

Government Employee Retirement Systems

The Federal Government, the 50 States, and many localities maintain programs that provide retirement, disability, and survivor benefits for their employees. Many of these jurisdictions also provide medical benefits and paid sick leave and workers' compensation.

In addition to coverage under the Social Security program, members of the Armed Forces with 20 or more years service receive military retirement benefits and medical care through the Department of Veterans Affairs.

Federal Government

The first retirement program for Federal civilian workers was enacted in 1920. The program covered about 330,000 persons and provided benefits to those who retired because of age or disability after at least 15 years of service. In September of 1996, 2.6 million Federal workers were covered. This figure included workers covered by the Civil Service Retirement System (CSRS) and those under the more recently established Federal Employees Retirement System (FERS).

In general, employees hired before January 1, 1984, are covered by CSRS and those hired on or after that date are covered under FERS. Several separate retirement systems cover special classes of employees, such as those in the Foreign Service or the Central Intelligence Agency.

Generally speaking, the CSRS is a defined benefit plan, financed through joint employer-employee contributions, that provides annuities in the event of the retirement, disability, or death of a covered worker. FERS is a three-tiered system including Social Security, a Federal pension, and a tax-deferred savings plan. All workers enrolled in FERS are covered by Social Security. They contribute to it at the current tax rate and are eligible for the same benefits as all other workers covered by the program.

In addition, a worker who meets the full age and service requirements for an annuity under FERS, but at an age when Social Security benefits are not yet payable, may receive a Special Retirement Supplement until he or she attains age 62. This benefit approximates the Social Security benefit earned during Federal service, and stops when the retiree begins to receive the Social Security benefit.

The third and final tier of FERS is a tax-deferred savings plan known as the Thrift Savings Plan. Under this plan, workers may contribute up to 10% of their salaries to the plan, with the Government matching up to 5% of the salary. Contributions and interest earnings are not taxable until they are withdrawn, usually at retirement. These funds may be invested in U.S. Government securities, in a private sector fixed-income fund, or in a common stock index fund.

PROGRAMS FOR SPECIFIC GROUPS

Under the CSRS, workers and their employing agencies each contribute 7% of the worker's salary. Under FERS, workers and their agencies each contribute 7.65% of salary to Social Security and 0.8% to the pension fund. In both cases, the Government assumes the balance of the cost, including unfunded liabilities.

In addition, all Federal civilian workers are covered by the Hospital Insurance program (Part A of Medicare), and contribute 1.45% of their salaries to that program.

The Federal pension segment of FERS is administered by the Civil Service Retirement and Disability Trust Fund, as is the CSRS. In 1996, the fund paid \$33.0 billion to 1.7 million retired and disabled annuitants, and \$5.7 billion to 621,000 survivor annuitants. About 98% of all annuitants received benefits under the CSRS.

The group life and health insurance programs available to Federal employees are optional and are financed by joint contributions from the worker and his or her employing agency. The Gov-

Federal pension qualifications and amount of annuity based on age and service

Type of pension	Qualifications	Amount of annuity
CSRS		
Retirement	Age 55 with 30 years of service, Age 60 with 20 years of service, or Age 62 with 5 years of service	1.5% of high-three average earnings* for each of the first 5 years of service, 1.75 for each of the next 5, and 2% thereafter
Disability	Any age with 5 years of service	The lesser of 40% of high-three average earnings* or the projection of service to age 62
Survivorship	Death of an employee or annuitant	Employee: 55% of disability guarantee Annuitant: 55% of benefit amount
FERS		
Retirement	Same as CSRS	1.1% of high-three average earnings* for each year of service for those retiring at age 62 with at least 20 years of service; 1% for all others
Disability	Any age with 18 months of service	60% of high-three average earnings the first year, and 40% thereafter
Survivorship	Same as CSRS	Employee: With 18 months to 10 years of service, a lump-sum payment; with 10 or more years of service, 50% of projected annuity Annuitant: 50% of benefit amount

* The average of a worker's three highest-salaried years, normally the last three before retirement.

ernment pays one-third of the cost of basic life insurance and an average of 70% of the cost of health insurance. Workers receive 13 days of paid sick leave each year, which may be accumulated without limit. Under CSRS (but not under FERS) this accumulated sick leave may be credited toward length of service at retirement.

The Federal Employees Compensation Act (workers' compensation) provides benefits in the event of job-related injury, illness, or death. Unemployment insurance for Federal workers is paid for by Government employer contributions to the Federal-State unemployment insurance system.

Armed Forces

Since 1957, all members of the U.S. Armed Forces have been covered by the Social Security program. Those individuals with 20 or more years of service are also eligible for retirement benefits under the military retirement system.

Military retirement pay is noncontributory, and is equal to 2.5% of a servicemember's final basic pay for each year of service. For those who entered the Armed Forces after September 8, 1980, the formula uses the average of the highest paid 3 years instead of final pay. Persons who entered the Armed Forces after August 1, 1986, have this basic benefit reduced for each year under 30 years of service at the time of retirement. An unreduced pension (30 years or more) provides 75% of pre-retirement basic pay, although the retiree may elect to have this amount reduced in order to provide a survivor benefit for his or her spouse. This survivor benefit is a proportion (up to 55%) of the retired service member's unreduced benefit at the time of death. During 1996, 1.8 million retired service members and their survivors received \$28.5 billion in military retirement benefits.

The Department of Defense provides medical care for active duty personnel, retirees and their dependents. In addition to care in the hospitals and clinics maintained by the Department, the dependents of active duty personnel and retirees and their dependents are eligible for a program called the Civilian Health and Medical Program of the Uniformed Services (CHAMPUS). This program shares the cost of civilian medical services when care is not available at a military facility. Direct care facilities and CHAMPUS are both funded through the Department of Defense.

The Federal Government contributes to the Federal-State unemployment insurance system on behalf of military personnel. Ex-servicemembers are qualified for unemployment insurance on the same basis as other workers in their States.

State and Local Government

The majority of State and local government employees are covered by retirement systems maintained by the States and localities. The provisions of these plans vary from one jurisdiction to another. However, nearly all require contributions from their

employees and nearly all guarantee benefits at least equal to the amount of those contributions.

Most State and local plans permit retirement because of disability or age, and provide for early retirement at a reduced benefit. It is usual for employees in high-risk jobs, such as police officers and firefighters, to be eligible for retirement based only on length of service, regardless of age. Normally, other workers must meet both age and length of service requirements.

Benefits under State and local retirement systems are usually calculated on a 3- to 5-year average salary and a 1.5- or 2.0% multiplier for each year of service. The multiplier is lower in plans where workers are covered by Social Security and benefits are integrated with the Social Security programs. Although relatively few systems provide survivor benefits per se, retiring workers are commonly given the option of electing a smaller benefit in order to provide for a surviving spouse.

Paid sick leave is often provided by State and local governments to their employees. Group life and health insurance plans are also commonly offered. Government workers are usually covered by their State's unemployment insurance and workers' compensation programs.

Railroad Retirement

At the time of the Great Depression of the early 1930's, few of the Nation's elderly were covered under any type of retirement plan. The situation was better for workers in the railroad industry: 80% were covered by some type of private pension plan by 1927. However, these plans were inadequate to the demands made by the general deterioration of employment conditions in the 1930's. While the Social Security system was in the planning stage, railroad workers sought a separate Railroad Retirement system to continue and broaden the existing railroad programs under a uniform national plan. As a result, legislation was enacted in 1934, 1935, and 1937 establishing a railroad retirement system separate from the Social Security program legislated in 1935.

Also based on social insurance principles, the Railroad Retirement program provides monthly benefits to retired and disabled workers and their dependents and to survivors of deceased workers. Coverage under the Railroad Retirement system has declined in the years since the program was established, paralleling the decline in the railroad industry itself. In 1939, the system covered 1.2 million employees: by the mid-1990's that number was 266,000. There were 799,000 beneficiaries on the rolls at the end of fiscal year 1995, of whom 548,000 were employee or spouse annuitants and 251,000 were survivor annuitants.