLI Federal Employees Group Life Insurance 1954 | FEHB Federal Employees Health Benefits Program 1959 | FERS Federal Employees Retirement System 1986

Benefits Administration Letter

Number: 95-107 *Date: November 7, 1995*

SUBJECT: **H.R. 2491, The Seven-Year Balanced Budget Reconciliation Act of 1995**

This is to keep you up to date on the status of potential legislative changes to the Civil Service Retirement System (CSRS) and the Federal Employees Retirement System (FERS).

On October 26 and 27, the House of Representatives and the Senate passed different versions of H.R. 2491, the "Seven-Year Balanced Budget Reconciliation Act of 1995." Shortly, a Conference Committee will attempt to reach agreement on a compromise version of the entire bill.

Both versions of H.R. 2491 contain the same changes to CSRS and FERS. The House version also would require Congress to establish a commission to study possibilities for further changes. Neither version of H.R. 2491 would change the Federal Employees Health Benefits or Federal Employees Group Life Insurance programs.

The material below explains the CSRS and FERS changes that would occur if the provisions now in H.R. 2491 were to be enacted. Because the legislative process is not over, however, there may still be changes in these provisions.

COLA Delays

The Omnibus Budget Reconciliation Act of 1993 provided that, through 1996, retirement COLA increases which would have applied to January payments would be delayed until April of each year. H.R. 2491 would, if enacted, continue to delay COLAs in this way through 2002.

This would not reduce the amount of any COLA, or have any compounding effect. The only change would be that, through 2002, the retirement COLA increase which would have been paid in January of each year would be paid in April instead.

CSRS and FERS Employee Contribution Rates

If enacted, H.R. 2491 would increase the CSRS and FERS employee contribution rate through 2002 for employees of all agencies (including the Postal Service). The rates would be increased by 0.25% in 1996, an additional 0.15% in 1997, and an additional 0.10% (for a total increase of 0.50%) in 1998. The increases would take effect with the first full pay period beginning in each calendar year. Employee contribution rates would revert to their present rates in 2003. For most CSRS and FERS employees (not including individuals in positions with a higher than standard rate) the employee contribution rates would be as follows.

	CSRS	FERS
Current	7.00%	0.80%
1996	7.25%	1.05%
1997	7.40%	1.20%
1998-2002	7.50%	1.30%
2003	7.00%	0.80%

Rates for employees in non-standard contribution rate positions (such as law enforcement officers and firefighters) would be raised on the same schedule of 0.25% in 1996, an additional 0.15% in 1997, and 0.10% in 1998. The deposit rates for military and volunteer service performed during 1996 through 2002 would increase by the same amounts.

CSRS Agency Retirement Contributions

If enacted, H.R. 2491 would increase by 1 1/2% of basic pay the CSRS agency contribution rates for all agencies, other than the Postal Service, through 2002. For most employees, agencies would contribute at the rate of 8 1/2% of basic pay and remain at this rate throughout this period. For law enforcement officers and firefighters (current agency rate of 7 1/2%), the rate would go to 9% For those judges and magistrates for whom agencies now contribute 8%, the new rate would be 9 1/2%.

The Postal Service would continue to pay 7% for most employees, but would be required to pay 9% for law enforcement officers. The Postal Service currently makes additional contributions to the Retirement Fund under 5 U.S.C. §8348(h). H.R. 2491 would not affect those payments.

FERS Agency Retirement Contributions

Under current law, the combined employee and agency contributions for basic benefits equal the normal cost percentage, which for most employees is 12.2% of basic pay. Under both versions of H.R. 2491, the FERS contributions paid by agencies, including the Postal Service, would not be reduced, even though the FERS employee deduction rate would rise. The combined agency and employee contributions would exceed the normal cost percentage by 0.25% in 1996, 0.4% in 1997 and 0.5% from 1998 through 2002. For example, in 1996, a regular FERS employee's deduction rate for FERS basic benefits would be 1.05% (up from 0.8% in 1995) while the employing agency would pay 11.4% (the same rate as in 1995), for a combined total of 12.45%, which is 0.25% above the normal cost percentage of 12.2%.

Effective Date

The above amendments take effect on the first day of the first applicable pay period beginning on or after January 1, 1996.

Members and Congressional Employees

Both versions of H.R. 2491 would, if enacted, change the annuity computation formula for Members of Congress and Congressional employees beginning in 1996. For each year of service, the percentage of the average salary added to the annuity benefit would be the same as for employees generally (1.5%, 1.75% or 2% per year under CSRS, and 1% or 1.1% under FERS). Individual and agency contribution rates would be the same as for regular employees. For service before 1996, Member and Congressional employee service would be computed under the formula in effect at that time (2.5% per year under CSRS or 1.7% under FERS).

High-3 Average Salary

Previous proposals would have modified the annuity computation formula by changing the high-3 average salary to a high-4 or high-5. Both of the current versions of H.R. 2491 would retain the high-3.

In Summary

Both houses of Congress have passed potential changes to CSRS and FERS in H.R. 2491, a bill that contains other provisions that are not the same in both the House and Senate versions. This means that no changes in our programs have as yet been enacted into law and it is still possible that the CSRS and FERS provisions now included in the bill may be changed or that other provisions may be added. We will update you of any significant changes as soon as possible.

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