



Retirement and Insurance Service
Benefits Administration Letter

Number: 02-315

Date: September 11, 2002

Subject: Fiscal Year 2002 Cost Factors for CSRS, FERS, FEHB and FEGLI

As required by Statement of Federal Financial Standards No. 5 -- *Liabilities of the Federal Government* – this letter provides the fiscal year 2002 “costs factors” for the Federal civilian benefit programs. Agencies will use these cost factors to calculate their imputed costs relating to the “pensions” (the Civil Service Retirement and Federal Employees’ Retirement Systems), the Federal Employees Health Benefits Program and the Federal Employees Group Life Insurance Program.

PENSIONS

The cost factors for the Civil Service Retirement System (CSRS) and the Federal Employees’ Retirement System (FERS) are expressed as percentages of “basic pay.” Basic pay is the portion of gross pay from which agencies withhold CSRS and FERS deductions; it, generally, excludes bonuses, allowances, overtime, and holiday pay. The cost factor represents the percentage of basic pay that would have to be remitted by and for covered employees to pay fully the Government’s cost to provide a CSRS or FERS benefit.

CSRS. For most or “regular” CSRS employees, the fiscal year 2002 cost factor remains 24.2 percent of basic pay, the same as for fiscal years 2001 and 2000. Since the percentage of basic pay actually remitted to OPM by and for CSRS-covered employees is less than 24.2 percent, agencies must recognize an *imputed cost* for the shortfall. The cost factors for other categories of CSRS coverage are attached. Although the CSRS normal cost and, thus, the cost factors will change in fiscal year 2003, this should not impact upon the fiscal year 2002 imputed cost calculation.

FERS. For regular FERS employees, the fiscal year 2002 cost factor remains 11.5 per cent of basic pay, the same as that for fiscal years 2001 and 2000. Unlike for the CSRS, the Government’s cost to provide a FERS benefit is fully funded by the contributions remitted by and for covered employees. The cost factors for other categories of FERS coverage are also on the attachment.

<i>Civil Service</i>	<i>Federal Employees’</i>	<i>Federal Employees</i>	<i>Federal Employees</i>	<i>Federal</i>
<i>Retirement</i>	<i>Group Life</i>	<i>Health Benefits</i>	<i>Retirement</i>	<i>Long Term</i>
<i>System</i>	<i>Insurance Program</i>	<i>Program</i>	<i>System</i>	<i>Care Insurance</i>
				<i>Program</i>

Calculating Imputed Cost for Pensions:

- Step 1 Sort all employees covered by the CSRS or FERS by their coverage category.
- Step 2: Aggregate the annual basic pay of all employees in each CSRS and FERS coverage category.
- Step 3: Multiply the aggregated annual basic pay for each coverage category computed in Step 2 by the applicable cost factor.
- Step 4: Compute the grand total of each of the individual calculations in Step 3 – this is total cost to provide CSRS and FERS benefits to agency employees or the “service cost”.
- Step 5: Determine the total employee withholdings and agency contributions for all CSRS and FERS-covered employees.
- Step 6: From the service cost derived in Step 4, subtract the total contributions (agency and employee) for all employees covered by the CSRS and FERS – this is the *imputed cost* for the CSRS and FERS.
- Step 7: Record the imputed cost computed in Step 5 as a charge to SGL account 6730F.24 – Imputed Cost -- and a credit to SGL account 5780F.24 – Imputed Financing Sources.

Illustration: Calculating Imputed Cost for Pensions:

- Step 1: Agency XYZ has 10 employees who are regular CSRS-covered employees, 10 who are regular FERS-covered employees, and 5 who are CSRS covered law-enforcement officers.
- Step 2: The annual basic pay for each category of covered employee is:

Regular CSRS	\$500,000
Regular FERS	\$250,000
CSRS Law-enforcement	\$375,000

Step 3:

	A	B	[A * B]
	Aggregate Annual Basic Pay	Cost Factor	
CSRS Regular	\$500,000	24.2%	\$121,000
FERS Regular	\$250,000	11.5%	\$28,750
CSRS Law-enforcement	\$375,000	40.0%	\$150,000

Step 4:

Service Cost	
CSRS Regular	\$121,000
FERS Regular	\$28,750
CSRS Law-enforcement	150,000
Total	\$299,750

Step 5:

Withholdings and Contributions			
	Employee Withholdings	Agency Contributions	Total
CSRS Regular	\$35,000	42,550	\$77,550
FERS Regular	2,000	26,750	28,750
CSRS Law-enforcement	28,125	33,788	61,913
Total			\$168,213

Step 6:

Imputed Cost		
A	B	C
Service Cost	Total Contributions	Imputed Cost [A less B]
\$299,750	\$168,213	\$131,537

Step 7: Agency XYZ posts its imputed cost for CSRS and FERS:

6730F.24	Imputed Cost	131,537
5780F.24	Imputed Financing Sources	131,537

FEDERAL EMPLOYEES HEALTH BENEFITS PROGRAM

Although the Government provides health benefits to Federal employees after they retire, no contributions are made by or for employees during their active working careers. Thus, agencies must recognize the Government's entire cost to provide post-retirement health benefits to their employees as an imputed cost. The cost factor for post-retirement health benefits is expressed as an amount per employee currently enrolled in the FEHB Program; for fiscal year 2002, the factor is \$3,473 per enrolled employee.

Calculating Imputed Cost for Employees Enrolled in the FEHB Program:

- Step 1: Ascertain actual enrollment in the FEHB Program at three points in time: October 1, 2001; March 31, 2002; and September 30, 2002; include ALL enrolled employees, both full-time and less than full-time.

- Step 2: Multiply the October 1 enrollment by one; the March 31 enrollment by two; and the September 30 enrollment by one.
- Step 3: Calculate the grand total of each of the individual calculations in Step 2.
- Step 4: Divide the grand total in Step 3 by four to derive the "constructed FEHB enrollment."
- Step 5: Multiply the constructed FEHB Program enrollment, computed in Step 4, by the fiscal year 2002 cost factor of \$3,473 – this is the *imputed* FEHB cost.
- Step 6: Record the imputed cost as a charge to SGL account 6730F.24, with a corresponding credit to SGL account 5780F.24.

Illustration: Calculating Imputed Cost for Employees Enrolled in the FEHB Program:

	10/1/01	3/31/02	9/30/02
Step 1: Actual enrollment	72	66	60
Step 2: Multiplier	72 x 1 = 72	66 x 2 = 132	60 x 1 = 60
Step 3: Grand Total			264
Step 4: Constructed Enrollment [<i>Grand Total Divided by Four</i>]			66
Step 5: Imputed Cost [<i>Constructed Enrollment Times Cost Factor</i>]			\$229,218

Step 6: Agency XYZ posts the following entry:

6730F.24	Imputed Cost	229,218	
	5780F.24	Imputed Financing Sources	229,218

FEDERAL EMPLOYEES LIFE INSURANCE PROGRAM

The FEGLI Program provides life insurance benefits to eligible Federal retirees. The contributions remitted by and for covered employees do not fully cover the cost to provide post-retirement FEGLI Program benefits. Thus, agencies must recognize the unfunded portion of this cost as an imputed cost. The fiscal year 2002 cost factor for the FEGLI Program is *0.02 percent* of basic pay, the same as in previous years.

Calculating the Imputed Cost for Employees Enrolled in the FEGLI Program:

1. Determine the aggregate annual basic pay of ALL employees covered by Basic life insurance.
2. Multiply the amount determined in Step 1 by the cost factor [*0.02 per cent of basic pay*] to determine *imputed cost*.
3. Record imputed cost computed in Step 2 as a charge to SGL account 6730F.24, with a corresponding credit to SGL account 5780F.24.

Illustration: Calculating Imputed Cost for Employees Enrolled in the FEGLI Program:

Agency XYZ has determined the aggregate annual basic pay of its employees covered by Basic life insurance to be \$1,125,000. It determines its fiscal year 2002 imputed cost for the FEGLI Program, as follows:

A	B	C
Annual Basic Pay	Cost Factor (%)	Imputed Cost [A x B]
\$1,125,000	.02	\$225

Agency XYZ posts the following entry:

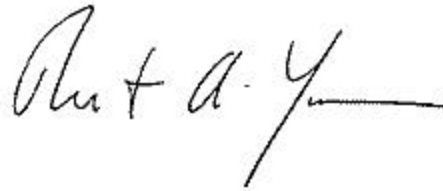
6730F.24	Imputed Cost	225
5780F.24	Imputed Financing Sources	225

ASSURANCE FOR AUDITORS

Due to the need to provide you with these cost factors so early, our independent public accounting firm has had insufficient time to opine on them. Nonetheless, the fiscal years 2001 cost factors for regular CSRS and FERS coverage, as well as those for the FEHB and FEGLI Programs were disclosed in the footnotes accompanying our fiscal year 2001 financial statements, which were audited and upon which was issued an unqualified opinion. The cost factors for CSRS, FERS, and the FEGLI Program did not change for fiscal year 2002, nor did the policies, procedures and controls pertaining to the calculation of any of the cost factors, including that for FEHB Program. Thus, your auditors can rely upon the disclosures in fiscal year 2001 financial statements and the audit opinion thereon.

INQUIRIES

If you have any questions about this letter, we would prefer that you email us at finance@opm.gov, so we have a record of them. You may of course call us on 202-606-0606.



**Robert A. Yuran, Chief
Financial Policy Staff**

Attachment

2002 COST FACTORS FOR THE CSRS AND FERS

CSRS	
CATEGORY	COST FACTOR (%)
Regular	24.2
Regular offset	19.3
Law enforcement officers	40.0
Law enforcement officers - offset	36.2
Air traffic controllers	31.9
Air traffic controllers – offset	28.2
Members of Congress	29.3
Members of Congress – offset	27.0
Congressional employees	32.5
Congressional employees – offset	27.8

FERS	
CATEGORY	COST FACTOR (%)
Regular	11.5
Law enforcement officers	24.6
Air traffic controllers	23.1
Members of Congress	16.5
Congressional employees	16.7
Military reserve technicians	11.9