



United States
General Accounting Office
Washington, D.C. 20548

General Government Division

B-277977

September 26, 1997

The Honorable Ted Stevens
Chairman, Committee on Appropriations
United States Senate

Subject: Federal Pensions: Relationship Between Pensions and Final Salaries for Retired Former Members of Congress

Dear Mr. Chairman:

At your request, we are responding to a series of questions about federal and nonfederal retirement. This letter supplements an earlier report on the relationship between pensions and final salaries for retired civilian general employees of the federal government.¹ As agreed with your office, this letter addresses this same relationship in the case of retired former Members of Congress, a much smaller population. Our objectives were to (1) determine the number of former Members, if any, whose pensions have come to exceed the final salaries that they earned while working; (2) explain why these Members' pensions came to exceed their final salaries; and (3) determine the difference, if any, in these Members' pension amounts had the current cost-of-living adjustment (COLA) policy—that is, the COLA policy enacted in 1984, which established the formula and schedule used today by the Office of Personnel Management (OPM)—been in effect without interruption since 1962, and also determine any difference in the number of retired Members whose pensions would have exceeded their final salaries. Also, consistent with your interest in these issues, we included some of the information provided in our earlier report on general employees when the results for Members were different.

To meet our objectives, we collected data for the Civil Service Retirement System (CSRS) and the Federal Employees Retirement System (FERS) for all former Members of Congress who were retired and still living as of October 1, 1995, using a computerized personnel database and case file information

¹Federal Pensions: Relationship Between Retiree Pensions and Final Salaries (GAO/GGD-97-156, Aug. 11, 1997).

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maintained by OPM.² As described in greater detail in enclosure III, we used a number of different approaches, including simulation and statistical analyses of our final population of former Members of Congress retired under CSRS.

We requested comments on a draft of this letter from the Director of OPM, and those comments are discussed at the end of this letter. We did our work in Washington, D.C., and Dallas, Texas, between December 1995 and August 1997 in accordance with generally accepted government auditing standards.

BACKGROUND

CSRS and FERS—the two largest retirement programs for federal civilian employees—also apply to Members of Congress. As described in enclosure II, CSRS is a stand-alone pension program that provides an annuity determined by a formula. In contrast, FERS is a three-tiered retirement program that includes Social Security and a Thrift Savings Plan—in addition to a basic pension.

Although all the Members of Congress we reviewed participated in either CSRS or FERS, the retirement coverage and the benefit and contribution provisions that apply to Members are different from those that apply to most general employees. With respect to plan coverage, since 1984 all Members must participate in the Social Security system, while only general employees who are covered by FERS or the CSRS-offset program participate in this system through their federal service. As a result, four arrangements for Member retirement coverage are possible, as shown in table 1. In reading table 1, it is important to recognize that an individual Member's retirement coverage will depend on when the Member was first elected to Congress and on certain choices that he or she made when Social Security coverage was extended to congressional service in 1983 and when FERS began in 1987. Table 1 is based on information in the Congressional Research Service (CRS) Report for Congress, 94-969 EPW, updated July 23, 1996.

²Under the October 1, 1995, cutoff date, one former Member of Congress who had retired under the FERS pension plan was excluded from our analysis because the Member did not meet our criterion of receiving a pension that exceeded final salary. Thus, no former Members retired under FERS were included in our analysis.

Table 1: Four Possible Retirement Coverage Arrangements That Can Apply to Members of Congress.

Retirement coverage arrangements	Description of pension plan arrangements
Dual coverage ^a	Covered in full by CSRS plus Social Security. Dual coverage only applies to Members elected before January 1, 1984. No Member elected to Congress after January 1, 1984, may have dual coverage, regardless of previous federal service.
CSRS Offset ^a	Covered by CSRS and Social Security, with CSRS contribution offset by Social Security contributions and CSRS benefits offset by Social Security benefits. ^b The Offset plan covers Members who were participating in CSRS on December 31, 1983. ^c
FERS	Defined benefit component, Social Security component, and Thrift Savings Plan component.
Social Security only	No additional pension plan coverage.

^aMembers are eligible to participate in the Thrift Savings Plan.

^bThe amount of Social Security subtracted from the CSRS pension is the amount attributable to congressional service only.

^cThe Offset plan also covers those rehired into federal service on or after January 1, 1984, who have a break in service exceeding 1 year but who, as of the date of their last separation from service, had at least 5 years of civilian service. For the first 6 months from the date of rehire, such employees have the choice of remaining in the Offset plan or transferring to FERS.

Source: CRS.

Members of Congress' retirement benefits are greater than those provided to most general employees and, in recognition, Members contribute slightly more to their pension plans.³

³These differences are also described in Federal Retirement: Benefits for Members of Congress, Congressional Staff, and Other Employees (GAO/GGD-95-78, May 15, 1995).

Enclosure I compares in detail the CSRS and FERS eligibility, benefit, and contribution provisions that apply to Members with those that apply to most general employees.

Although Member retirement benefits and contributions differ from those of general employees, the CSRS and FERS COLA policies that apply to Members are the same as those for general employees. As described in our earlier report on page 4 and in enclosure II to this letter, these policies have been modified frequently since automatic COLAs began in 1962. Under the current COLA policy, which has been in effect since 1984, COLAs for recipients of CSRS pensions are fully indexed to inflation as measured by the consumer price index (CPI).⁴ FERS pensions are primarily adjusted only for retirees who are age 62 and older. Moreover, FERS COLAs are limited in years in which inflation, as measured by the CPI, is over 2 percent.⁵

In addition, the survivor annuity benefit policies that apply to most general employee retirees also apply to retired former Members of Congress. In particular, as stated in our earlier report, if a survivor annuity benefit is chosen, pensions may be reduced by as much as 10 percent. Pensions are reduced to provide for spousal benefits or insurable interest benefits (i.e., in the case of a person designated by the retiree as expecting to receive some financial benefit from the continuance of the life of the retiree), but not for children's benefits. Children's benefits are provided by law and do not need to be elected

⁴The CPI is compiled by the Bureau of Labor Statistics and is intended to measure the average change in the prices paid by urban consumers for a fixed market basket of goods and services. It is calculated monthly for two population groups, one consisting only of wage earners and clerical workers and the other consisting of all urban families. The wage earner index (CPI-W) is the index used for federal COLA purposes. Because it is a national average, it affects retirees differently, depending on whether they live in areas where the CPI-W differs from the national average. Also, because the CPI is a statistical average, it may not reflect an individual's experience, particularly an individual whose expenditures differ greatly from the "average" consumer's. Moreover, whether the CPI accurately estimates inflation is currently being debated. In a 1996 report, the Advisory Commission to Study the Consumer Price Index concluded that the CPI overstates inflation. The Commission recommended that the market basket on which the CPI depends be updated more frequently than is currently done and that adjustments be made to correct any bias in the estimates.

⁵If inflation is between 2.0 and 3.0 percent, the FERS COLA is 2.0 percent; if inflation is 3.0 percent or more, the COLA is the CPI minus 1 percent. If, however, inflation is less than 2 percent, FERS COLAs are to be fully adjusted for inflation. FERS participants of any age who retired on disability are to receive COLAs after their first year of retirement. Also, for retirees who receive a pension that is based on both the CSRS and FERS benefit formulas, the CSRS COLA formula applies to the CSRS part of the pension, and the FERS COLA formula applies to the FERS part of the pension.

by an employee or retiree. If a spousal survivor annuity is chosen and the spouse predeceases the retiree, the annuity reduction is eliminated upon notification to OPM.⁶ At the time of retirement, CSRS pensions may also be reduced for other reasons, including reductions for age and unpaid deposits. FERS pensions may be reduced for age.

RESULTS IN BRIEF

Seventy-six, or about 19 percent, of the 404 former Members of Congress who were living and on the federal retirement rolls as of October 1, 1995, were receiving pensions that had come to exceed their final salaries when these salaries were not adjusted for inflation. However, when final salaries were adjusted for inflation—i.e., expressed in constant dollars—only one former Member, who had an unusual salary history, was receiving a pension that was larger than the final salary.⁷ As a general rule, using constant dollars provides a more meaningful way to compare monetary values across time, because the use of constant dollars corrects for the effects of inflation or deflation.

Although only one retired former Member's pension exceeded his final salary in constant dollar terms, our analysis confirmed that three factors played an important role in explaining why Members' pensions came to exceed their unadjusted final salaries—the number and size of COLAs that former Members received, which is largely a function of the number of years Members had been retired; the number of years of their federal service; and whether Members had chosen survivor annuity benefits. The first factor reflects retirement policies that are intended to maintain most or all of a pension's purchasing power. Although the COLAs that former Members received caused their pensions to increase at rates that generally were to equal inflation during retirement, their unadjusted final salaries remained the same. Thus, the longer the former Members had been retired, the more COLAs they would have received and the more likely their pensions would have come to exceed their unadjusted final salaries. The second factor—a former Member's years of federal service—also contributed, because years of service is a major component in determining the amount of a Member's initial pension. Specifically, former Members with many years of service would have received initial pensions that came closer to the amounts of their final salaries than did the pensions of Members with fewer years of service, other factors being equal. Smaller beginning differences between

⁶If a former Member is eligible for a deferred CSRS annuity but dies before it begins, the survivor receives an immediate annuity. In contrast, in these same circumstances, the survivor of a retired general employee receives only a refund of contributions.

⁷In particular, the final government salary earned by this former Member was not a Member of Congress' salary, nor was this salary close to the amount of a Member's salary. Having retired from Congress in 1971, the former Member became reemployed by the federal government and then retired in 1972 as a general employee at a middle grade of the general pay schedule.

initial pensions and final salaries, in turn, would have caused the pensions of the first group of former Members to have exceeded the Members' unadjusted final salaries sooner than the second group's pensions. The third factor—whether a Member had chosen a survivor annuity benefit—contributed because a Member who chose a survivor annuity benefit could have had his or her basic annuity reduced by as much as 10 percent. As a consequence, if two former Members retired in the same year and had the same years of service, but only one had chosen a survivor annuity benefit, the retiree who elected not to take the benefit would have had a pension that exceeded his or her unadjusted final salary sooner than the retiree who had chosen the survivor benefit.⁸

Our analysis of the effects that COLA policies have had on the pensions of retired former Members of Congress and our prior analysis of general employees suggest that these policies have played an important role in maintaining the purchasing power of retiree pensions since automatic COLAs began. It also suggests that the effects COLA policies actually have had on retiree pension amounts cannot be summarized easily because of the numerous changes that have been made in COLA policies over the past 35 years. COLA policy changes have affected individual retirees differently, depending on when their retirements began. For example, because the effects of COLAs and COLA policy changes compound over time, the more generous COLA policies of the late 1960s and 1970s will continue to affect the pensions of those retirees who receive them as long as they are alive, just as the suspensions of some COLAs in the 1980s will continue to be reflected in the pensions of anyone who retired before the suspensions occurred.

If current COLA policy—that is, the COLA policy enacted in 1984, which established the formula and schedule used today by OPM—had been in effect without interruption since 1962, the pensions of some former Members would have been larger than the pensions that they actually received, and the pensions of other former Members would have been smaller. The changes that would have occurred in the former Members' pension amounts under current policy were enough to cause about a two percentage point (2.0) increase in the number of former Members whose pensions would have come to exceed their unadjusted final salaries.

SOME FORMER MEMBERS' PENSIONS EXCEEDED THEIR UNADJUSTED FINAL SALARIES

As of October 1995, 404 former Members of Congress (372 retired under CSRS and 32 retired under FERS) were on the federal retirement rolls. The number of retired former

⁸Also, former Members who had chosen a survivor annuity benefit and who divorced or whose spouses died during their retirement would have exceeded their final salaries sooner than they otherwise would have because their pensions were increased by a change of marital status.

Members whose 1995 pensions exceeded their final salaries differed, depending on whether we adjusted the Members' final salaries for inflation. When we did not adjust the salaries for inflation, 76, or about 19 percent, of the 404 retired Members of Congress received pensions that in nominal dollars exceeded their final salaries.⁹ However, when we adjusted the final salaries for inflation, only one former Member received a pension that exceeded the final salary.¹⁰

Using constant—rather than nominal—dollars is generally more meaningful for examining dollar values across time, because constant dollars correct for the effects of inflation or deflation. In this case, constant dollars were especially appropriate for comparing current pensions and final salaries since the number of years that the former Members had been retired averaged 21 years and ranged from about 11 to 32 years. Table 2 compares the 1995 pensions and the nominal and inflation-adjusted final salaries for the average former Members who retired in three selected years. The illustrative pensions shown in table 2 are the average amounts received by those former Members who had retired in the years 1963, 1968, and 1981.

⁹This percentage was lower than the percentage for general employees. As we noted in our previous report, about 459,000, or 27 percent, of the 1.7 million general employee retirees who were covered by the CSRS and/or FERS pension plans were receiving pensions in 1995 that exceeded their final salaries when these salaries were not adjusted for inflation as measured by the CPI.

¹⁰In our general employees' report on pensions, no retiree received a pension that exceeded his or her final salary when salaries were adjusted for inflation. A closer inspection of the one former Member's case file revealed some unusual facts. In particular, the final government salary earned by this former Member—and the salary used in our calculation—was not a Member of Congress' salary, nor was this salary close to the amount of a Member's salary. As the case file showed, having retired from Congress in 1971, the former Member became reemployed by the federal government and then retired in 1972 as a general employee at a middle grade of the general pay schedule. As a consequence, the final salary we initially used in calculating the ratio of the individual's 1995 pension to the inflation-adjusted final salary was a lower salary amount and an amount that was below the individual's high-3 average salary. When we recalculated the ratio using the individual's last salary as a Member of Congress, the pension no longer exceeded the inflation-adjusted salary.

Table 2. A Comparison of the 1995 Pensions and Final Salaries Presented in Nominal and Constant Dollar Terms for the Average Former Members of Congress Who Retired in Three Selected Years

Retirement year	1995 pension	Nominal dollar terms		Constant dollar terms	
		Final salary	1995 pension as a percent of final salary	Final salary	1995 pension as a percent of final salary
1963	\$35,940	\$22,500	160	\$109,312	33
1968	\$37,464	\$26,250	143	\$112,426	33
1981	\$65,013	\$60,663	107	\$ 99,369	65

Source: GAO analysis of OPM data.

THREE FACTORS HELP EXPLAIN WHY PENSIONS CAN COME TO EXCEED UNADJUSTED FINAL SALARIES

Three factors help to explain why 68 former Members' pensions came to exceed their final salaries when their salaries were not adjusted for the effects of inflation—the number and cumulative size of COLAs that Members received, which is largely a function of the number of years Members had been retired; their number of years of federal service; and whether Members had chosen survivor annuity benefits.¹¹ Our regression model showed that these three factors were associated with about 67 percent of the variation in the percentage by which the former Members' pensions exceeded their unadjusted final

¹¹In the analyses of both general employees' pensions and Members' pensions, we found that the number of years that annuitants had been retired was very highly correlated with the number and cumulative size of COLAs annuitants received. We discuss the nature of this relationship when describing the first factor in the model. Our analysis to explain why former Members' pensions came to exceed their unadjusted final salaries included only those Members (68) who retired directly from Congress and whose 1995 annuities exceeded their unadjusted final salaries. We did this to focus the analysis on those whose final salary was as a Member of Congress.

salaries, which is a smaller percentage than the regression model explained for general employees.¹²

During retirement, the former Members' pensions increased because the COLAs that they were scheduled to receive increased in number. The amount of the increase each year fluctuated according to changes in the CPI-W. In contrast, unadjusted final salaries remained unchanged. Thus, the longer the former Members had been retired, the more COLAs they received, and the more likely it was that their pensions exceeded their unadjusted final salaries. In fact, as of October 1, 1995, the average Member had been retired about 21 years and had received 24 COLAs.

Generally, the likelihood that a former Member's pension exceeded his or her unadjusted final salary increased when the Member had been retired during periods of high inflation, because larger COLAs were given during these periods.¹³ Our model showed that, on average, a 1 percentage point increase in the total value of the COLAs that a retiree had received would result in a 0.4 percentage point increase in the amount by which the

¹²The factors in the model were associated with more of the differences in the extent to which pensions exceeded unadjusted final salaries for general employees than for former Members—82 percent for general employees compared to 67 percent for former Members. There are a number of possible reasons why the factors in the model were associated with a smaller percentage of these differences for former Members. First, the results are based on very different numbers of annuitants. The Members' regression results are based on about a fifth as many cases as the general employees' regression results. Second, whenever populations differ in their compositions on key variables in the model being tested (such as differences in the amount of variation in the key variables), it is unlikely that the same analysis applied to each separate group will produce the same results. And, in fact, Members of Congress and general employees differ in their composition on key variables. For example, as described in enclosure I, the provisions of CSRS and FERS that apply to Members differ somewhat from those that apply to general employees. In particular, Members receive a higher percentage of high-3 average salary for the same number of years working for the government than general employees do. Finally, the former Members had been retired for a somewhat shorter period of time than general employees, and thus former Members received fewer COLAs and, consequently, less compounding.

¹³Although CSRS and FERS COLA policies differ from each other and from COLA policies of the past, these differences do not affect whether a pension would come to exceed an unadjusted final salary, but rather, when.

retiree's pension exceeded his or her final salary, other factors in the model being equal.¹⁴ In fact, about 89 percent of the former Members had been retired during all or part of the 1969 through 1980 period when the most frequent and largest COLAs were given. Over this 12-year period, pensions increased by 166 percent in nominal terms. Enclosure II provides a summary of COLA history since automatic COLAs were enacted in 1962.

The number of years of federal service also contributed to the explanation of why some former Members' pensions exceeded their unadjusted final salaries, because years of service is included in determining the percentage of high-3 average salary that a Member ultimately will receive as his or her initial pension. For example, under CSRS, a Member of Congress who had 32 years of service at retirement would have been entitled to receive 80 percent of his or her high-3 average salary—the maximum percentage allowed.¹⁵ In short, the longer a retiree had worked for the federal government, the closer the retiree's initial pension would have been to his or her unadjusted final salary. Twelve (16 percent) of the retired former Members had worked 30 years or more for the federal government, and another 45 (59 percent) had worked 20 to 29 years. The remaining 19 (25 percent) worked 10 to 19 years. Our model showed that, on average, a 1-year increase in a former Member's federal service time would result in about a 4.4 percentage point increase in the percentage by which the Member's pension had exceeded his or her final salary, other factors in the model being equal.

The third contributing factor in the explanation of why some former Members' pensions exceeded their unadjusted final salaries was whether a former Member had chosen a survivor annuity benefit. As noted in the background section of this letter, a Member who chose a survivor annuity benefit could have had his or her basic annuity reduced by as much as 10 percent. As a consequence, if two former Members retired in the same year and had the same final salaries and years of service, but only one had chosen a survivor annuity benefit, the Member who elected not to take the benefit would have had a pension that exceeded his or her unadjusted final salary sooner than would the Member

¹⁴In considering these and the other regression results in this letter, it is important to recognize that the results can be applied only to those former Members who retired directly from Congress and whose 1995 pensions had come to exceed their unadjusted final salaries.

¹⁵In contrast, a CSRS general employee would have been entitled to receive 80 percent of high-3 average salary after about 42 years of service. FERS does not have a maximum percentage base. The formula used to calculate initial annuities under FERS provides a lower annuity than the one used under CSRS. Thus, it is unlikely that someone who has government service solely under the FERS pension plan would receive as much as the maximum percentage base allowed under CSRS.

who had chosen the survivor benefit.¹⁶ A Member who chose a survivor annuity benefit would have reduced the initial pension and thus increased the gap between the initial annuity and the final salary. As of October 1, 1995, about 26 percent of the former Members were not having survivor benefits deducted from their pensions.¹⁷ Our model showed that the percentage by which pensions exceeded unadjusted final salaries was 18 percent less on average for the former Members who chose survivor benefits, compared with those who had not chosen this benefit.

SOME RETIRED MEMBERS' PENSIONS WOULD HAVE BEEN LARGER, OTHERS SMALLER, HAD CURRENT COLA POLICY BEEN IN EFFECT WITHOUT INTERRUPTION

Had current COLA policy—that is, the COLA policy enacted in 1984, which established the formula and schedule used today by OPM—been in effect without interruption since 1962, some former Members' pensions would have been larger and others' smaller. In particular, our simulation of current COLA policy in effect without interruption for the 94 former Members showed that 61 would have had pensions that were larger than the pensions they actually received, and 33 would have had smaller pensions.

The increases in the pensions of some former Members, had current policy been in effect continuously, would have been enough to cause an increase of 2.0 percentage points in the number of Members whose pensions exceeded their unadjusted final salaries. When we calculated what the former Members' pensions would have been if current policy had been in effect without interruption, we found that 21 percent of the Members would have

¹⁶Also, former Members who had chosen a survivor annuity benefit and who divorced or whose spouses died during their retirement would have exceeded their final salaries sooner than they otherwise would have because their pensions were increased by the change of marital status.

¹⁷In our general employees report on pensions, 48 percent of our sample CSRS general employees were not having survivor benefits deducted.

had annuities that exceeded their unadjusted final salaries, compared to about 19 percent under the historical policy simulation.¹⁸

The two numbers differed by 2 percentage points in part because the effects of COLAs on pension amounts are cumulative and compound. In particular, as described in enclosure II, the suspensions of COLAs during the 1980s tended to offset the COLA policies of the 1960s and 1970s that overcompensated for inflation.

OBSERVATIONS

Our analyses of the effects that COLA policies have had on the pensions of retired former Members of Congress and those of general employees show that these policies have played an important role in maintaining the purchasing power of retiree pensions since automatic COLAs began. Although COLA policies of the 1960s and 1970s were more generous than necessary to compensate for the effects of inflation as measured by the CPI, COLA policies of the 1980s sometimes under-compensated. And, although current COLA policy would have tracked the CPI more closely had it been applied over the period we reviewed compared to some past COLA policies, the numerous changes that have been made in COLA policies over the past 35 years did not cause any general employee's pension and only one former Member's pension to exceed his or her final salary when the salaries were adjusted for inflation.

Our analyses also show that the effects that COLA policies actually have on retiree pension amounts cannot be summarized easily. Generalization is difficult, in part because no one COLA policy has ever been implemented for a sustained period. For example, although the current underlying policy has been in effect since 1984, Congress has modified its application several times for limited periods to help reduce the deficit. Also,

¹⁸Since legislative changes made after 1984 did not permanently affect the COLA formula or schedule, we did not include them in our analysis of current COLA policy. However, these changes were included in our historical COLA policy analysis. Thus, because our simulation of COLA policies used the initial annuity as the starting point for adding COLAs, our simulation did not include any adjustments (e.g., loss of survivor annuity benefit due to spouse's death) to annuities subsequent to the calculation of the initial annuity. When these adjustments are considered by using the actual annuity received by the former Members in 1995, the percentage of those Members exceeding their final salaries is 19 percent. Of the 94 cases for which data were available, 7 had pensions that were below their final salaries under historical COLA policy but above their final salaries under current COLA policy. None of the former Members whose pensions were higher than their final salaries under historical COLA policy had pensions below their final salaries under current COLA policy. About 2 percent more of the pensions would have exceeded final salaries under current COLA policy as compared to historical COLA policy.

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the effects of many individual COLAs and COLA policy changes are cumulative and compound over time. As a consequence, COLA policy changes have affected individual retirees differently, depending on when they retired. In particular, the effects of the more generous COLA policies of the 1960s and 1970s will continue to have an effect on retiree pensions for as long as those who received them are alive, just as not receiving scheduled COLAs in 1984 and the suspension of COLAs in 1986 will continue to be reflected in the pensions of anyone who retired before these years.

AGENCY COMMENTS AND OUR EVALUATION

We received oral comments on a draft of this letter from OPM on September 17, 1997. The OPM official who provided comments was a Federal Retirement Benefits Specialist from the Retirement Policy Division. This official generally concurred with the information presented in our letter. She also provided several clarifying comments, which we incorporated into this letter where appropriate.

We are sending copies of this letter to the Ranking Minority Member of your Committee and to the Chairmen and Ranking Minority Members of the Subcommittee on International Security, Proliferation, and Federal Services, Senate Committee on Governmental Affairs, and the Subcommittee on Civil Service, House Committee on Government Reform and Oversight. Copies of this letter are also being sent to the Director of OPM and will be made available to others upon request.

The major contributors to this letter are listed in enclosure IV. Please contact me on (202) 512-8676 if you have any questions about this letter.

Sincerely yours,



Michael Brostek
Associate Director
Federal Management
and Workforce Issues

Enclosures

COMPARISON OF CSRS AND FERS PROVISIONS AS THEY APPLY TO
GENERAL EMPLOYEES AND MEMBERS OF CONGRESS

Table I.1: Comparison of CSRS Provisions As They Apply to General Employees and Members of Congress

CSRS provisions	General employees	Members of Congress
Age and service requirements for retirement	Age 62, 5 years of service (optional retirement)	Age 62, 5 years of civilian service, including Member service (optional/deferred retirement)
	Age 60, 20 years of service (optional retirement)	Age 60, 10 years of Member service (optional/deferred retirement)
	Age 55, 30 years of service (optional retirement)	Age 55-59, 30 years of service (optional retirement) (with reduction)
	Age 50-59, 20 years of service (early retirement) (with reduction)	Age 50-59, 20 years of service (optional/deferred retirement) (with reduction)^a
	Any age, 25 years of service (early retirement) (with reduction)	Age 50-59, service in nine Congresses (optional retirement) (with reduction)^a
		Any age, 25 years of service (optional retirement) (with reduction)^a

CSRS provisions	General employees	Members of Congress
<p>Formula for determining the pension amount</p>	<p>– 1.5 percent of high 3 average salary for each year and month for first 5 years of service</p> <p>– 1.75 percent of high 3 for each year and month for next 5 years of service</p> <p>– 2.0 percent of high 3 for each year and month over 10 years</p>	<p>If less than 5 years of congressional service, same formula as for general employees</p> <p>If 5 or more years of congressional service:</p> <p>– 2.5 percent of high 3 for each year and month of congressional service and up to 5 years of military service^b</p> <p>– 1.75 percent of high 3 for each year and month of service not used above, up to 10 years of combined service</p> <p>– 2.0 percent of high 3 for each year and month of federal service not used above</p>
<p>Reduction for age^c</p>	<p>Pension reduced by 1/6th of 1.0 percent for each full month employee is under age 55 at time of separation (2.0 percent a year)</p>	<p>Pension reduced by 1/12th of 1.0 percent for each month Member is between ages 55 and 60 (1.0 percent a year) and by 1/6th of 1.0 percent for each month Member is under age 55 (2.0 percent a year)</p>

CSRS provisions	General employees	Members of Congress
Survivor annuity benefit ^d	Retiring employees may make one of three types of spousal survivor benefit elections: ^e – fully reduced annuity ^f – partially reduced annuity ^g or – self-only annuity (no survivor benefits)	Same as general employees ^h
Retirement supplement	None	None
Maximum benefit allowed	80 percent of high 3, excluding credit for unused sick leave	80 percent of the greater of: – final salary of the Member, – high 3 of the Member, or – final salary of the Member's appointive position ⁱ

CSRS provisions	General employees	Members of Congress
Employee contribution rate	<p>Maximum of 7.0 percent</p> <p>CSRS Offset—maximum of 7.0 percent: 0.8 percent to CSRS and 6.2 percent to Social Security for first \$65,400 of salary and 7.0 percent to CSRS on salary above \$65,400ⁱ</p>	<p>Dual coverage—maximum of 14.2 percent: 8.0 percent to CSRS and 6.2 percent to Social Security on the first \$65,400 of salary. 8.0 percent to CSRS on salary above \$65,400ⁱ</p> <p>CSRS Offset—maximum of 8.0 percent: 1.8 percent to CSRS and 6.2 percent to Social Security for first \$65,400 of salary and 8.0 percent to CSRS on salary above \$65,400ⁱ</p>
Cost of living adjustment (COLA)	COLAs are fully indexed to inflation as measured by the CPI-W	Same as general employees
Reemployment of annuitants	Pension continues during reemployment, and the salary is reduced (i.e., offset) by the amount of the annuity ^k	<p>Pension suspended upon reemployment when Member's annuity is based on 5 or more years of congressional service</p> <p>Upon separation, the pension recommences and is either (1) recomputed with credit for additional service regardless of how long the Member was reemployedⁱ or (2) reinstated with the COLAs that occurred during reemployment</p>

^aMember cannot receive a pension under these age and service requirements if he or she resigns or is expelled from Congress.

^bIf Member is receiving military retirement pay, military service is computed using general employees' formula.

^cThe age reduction does not apply to disability retirements. Pensions may also be reduced for unpaid deposit service and survivor annuity benefits.

^dIn addition, an employee may elect an insurable interest annuity. Eligible recipients include current spouse, blood/adoptive relative closer than first cousin, former spouse, and a person in a relationship that would constitute a common-law marriage in jurisdictions that recognize common-law marriages. However, no contingent beneficiaries may be named. The insurable interest receives 55 percent of the retiree's annuity after reductions for age and unpaid deposits. Insurable interest elections are not available after retirement.

^eIf an employee defers his or her annuity and has chosen a survivor benefit, and dies before the deferred pension begins, the spouse would be entitled to receive the lump sum of the employee's contribution to the retirement fund, including interest, rather than a survivor annuity.

^fThe maximum annuity payable to the spouse equals 55 percent of the rate of the self-only annuity that would have been paid to the retiree. If a retiree who is married at the time of retirement does not wish to provide the maximum current spouse survivor annuity, he or she must obtain the spouse's consent. The consent form must be completed before a notary public or other official authorized to take oaths.

^gThe partial annuity will be 55 percent of the amount chosen by the retiree as the base. There is no minimum monthly survivor benefit.

^hIf a former Member takes a deferred retirement and has chosen a survivor benefit, and dies before the deferred pension begins, the spouse would be entitled to receive a survivor annuity benefit.

ⁱThis provision, known as "swing around," allows a Member who accepts an appointive position after leaving office to have that service computed as if the reemployed service had been performed prior to the Member's separation, provided that the reemployment is subject to CSRS. This benefit is also payable to a Member who separated with title to a deferred Member annuity. As a consequence of this provision, it is possible that a former Member who performed additional service after retirement as a Member could receive an

initial, recomputed annuity that was higher than the final salary that he or she had received as a Member. For those Members who accepted an appointive position prior to 1994, their annuities would be recomputed using the new final average salary based on the period of reemployment, the added years of federal service, and COLAs from the date of retirement as a Member. For those Members who accepted an appointive position in 1994 or after, COLAs on their annuities would begin after the recomputed annuity becomes payable. For example, if a former Member retired as a Member in 1994, accepted an appointive position, and subsequently retired from federal service in 1997, COLAs would be applied to his or her annuity beginning in 1997 when the annuity became payable. Also, for the purpose of determining limitations on COLAs established by Title 5 (see table II.1), the final average salary of a Member whose benefit has been recomputed in this way is to be increased by adjustments in the rates of the General Schedule that are effective after the commencing date of the annuity benefit.

^jThis taxable wage base is adjusted each year for wage growth in the economy.

^kExceptions—pension terminated if based on disability and annuitant has recovered or been restored to earning capacity prior to reemployment, and pension terminated if based on an involuntary separation and reemployment would normally be subject to retirement deductions. Reemployed annuitant may elect to have retirement deductions withheld from pay during the period of reemployment to avoid the necessity of a later deposit. Head of agency may request OPM to waive salary reduction on a case-by-case basis to meet exceptional recruiting and retention needs.

Source: OPM.

Table I.2: Comparison of FERS Provisions As They Apply to General Employees and Members of Congress

FERS provisions	General employees	Members of Congress
Age and service requirements for retirement	Age 62, 5 years of service (optional/deferred retirement)	Age 62, 5 years of service (optional/deferred retirement)
	Age 60, 20 years of service (optional/deferred retirement)	
	MRA, ^a 30 years of service (optional/deferred retirement)	
	MRA, 10 to 29 years of service (optional/deferred retirement) (with reduction)	MRA, 10 to 19 years of service (optional/deferred retirement) (with reduction)
	Age 50, 20 years of service (early retirement) ^b	Age 50, 20 years of service (optional/deferred retirement)
	Any age, 25 years of service (early retirement) ^b	Any age, 25 years of service (optional/deferred retirement)

FERS provisions	General employees	Members of Congress
<p>Formula for determining the pension amount</p>	<p>Employees who are under age 62^c or age 62 with less than 20 years of service:</p> <p>– 1.0 percent of high 3 for each year and month of FERS service</p> <p>Employees who are age 62 with 20 years or more of service:</p> <p>– 1.1 percent of high 3 for each year and month of FERS service</p>	<p>If less than 5 years of congressional service, same formula as for general employees</p> <p>If 5 or more years of congressional service:</p> <p>– 1.7 percent of high 3 for each of the first 20 years of congressional service (does not include military service)</p> <p>– 1.0 percent of high 3 for each year of congressional service over 20 years and all other federal service (including military service)</p>
<p>Reduction for age^d</p>	<p>None at age 62 with 5 years of service, age 60 with 20 years, or MRA with 30 years^e</p> <p>For employees retiring at MRA with 10 to 29 years of service, pension reduced by five-twelfths of 1.0 percent for each month employee is under age 62 (5.0 percent a year)</p>	<p>None at age 62 with 5 years of service, age 50 with 20 years, or any age with 25 years of service</p> <p>For Members retiring at MRA with 10 to 19 years of service, same as general employees</p>

FERS provisions	General employees	Members of Congress
Survivor annuity benefit ^f	Retiring employees may make one of three types of spousal survivor benefit elections at the time of retirement: ^g – fully reduced annuity ^h – one-half reduced annuity ⁱ – self-only annuity (no survivor benefits) ⁱ	Same as general employees
Retirement supplement ^j	MRA with 30 years of service; age 60 with 20 years of service Age 50 with 20 years service or any age with 25 years service and eligible to take early retirement, may draw the supplement upon retirement or upon reaching MRA	MRA but under age 62, with 20 years of service ^k
Maximum benefit allowed	None	None
Employee contribution rate	Maximum of 7.0 percent: 0.8 percent to FERS basic annuity and 6.2 percent to Social Security on the first \$65,400 of salary and 0.8 percent to basic annuity on salary above \$65,400 ^l	Maximum of 7.5 percent: 1.3 percent to FERS basic annuity plus 6.2 percent to Social Security on the first \$65,400 of salary and 1.3 percent to basic annuity on salary above \$65,400 ^l
Mandatory retirement age	None	None

FERS provisions	General employees	Members of Congress
<p>Cost of living adjustment (COLA)</p>	<p>FERS pensions are primarily adjusted only for retirees who are age 62 and older</p> <p>If inflation is under 2.0 percent, same as CPI-W; if inflation is between 2.0 and 3.0 percent, the COLA is 2.0 percent; if inflation is 3.0 percent or more, the COLA is the CPI minus 1 percent</p> <p>FERS participants of any age who retired on disability are to receive COLAs after their first year of retirement</p> <p>For those who receive a pension that is based on both the CSRS and FERS benefit formulas, the CSRS COLA formula applies to the CSRS part of the pension, and the FERS COLA formula applies to the FERS part of the pension</p>	<p>Same as general employees</p>

FERS provisions	General employees	Members of Congress
Reemployment of annuitants	<p>Pension continues during reemployment, and the salary is reduced (i.e., offset) by the amount of the annuity^{m,n}</p> <p>Pension can be recomputed based on total service and a new high 3 if annuitant accrues at least 5 years continuous years of full-time reemployment before separation</p>	Same as general employees

^aMRA is the minimum retirement age. The MRA is age 55 for an individual born before January 1, 1948, and gradually increases until it reaches age 57 for employees born after December 31, 1969.

^bThe early retirement option is available in certain involuntary separation cases and in cases of voluntary separations during major reorganizations or reductions in force.

^cAn annuity (i.e., retirement) supplement may be payable in addition to the basic annuity if under age 62. Like Social Security benefits, the supplement is not payable if the retiree is employed and has earnings above a specified amount.

^dThe age reduction does not apply to disability retirements. Pensions may also be reduced for survivor annuity benefits.

^eNo reduction for age in cases of voluntary separations during major reorganizations or reductions in force.

^fIn addition, the employee, if eligible, may elect an insurable interest annuity. Eligible recipients include current spouse, blood/adoptive relative closer than first cousin, former spouse, and a person in a relationship that would constitute a common-law marriage in jurisdictions that recognize common-law marriages. However, no contingent beneficiaries may be named. Annuitants retired on disability are not eligible to elect an insurable interest annuity.

^gIf an employee defers his or her annuity and has chosen a survivor benefit, and dies before the deferred pension begins, the survivor annuity begins on the day after the former employee would have been age 62, if less than 20 years of service; age 60, if 20 through 29 years; or MRA, if 30 or more years of service. Alternatively, the annuity can begin the day after death, but the annuity is computed to be actuarially equivalent to waiting for the above age and service combinations.

^hA married retiring employee will receive a reduced annuity to provide maximum (50 percent) survivor benefits.

ⁱA married retiring employee may elect a reduced annuity to provide one-half of the maximum (e.g., 25 percent) survivor benefits to a current spouse. These elections may be made only if spousal consent is obtained or waived. No other partial survivor benefit is available.

^jThe supplement is an amount estimated to equal future Social Security benefits accrued from all civilian service and is paid at or after the retiree's MRA until age 62, when Social Security payments may begin. No employee entitled to a disability, deferred, or MRA plus 10 annuity is eligible for the supplement.

^kA Member retiring before age 55 with 20 years of service may begin drawing the annuity supplement upon reaching his or her MRA.

^lThis taxable wage base is adjusted each year for wage growth in the economy.

^mFERS retirement deductions are mandatory. Social Security deductions are withheld on the amount of salary after the reduction for the pension payable.

ⁿExceptions--pension terminated if based on disability and annuitant has recovered or been restored to earning capacity prior to reemployment, and pension terminated if based on an involuntary separation and reemployment would normally be subject to retirement deductions. Head of agency may request OPM to waive salary reduction on a case-by-case basis to meet exceptional recruiting and retention needs.

Source: OPM.

DESCRIPTION OF THE CSRS AND FERS PENSION PROGRAMSBACKGROUND

CSRS and FERS are the two largest retirement programs for federal civilian employees. At the beginning of fiscal year 1995, these programs covered about 2.8 million federal employees, or 90 percent of the current civilian workforce. OPM administers CSRS and FERS. CSRS and FERS pension benefits are financed partly by federal agency and employee contributions and partly by other government payments to the Civil Service Retirement and Disability Fund.¹⁹

Although CSRS and FERS both provide pensions, the programs are designed differently. CSRS was established in 1920 and predates the Social Security system by 15 years. When the Social Security system was established, Congress decided that employees in CSRS would not be covered by Social Security through their federal employment. CSRS is a stand-alone pension program that provides an annuity, determined by a formula, as well as disability and survivor benefits.²⁰ The program was closed to new entrants after December 31, 1983, and, according to OPM actuaries, is estimated to end in about 2070,

¹⁹The Department of the Treasury also makes annual payments that are to cover interest on unfunded liabilities, payments for spouse equity, as well as amortization payments to finance supplemental liabilities for FERS.

²⁰If a survivor annuity benefit is chosen, pensions may be reduced by as much as 10 percent. Pensions are reduced to provide for spousal benefits or insurable interest benefits (i.e., a person designated by the retiree as expecting to receive some financial benefit from the continuance of the life of the retiree), but not for children's benefits. Children's benefits are provided by law and do not need to be elected by an employee or retiree. If a spousal survivor annuity is chosen and the spouse predeceases the retiree, the annuity reduction is eliminated upon notification to OPM. At the time of retirement, CSRS pensions may also be reduced for other reasons, including reductions for age and unpaid deposits. FERS pensions may be reduced for age.

when all covered employees and survivor annuitants are expected to have died.²¹ FERS was implemented in 1987 and generally covers those employees who first entered federal service after 1983, as well as those who transferred from CSRS to FERS. The primary impetus for the new program was the Social Security Amendments of 1983, which required that all federal employees hired after December 1983 be covered by Social Security.²² FERS is a three-tiered retirement program that includes Social Security and a Thrift Savings Plan—in addition to a basic pension. Like CSRS, FERS provides disability and survivor benefits.

A distinctive feature of CSRS and FERS pensions is the annual COLAs they are to provide. COLAs are post-retirement increases in pension amounts that generally are given on either an ad hoc or automatic basis to offset increases in living costs due to inflation. Congress enacted the first automatic COLA for CSRS annuitants in 1962 (effective January 1963). At that time, the automatic adjustment was viewed as a way of controlling pension costs; prior ad hoc adjustments had been criticized as being unrelated to price increases and subject to political manipulation.

Although COLAs generally have been provided on an automatic basis since 1962, COLA policies have been modified numerous times over the years. As shown in table II.1, the changes made during the 1960s and 1970s were intended to enhance pension purchasing power with respect to inflation as measured by the CPI, but some of the changes made during the 1980s had the effect of reducing purchasing power. Table II.1 is based on information in the CRS Report for Congress, 94-834 EPW, updated March 13, 1996.

²¹Members who were participating in CSRS on December 31, 1983, were given an opportunity to elect to stay in CSRS, with their retirement plan contributions and benefits reduced—that is, offset—by Social Security taxes and benefits. In addition, new Members entering Congress with at least 5 years of previous federal civilian employment covered under CSRS were given an opportunity to join the offset plan. Under the CSRS-Offset plan, Members pay into the CSRS only the difference between the 8.0 percent CSRS contribution required for Members and the 6.2 percent Social Security tax (or 1.8 percent) on the first \$65,400 (in 1997) of congressional salary, and 8.0 percent on salary above \$65,400. When Members covered under this plan retire, their CSRS pension is reduced at age 62 by the amount of their Social Security benefit that is attributable to their congressional service performed after 1983 (whether or not they actually begin to draw Social Security at that time).

²²After December 31, 1983, certain rehires participating in CSRS before 1984 could elect either to stay in that plan under special rules that integrate CSRS and Social Security or transfer to FERS. For a more detailed discussion of the transition from CSRS to FERS, see Federal Retirement: Federal and Private Sector Retirement Program Benefits Vary (GAO/GGD-97-40, Apr. 7, 1997).

Table II.1: Major Changes Made to COLA Policy Since Automatic Adjustments Began

Year	Public law	Description
1962	P.L. 87-793	Provided the first automatic adjustments whenever the CPI in a given year exceeded the CPI for the year of the last adjustment by 3 percent or more. This was later modified to provide for adjustments whenever the CPI rose 3 percentage points or more above the CPI in the month of the last adjustment and remained at or above this level for 3 consecutive months.
1969	P.L. 91-93	Added an extra 1 percent to the adjustment—known as a kicker—to offset the erosion in pension benefits due to the time lag between increases in living costs and benefit adjustments.
1976	P.L. 94-440	Repealed the kicker because it had been found to overcompensate for inflation. However, Congress replaced the kicker with semiannual COLAs as another way to address the time lag.
1981	P.L. 97-35	Replaced semiannual COLAs with annual COLAs based on the change in the CPI from December to December and payable in March of the following year, thereby saving money by having benefits held constant for longer periods.
1982	P.L. 97-253	Added a restriction in certain cases to ensure that pensions would not exceed the current maximum pay for a General Schedule (GS) 15 federal employee.
1983	P.L. 98-270 (enacted in 1984)	Established the formula upon which COLAs currently are based and made COLAs effective in December of the current year and payable in January of the following year. ^a
1984	P.L. 98-369	Specified that COLAs were to be payable in checks issued the first business day of the month following the month for which they are scheduled or effective.
1985	P.L. 99-177	Suspended COLAs for fiscal year 1986 and for all subsequent years in which specified deficit reduction targets would not otherwise be met.
1986	P.L. 99-509	Reinstated COLAs for programs that had been subject to the suspension under P.L. 99-177 for calendar years 1987-1991. ^b
1993	P.L. 103-66	Changed the effective dates for COLAs from December to March for fiscal years 1994 through 1996. ^c

^aThis formula and schedule are the same as those used for Social Security COLAs, which were established for that program in P.L. 98-21. This law also eliminated the COLAs scheduled for May 1984 and June 1985. Instead, COLAs were scheduled for December 1984, payable in January 1, 1985, checks.

^bThe Balanced Budget and Emergency Deficit Control Reaffirmation Act of 1987 (P.L. 100-119) permanently exempted federal pension COLAs from suspension under P.L. 99-177.

^cThe COLAs were in checks payable the first business day of April rather than January. This law did not change the CPI measuring period.

Source: CRS.

One of these changes provides especially relevant background for considering the relationship between current pensions and final salaries and requires a more complete discussion. As noted in table II.1, P.L. 97-253 (the Omnibus Budget Reconciliation Act of 1982) restricted COLAs in relation to final salaries in certain cases. Under this restriction, a pension may not be increased by a COLA to an amount that exceeds the greater of the current maximum pay for a GS-15 federal employee or the final pay of the employee (or high-3 average pay, if greater), increased by the overall annual average percentage adjustments (compounded) in rates of pay of the general schedule for the period beginning on the retiree's annuity starting date and ending on the effective date of the adjustment. In effect, the statute requires that a retiree's pension is to be capped at an amount not to exceed the maximum pay of a general schedule employee (i.e., GS-15) or an amount that represents the value of the retiree's final or average pay, adjusted for the general schedule pay adjustments that had been provided since the annuitant retired. According to OPM's policy handbook, because the cap applies to COLA increases to pensions, in no instance would a pension already exceeding the cap be reduced.²³

As noted earlier, under current policy—enacted in 1984—COLAs for CSRS and FERS retirees are based on increases in living costs as measured by the CPI-W between the third quarter (July through September) of the current calendar year and the third quarter of the previous year. Although the COLA formula and schedule are the same for FERS and CSRS, FERS COLAs are limited if inflation is over 2 percent. If inflation is between 2.0 and 3.0 percent, the FERS COLA is 2.0 percent; if inflation is 3.0 percent or more, the COLA is the CPI minus 1 percent. If, however, inflation is less than 2 percent, FERS COLAs are to be fully adjusted for inflation. Also, CSRS benefits are to be fully indexed

²³Under CSRS, initial annuities are also capped. With certain exceptions, the maximum initial annuity that a retiree can receive under CSRS is 80 percent of his or her high-3 average salary.

from the time of retirement, and FERS pensions are to be indexed beginning at age 62 for regular retirees.²⁴

²⁴The first FERS COLA was effective in December 1988 and payable in January 1989. FERS participants of any age who retired on disability are to receive COLAs after their first year of disability.

SCOPE AND METHODOLOGY

To respond to your request, we used a computerized database maintained by OPM containing retirement-related information for all CSRS and FERS annuitants retired as of October 1, 1995. OPM's database did not include the individual's final salary amount, a key variable of interest. However, the database did contain the former Member's "high-3" average salary, which is one of the components used to calculate the initial annuity amount. From this database, OPM identified the population of 94 former Members of Congress who were retired in 1995 and whose annuities exceeded their high-3 average salaries, and obtained their case files from OPM.²⁵ Review of the case files revealed that 17 of the former Members who had retired under CSRS and 1 Member who had retired under FERS did not meet our criterion of pensions exceeding final salaries. The 76 remaining case files were for former Members whose current (i.e., 1995) pensions had come to exceed their final salaries.

The quantitative techniques used for our analysis of former Members were generally the same as those for general employees. To determine the number of former Members whose annuities exceeded their final salaries, we reviewed the annuitants' case files, extracted initial annuity and final salary amounts as well as other pertinent information, and verified the data (e.g., retirement date, high-3 average salary) provided by OPM's database. We expressed the former Members' 1995 pensions as a percentage of their final salaries and tabulated the results. We also adjusted the former Members' nominal final salaries for inflation. In doing so, we used the 1995 CPI-W values as the base year and retabulated the results.

To understand why the former Members' pensions could come to exceed unadjusted final salaries by as much as they did, we used regression analysis to model the relationship between the extent to which the pensions of the former Members had come to exceed their unadjusted final salaries and key retirement policy variables and other factors, as well as to isolate the independent effects of these factors. This analysis was based on the 68 retired former Members who had retired directly from Congress and whose 1995 pensions exceeded their final salaries.²⁶ In contrast, eight former Members had additional government service after leaving Congress, thus, their final salaries were different from what their Members salaries had been.

²⁵Ninety-three former Members retired under CSRS, and one retired under FERS.

²⁶In considering the regression results in this letter, it is important to recognize that the results can be applied only to those retired former Members who retired directly from Congress and whose 1995 pensions had come to exceed their unadjusted final salaries.

To compare the differences between historical and current COLA policies, we traced the historical changes made to the policies since the inception of automatic COLAs. We then calculated the pensions that former Members would have received from the start of their retirement to 1995 had current COLA policy been in effect during the period and compared the result to the pensions they would have received under historical policies then in effect.

Our analysis has some limitations. The number of retirees whose pensions had come to exceed their final unadjusted salaries could be somewhat higher than we estimated for two reasons. As mentioned previously, since OPM's database did not include information on former Members' final salary amounts, we used "high-3 average salary" as a proxy to identify retired Members whose 1995 annuities had come to exceed their final unadjusted salaries. Thus, our estimates do not include those retired Members whose pensions were lower than their high-3 salaries but higher than their final salaries. Also, because OPM records initial annuity information after reductions for survivor benefits, use of the OPM annuity information likely leads to underestimating the number of retirees in the aforementioned category. Although we did not independently verify the accuracy of OPM's database, we did verify the accuracy of the data for the specific cases we reviewed.

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