Power Function Review Background Paper
Under-funded Pension and Other Post Retirement Benefits

Program History
BPA employees are participants in either the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS). Both BPA and its employees contribute a percentage of eligible employee compensation toward funding these defined post-retirement benefit plans. Based on the statutory contribution rates, BPA's retirement benefit expense under CSRS is equivalent to 7 percent of eligible employee compensation and under FERS is equivalent to 11.2 (10.7 in 2004) percent of eligible employee compensation. These legislatively mandated contribution levels, in combination with employee contributions, do not fully cover the actual cost to the federal government of providing benefits. Therefore, the programs are under-funded. The actual cost to provide the retirement benefits (the Normal Cost) is determined by the Office of Personnel and Management (OPM), as it is the federal agency that is obligated to administer the benefits. Employees also may be participants in the Federal Employees Health Benefits Program (FEHB) and/or the Federal Employees' Group Life Insurance Program (FEGLI); these plans are similarly under-funded.

In order to ensure that all post-retirement benefit programs provided to its employees are fully-funded and such costs are both recovered through rates and properly expensed, BPA makes additional annual contributions to the U.S. Department of Treasury. Additional contributions are based on employee plan participation and the extent to which the particular plans are under funded.

BPA entered into an agreement with OMB to make additional annual contributions for under-funded post-retirement benefits, which resulted in a payment schedule for 1998 through 2008. The payment schedule is based on estimates of employee plan participation and the degree to which the particular plans are under-funded. Additionally, since BPA had established its rates for the then current rate-period, the agreement provided that BPA could push then current rate-period costs into the future, and would also pay the interest associated with the payment deferral. The payment schedule for the years FY1998 through FY2008 is as follows (amounts are in millions of dollars):

1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
$2.2	$4.1	$6.0	$8.0	$55.2	$35.1	$30.9	$26.5	$23.2	$21.1	$18.0

For the years beyond 2008, BPA will continue to make additional contributions equal to its share of under-funded benefits received by FCRPS employees. However, since BPA will be "caught up" with prior year payments and the interest effect of delayed payments, only the current year portion will be paid at the close of each fiscal year. For the years in which a business line is setting rates, BPA will estimate its level of program participation in each benefit category for the period. These estimates, combined with actuarial factors determined by OPM that represent the degree of under-funding within the program, are used to calculate the contribution amounts that are incorporated into the rate-making process.

Program Description
There are four benefit programs that fall under the umbrella topic of Under-Funded Retirement Benefits and each type has unique factors that determine the duration for which BPA will be making additional contributions.

CSRS – At the onset of this program, the CSRS component constituted the majority of BPA's expense amount. As BPA CSRS employees retire, however, the contribution amount for this component diminishes until it reaches zero, which will be when BPA no longer has employees who are participants in the CSRS program.

FERS – Whether or not BPA makes a payment for this category of Retirement Benefit can vary from year to year depending on the legislated level of agency FERS retirement contributions and the normal cost to the government to provide the benefits. For example, in the years 2001 and 2002, FERS was over-funded by 0.48% of basic wages, in 2004 it was under funded by 0.5% of basic wages, and in FY 2005 it is fully funded. This equates to BPA either claiming a credit for over-contributing (01-02), making an additional payment (04), or making no additional payments (05). It can be expected that this category will usually be fully funded; however there may be years where some payment is required to meet the government's cost to provide the benefits.

FEHB – This category of benefit has proven, and will likely continue to prove, itself as one of the most costly components of the additional retirement expense. This is in large part due to the rising cost of health care in the U.S. BPA makes no regular payments for this post-retirement benefit to OPM or Treasury and so is responsible for covering the full cost the government incurs on behalf of BPA employees.

FEGLI – Like the category described above, BPA doesn't regularly pay for this benefit and is therefore responsible to reimburse for the full cost the government incurs on behalf of BPA employees. This expense represents an immaterial portion of the overall post-retirement benefit additional payment amount.

In general, BPA will continue to make the additional retirement payments in perpetuity, however, it is expected that at some point, the CSRS category will fall out of the equation of determining the expense amount. The factor that most directly influences the amount of BPA additional expenses is its Full Time Employment (FTE) level. Since the contribution BPA makes for these programs is based on the future Retirement Benefits of current employees, the fewer FTE's for which future benefits are paid, the smaller the additional contribution amount will be.