

An hourglass-shaped graphic with a globe in the top bulb and another globe in the bottom bulb. The hourglass is light blue and has a dark blue top and bottom. The globe in the top bulb is dark blue, and the globe in the bottom bulb is light blue. The text is centered within the hourglass.

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Report 98-972

Federal Employee Retirement Programs: Summary of Recent Trends

Patrick J. Purcell, Domestic Social Policy Division

March 22, 2007

Abstract. This report describes recent trends in the number of civil service annuitants and the financial status of the Civil Service Retirement and Disability Fund.

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Federal Employees' Retirement System: Summary of Recent Trends

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March 22, 2007

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Summary

This report describes recent trends in the number of civil service annuitants and the financial status of the Civil Service Retirement and Disability Fund. Among the results presented:

- In FY2004, 70% of civilian federal employees were enrolled in the *Federal Employees Retirement System* (FERS), which covers employees hired since 1984. Thirty percent were enrolled in the *Civil Service Retirement System* (CSRS), which covers only employees hired before 1984.
- In FY2006, 2.4 million people received civil service annuity payments. Eighty-nine percent of these annuitants were covered by CSRS.
- More than one-third of all federal employee annuitants and survivor annuitants reside in five states: California, Florida, Texas, Maryland, and Virginia.
- The average civilian federal employee who retired in 2006 was 59 years old and had completed 27.8 years of federal service.
- The average monthly annuity payment to workers who retired under CSRS in 2006 was \$2,452. Workers who retired under FERS received an average monthly annuity of \$896. (The FERS retirees had shorter average length of service than CSRS retirees. They also earned Social Security benefits and received an employer match on their contributions to the Thrift Savings Plan.)
- At the end of FY2006, the balance of the Civil Service Retirement and Disability Fund was \$690 billion, an amount equal to 12 times the amount of outlays from the fund during 2006. The trust fund balance is expected to reach \$702 billion by the end of FY2007.
- From 1970 to 1985, the number of people receiving civil service annuities rose by one million, an increase of 105%. Between 1985 and 2006 the number of civil service annuitants rose by 482,000, an increase of 24%.
- As of September 2006, civilian federal employment, including the Postal Service, totaled 2.7 million workers, the same as in 2000, and a decline of 429,000 (14%) since 1990.
- Employees of the federal government are older on average than workers in the private sector. Sixty percent of all federal employees were age 45 or older in 2004, and 42% were age 50 or older. In contrast, only 37% of wage and salary workers in the private sector were 45 or older in 2004, and just 25% were 50 or older.

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Fundamentals of the Civil Service Retirement Programs

The Civil Service Retirement System (CSRS) was established by P.L. 66-215 in 1920, 15 years before Congress created the Social Security system for workers in the private sector. Because CSRS was designed to provide both retirement and disability benefits, federal employees were excluded from participating in Social Security. State and local governments were permitted to bring their employees into the Social Security program in the early 1950s, and today about three-fourths of state and local government employees are covered by Social Security.

In the Social Security Amendments of 1983 (P.L. 98-21), Congress mandated participation in Social Security by all civilian federal employees initially hired on or after January 1, 1984. Because Social Security provides both retirement and disability benefits, and because enrolling federal workers in both CSRS and Social Security would have required each employee to contribute more than 13% of pay, Congress directed the development of a new federal employee retirement system with Social Security as the cornerstone. The result of these efforts was the Federal Employees Retirement System (FERS), created by P.L. 99-335 and enacted on June 6, 1986. The new system, patterned after the retirement programs typical of large employers in the private sector, is composed of three elements: (1) Social Security, (2) the FERS basic annuity (a *defined benefit* plan), and (3) the Thrift Savings Plan (a *defined contribution* plan).¹

All permanent federal employees whose initial federal employment began after December 31, 1983, are covered by FERS, as are employees who voluntarily switched from CSRS to FERS during "open seasons" in 1987 and 1998.² Former federal employees who have completed at least five years of service under CSRS and are rehired after a break in service of less than one year can either join FERS or participate in both CSRS and Social Security through the "CSRS offset plan." Under this plan, 6.2% of the employee payroll contribution and an equal share of the employer contribution are paid into Social Security. In retirement, these employees' CSRS annuities are reduced ("offset") by the amount of the Social Security benefit.

Under FERS, workers who have completed at least 30 years of service can retire at the minimum retirement age. The minimum retirement was 55 for workers born before 1948, and it is scheduled to rise to 57 for those born in 1970 or later. Employees with 20 or more years of service can retire at age 60, and those with at least 5 years of service can retire at age 62. Federal employees and former employees who have completed at least ten (but fewer than 30) years of service can receive a *reduced* FERS pension benefit at the minimum retirement age. For those who choose this option, the FERS pension benefit is permanently reduced by 5% multiplied by the number of years between the worker's age at retirement and age 62. For example, the pension of a federal employee who retires at age 56 with fewer than 30 years of service would be permanently reduced by 5% multiplied by six, or 30%.

¹ In a defined benefit plan, the amount of the retirement benefit is based on an employee's salary and number of years of service. With each year of service, a worker accrues a benefit equal to a fixed dollar amount or a percentage of pay. A defined contribution plan is like a savings account maintained on behalf of each participating employee. The amount of retirement benefits that a worker receives will depend on the balance in the account, which is the sum of contributions, plus interest, dividends, and capital gains (or losses).

² P.L. 105-61 (Oct. 10, 1997) authorized an open season to be held from July through Dec. 1998, during which employees still enrolled in CSRS could transfer to FERS.

Under CSRS, the minimum retirement age is 55 for employees with 30 years of federal service, age 60 for those with 20 years of service, and 62 for employees with at least 5 years of service. CSRS has no provision for early retirement with a reduced benefit, except for special circumstances such as a reduction in force. Agencies undergoing a reduction in force can, with the approval of the Office of Personnel Management, offer retirement to employees age 50 or older with 20 or more years of service or at any age with 25 or more years of service. An employee under CSRS who is offered and accepts an offer of voluntary early retirement has his or her retirement annuity permanently reduced by 2% multiplied by the number of years between the worker's age at retirement and age 55.

Under both CSRS and FERS, the amount of an employee's retirement annuity is based on the average of the individual's highest three consecutive years of basic pay multiplied by their years of service and the rate at which benefits accrue for each year of service.³ Under FERS, this *accrual rate* is one percent of base pay per year. Workers with 20 years or more of service under FERS who work until at least age 62 are credited with an accrual rate of 1.1% for each year of service.⁴ For example, a worker covered by FERS who retires at 61 with 29 years of service will receive a FERS annuity equal to 29% of his high-3 average pay. Delaying retirement by one year would increase the annuity to 33% of high-3 average pay ($30 \times 1.1 = 33.0$).

Accrual rates are lower under FERS than under CSRS because employees covered by FERS also pay Social Security payroll taxes and earn Social Security retirement benefits. Under CSRS the benefit accrual rate increases with length of service. Workers accrue benefits equal to 1.5% of high-3 average pay for each of their first 5 years of service; 1.75% of high-3 pay for years 6 through 10; and 2.0% of high-3 pay for each year of service after the 10th year. This yields a pension equal to 56.25% of high-3 average pay after 30 years of federal service under CSRS.

For all federal workers covered by FERS, the agency where they are employed contributes an amount equal to 1% of the employee's base pay to the Thrift Savings Plan (TSP), even if the employee makes no voluntary contributions to the TSP. In 2007, workers covered by FERS or CSRS can contribute up to \$15,500 to the TSP.⁵

Workers age 50 and older can contribute an additional \$5,000 to the TSP. All contributions to the Thrift Savings Plan are made on a pre-tax basis, and neither the employee's contribution nor any investment earnings are taxed until the money is withdrawn from the account. In addition, the first 5% of employee pay contributed to the TSP generates agency matching contributions for workers covered by FERS.⁶ Workers covered by CSRS may contribute to the TSP, but they receive no matching contributions from their employing agency.

³ The calculation of "high-three" average pay is based on nominal or "current dollars" rather than indexed or "constant dollars."

⁴ Because FERS coverage began in 1984, no federal workers will have 30 years of service exclusively under FERS until 2014.

⁵ Employee contributions to the TSP are subject to the annual limit on salary deferrals established under Internal Revenue Code § 402(g).

⁶ All employees covered by FERS receive "agency automatic contributions" of 1% of pay. Employee contributions are matched dollar-for-dollar on the first 3% of pay and at \$.50 on the dollar on the next 2% of pay. Thus, the maximum agency contribution is 5% of pay.

Retirement Coverage of Current Federal Employees

Because enrollment in CSRS has been closed to new entrants since 1984, the proportion of federal workers covered by FERS has been rising and coverage under CSRS has been declining. (See **Table 1.**) FY1995 was the first year in which a majority of civilian federal employees (51%) were covered by FERS. During FY2004, 70% of federal employees were covered by FERS.

Table 1. Retirement Systems Coverage of Federal Employees, by Fiscal Year

Covered Active Employees ^a	CSRS	FERS	Total
FY2004	795,000	1,875,000	2,670,000
Percentage distribution	29.8%	70.2	100
FY2003	862,000	1,808,000	2,670,000
Percentage distribution	32.3	67.7	100
FY2002	897,000	1,717,000	2,614,000
Percentage distribution	34.0	66.0	100
FY2001	987,000	1,689,000	2,676,000
Percentage distribution	36.9	63.1	100
FY2000	961,000	1,629,000	2,590,000
Percentage distribution	37.1	62.9	100
FY1999	1,009,000	1,536,000	2,545,000
Percentage distribution	39.6	60.4	100
FY1998	1,108,000	1,550,000	2,658,000
Percentage distribution	41.7	58.3	100
FY1997	1,194,000	1,487,000	2,681,000
Percentage distribution	44.5	55.5	100
FY1996	1,235,000	1,385,000	2,620,000
Percentage distribution	47.1	52.9	100
FY1995	1,311,000	1,371,000	2,682,000
Percentage distribution	48.9	51.1	100
FY1994	1,402,000	1,296,000	2,698,000
Percentage distribution	52.0	48.0	100

Source: Office of Personnel Management.

a. Includes U.S. Postal Service. Does not include employees on leave without pay.

Coverage of Current Civil Service Annuitants

Although the majority of current federal employees are covered by FERS, most *retired* federal workers and their surviving spouses and dependents receive benefits from employment that was covered by CSRS. In FY2006, 89% of current annuitants were receiving pension benefits that were accrued under CSRS, while just 11% had retired under FERS. (See **Table 2.**) Under both

CSRS and FERS, employee and agency contributions are paid into—and pension annuities are paid from—the Civil Service Retirement and Disability Fund. The number of FERS annuitants is comparatively small because the FERS is still a relatively new program when compared to the average length of a worker's career. The program was established in 1987 and was made retroactive for all employees initially hired on or after January 1, 1984.

Table 2. Retirement Plan Coverage of Civil Service Annuitants, FY2006

	CSRS	FERS	Total
Employee annuitants	1,578,713	249,803	1,828,516
Percentage	86.3	13.7	100
Survivor annuitants	596,887	23,867	620,754
Percentage	96.2	3.8	100
Total annuitants	2,175,600	273,670	2,449,270
Percentage	88.8	11.2	100

Source: U.S. Office of Personnel Management.

State of Residence of Civil Service Annuitants

More than 2.4 million people received civil service annuities in 2006, either as retired federal employees, surviving spouses, or surviving dependents. California had the largest number of annuitants with 216,965 and Vermont had the fewest with 4,126. Five states—California, Florida, Texas, Maryland, and Virginia—accounted for more than one-third of all civil service annuitants in 2006.

Table 3. State of Residence of Civil Service Annuitants, 2006

State	Number of Annuitants	Percent of National Total
Alabama	57,774	2.4
Alaska	7,072	0.3
Arizona	50,615	2.1
Arkansas	24,486	1.0
California	216,965	8.8
Colorado	45,152	1.8
Connecticut	14,526	0.6
Delaware	8,002	0.3
District of Columbia	43,494	1.8
Florida	165,944	6.8
Georgia	77,795	3.2
Hawaii	24,540	1.0
Idaho	13,002	0.5
Illinois	65,207	2.7

State	Number of Annuitants	Percent of National Total
Indiana	34,840	1.4
Iowa	19,780	0.8
Kansas	23,691	1.0
Kentucky	32,072	1.3
Louisiana	25,444	1.0
Maine	13,467	0.5
Maryland	149,090	6.1
Massachusetts	44,171	1.8
Michigan	40,438	1.6
Minnesota	26,399	1.1
Mississippi	24,545	1.0
Missouri	51,879	2.1
Montana	11,503	0.5
Nebraska	13,108	0.5
Nevada	20,671	0.8
New Hampshire	11,783	0.5
New Jersey	55,270	2.3
New Mexico	26,604	1.1
New York	96,697	3.9
North Carolina	65,299	2.7
North Dakota	6,014	0.2
Ohio	73,417	3.0
Oklahoma	48,205	2.0
Oregon	31,535	1.3
Pennsylvania	106,095	4.3
Rhode Island	8,988	0.4
South Carolina	40,933	1.7
South Dakota	9,295	0.4
Tennessee	42,647	1.7
Texas	157,707	6.4
Utah	33,907	1.4
Vermont	4,126	0.2
Virginia	137,789	5.6
Washington	62,817	2.6
West Virginia	16,066	0.7
Wisconsin	25,079	1.0
Wyoming	5,463	0.2

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State	Number of Annuitants	Percent of National Total
U.S. Territories	14,689	0.6
Other countries	29,400	1.2
Total	2,455,497	100

Source: Office of Personnel Management.

Average Age and Years of Service at Retirement

More than 103,000 civilian federal employees (including U.S. Postal Service employees) retired during FY2006. (See **Table 4.**) Of this number, 75,551 (73%) were normal retirements⁷ and another 9,538 (9%) were voluntary early retirements. Under CSRS, normal retirement can occur as early as age 55 with 30 years of service. Under FERS, the minimum retirement age is increasing from 55 for workers born before 1948 to 57 for those born in 1970 or later. Under both programs, normal retirement can be taken at age 60 with 20 years of service or age 62 with 5 years of service. The average age of workers taking voluntary, normal retirement in 2006 was 60 for employees covered by CSRS and 63 for those covered by FERS. Workers taking normal retirement under CSRS in 2006 had completed an average of 34 years of service, while those retiring under FERS had an average of 19 years of service.

More than 8,000 federal employees took voluntary *early* retirement in 2006. These workers were younger on average (54.3 years old) than those who took normal retirement, and their average length of service (27.7 years) was slightly less than that of those who took normal retirement. Approximately 9% of all retirements among federal employees in 2006 were taken for reasons of disability. Disability retirees were, on average, 51 years old with 17 years of service. Involuntary retirements (such as those resulting from agency down-sizing) and retirements taken under other special circumstances accounted for 3% of all retirements by federal employees in 2006.

Average Annuity Amounts under CSRS and FERS

The average monthly annuity paid to all civilian federal employees who retired under CSRS in 2006 was \$3,373, while new FERS annuitants received an average annuity of \$1,137 per month. Employees retiring under CSRS received larger annuities than those covered by FERS both because of their longer average length of service and because CSRS was designed to provide an adequate retirement income from a single source. FERS was designed to provide a smaller annuity than CSRS for any given length of service and level of compensation because federal employees covered by FERS participate in Social Security and they also can elect to save for retirement on a pre-tax basis with agency matching contributions through the Thrift Savings Plan.⁸ Employees in FERS who retire at the minimum retirement age or older with 30 years of federal service are eligible to receive a supplement to their FERS annuity between their

⁷ Normal retirements include all retirements except disability retirements, voluntary early retirements, involuntary retirements, and special provision retirements.

⁸ In 2007, federal employees can contribute up to \$15,500 of pay (pre-tax) to the TSP. Employees enrolled in FERS receive matching contributions up to a maximum of 5% of pay. Employees enrolled in CSRS do not receive matching contributions. For more information on the TSP, see CRS Report RL30387, *Federal Employees' Retirement System: The Role of the Thrift Savings Plan*, by Patrick Purcell.

retirement and age 62. The supplement is approximately equal to the Social Security payments they will receive for their years of federal employment. (Employees with 20 years of service receive this supplement if they are at least age 60 at retirement.)

Table 4. Number, Average Age and Years of Service, and Average Annuity of Civil Service Annuitants Who Retired in 2006

Civilian Federal Retirements	CSRS	FERS ^a	Average or Total
Normal Retirements			
Number	53,277	22,274	75,551
Average age at retirement	60.1	63.1	61.0
Average years of service	34.0	18.9	29.5
Average monthly annuity	\$3,491	\$937	\$2,738
Disability Retirements			
Number	2,349	7,189	9,538
Average age at retirement	53.0	50.3	51.0
Average years of service	26.2	14.2	17.2
Average monthly annuity	\$2,060	\$1,376	\$1,544
Involuntary retirements			
Number	1,992	708	2,700
Average age at retirement	55.9	56.0	55.9
Average years of service	30.0	24.3	28.5
Average monthly annuity	\$2,975	\$1,364	\$2,553
Voluntary early retirements			
Number	6,307	1,763	8,070
Average age at retirement	54.0	55.3	54.3
Average years of service	28.8	23.6	27.7
Average monthly annuity	\$2,736	\$1,295	\$2,421
Special provision retirements			
Number	3,415	1,154	4,569
Average age at retirement	54.8	54.0	54.6
Average years of service	30.4	25.4	29.1
Average monthly annuity	\$4,913	\$3,529	\$4,563
Total retirements in 2006^b			
Number	68,844	34,448	103,292
Average age at retirement	59.0	59.4	59.1
Average years of service	32.6	18.3	27.8
Average monthly annuity	\$3,373	\$1,137	\$2,627

Source: CRS analysis of data from the Office of Personnel Management.

- a. Employees covered by FERS also participate in Social Security. In January 2006, the average monthly Social Security benefit for workers retiring at age 62 was \$1,035.
- b. Includes other, unclassified retirements.

Average Age at Retirement of New Federal Retirees, 1990 to 2006

In 2006, the average age of federal employees taking normal retirement was 61, almost the same as in 1990. (See **Table 5.**) Over the period from 1990 to 2006, the average age of normal retirements was 61.2. The average age for *all* retirements in 2006 was 59, and the average for the period from 1990 to 2006 was 58.5. Federal agencies undergoing a major reorganization can request permission from the Office of Personnel Management to offer their employees voluntary early retirement or voluntary separation incentive pay (“buyouts”). Under voluntary early retirement, an employee can retire as early as age 50 with 20 years of service. Voluntary separation incentives are cash payments of up to \$25,000 (before taxes) offered to employees who retire or otherwise separate from federal employment voluntarily. Because these incentives are generally offered to retirees who have not yet reached the combined age and years of service that are required for normal retirement, they tend to reduce the average age of those who retire in any given year.

Table 5. Average Age at Retirement for New Federal Retirees, 1990 to 2006

Fiscal Year	Average Age at Retirement		Normal Retirements as a Percentage of All Retirements
	All retirements	Normal retirements	
1990	59.4	61.3	79.0
1994	58.1	61.8	56.8
1998	57.6	61.5	57.1
2002	58.1	60.6	67.6
2006	59.1	61.0	73.1

Source: Office of Personnel Management.

Note: Normal retirements include all retirements except disability retirements, voluntary early retirements, involuntary retirements, and special provision retirements.

Total and Average Annuity Payments to Retirees and Survivors in 2006

The Civil Service Retirement and Disability Fund paid annuities to 1.83 million retired federal employees and 621,000 survivor annuitants in FY2006. Of these beneficiaries, 2.175 million (89%) received benefits earned under CSRS and 274,000 (11%) received benefits under FERS. Employee annuitants under CSRS received an average monthly annuity of \$2,452. Survivors of CSRS annuitants received an average monthly CSRS annuity of \$1,189. Employee annuitants under FERS received payments, averaging \$896 per month and the average survivor benefit under FERS was \$375. As was noted earlier, FERS benefits are smaller than those under CSRS.

both because employees covered by FERS have fewer years of service than workers who retired under CSRS, and because FERS benefits are intended to be supplemented by Social Security and the Thrift Savings Plan.⁹

Table 6. Total and Average Annuity Payments to Retirees and Survivors in 2006

(in thousands of dollars)

	CSRS	FERS	All Retirees and Survivors
Employee annuitants	1,578,713	249,803	1,828,516
<i>Percent of Total</i>	86.3%	13.7%	100%
Mean monthly benefit	\$2,452	\$896	\$2,239
Median monthly benefit	\$2,152	\$617	\$1,977
Survivor annuitants	596,887	23,867	620,754
<i>Percent of Total</i>	96.2%	3.8%	100%
Mean monthly benefit	\$1,189	\$375	\$1,158
Median monthly benefit	\$1,053	\$284	\$1,022
Total annuitants	2,175,600	273,670	2,449,270
<i>Percent of Total</i>	88.8%	11.2%	100%

Source: Office of Personnel Management.

Cost-of Living Adjustments under CSRS and FERS

Cost-of-living adjustments (COLAs) for both CSRS and FERS are based on the rate of inflation as measured by the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W). COLAs are determined by the percentage change in the average monthly CPI-W during the third quarter (July to September) of the current calendar year compared to the third quarter of the previous year. The “effective date” for COLAs is December, but they first appear in benefit checks issued in January.

All CSRS retirees and survivors receive yearly COLAs equal to the annual percentage change in the CPI-W. Under FERS, COLAs are paid only to retired workers who are age 62 and older and to disabled and survivor beneficiaries of any age. COLAs paid under FERS are less than the rate of inflation whenever the increase in the CPI-W is greater than 2.0%. If the rate of inflation during the measurement period is between 2.0% and 3.0%, the FERS COLA is 2.0%. If inflation is greater than 3.0%, then the COLA for FERS benefits is equal to the CPI-W minus one percentage point.¹⁰ In January 2007, CSRS beneficiaries received a COLA of 3.3%, and FERS beneficiaries received a COLA of 2.3%. (See **Table 7**.)

⁹ In June 2006, the average monthly Social Security benefit among all retired workers was \$1,007. The average monthly benefit for a surviving spouse was \$954.

¹⁰ Workers who switched from CSRS to FERS receive a COLA that is weighted by the proportion of their federal service that was spent under each retirement system.

Table 7. Cost-of-Living Adjustments under CSRS and FERS
(in percent)

Date Paid	CSRS COLA	FERS COLA	Change in CPI from 3 rd Qtr to 3 rd Qtr
January 1990	4.7%	3.7	4.7
January 1991	5.4	4.4	5.4
January 1992	3.7	2.7	3.7
January 1993	3.0	2.0	3.0
April 1994	2.6	2.0	2.6
April 1995	2.8	2.0	2.8
April 1996	2.6	2.0	2.6
January 1997	2.9	2.0	2.9
January 1998	2.1	2.0	2.1
January 1999	1.3	1.3	1.3
January 2000	2.4	2.0	2.4
January 2001	3.5	2.5	3.5
January 2002	2.6	2.0	2.6
January 2003	1.4	1.4	1.4
January 2004	2.1	2.0	2.1
January 2005	2.7	2.0	2.7
January 2006	4.1	3.1	4.1
January 2007	3.3	2.3	3.3

Source: Office of Personnel Management.

Income and Expenditures of the Civil Service Retirement and Disability Fund, 2006

The Civil Service Retirement and Disability Fund (CSRDF) ended FY2006 with a balance of \$690 billion. By law, these assets are invested in special-issue U.S. Treasury bonds. The balance of the trust fund represents the amount of *budget authority* available to pay benefits under both CSRS and FERS. The fund's balance at the end of 2006 was more than 12 times the value of the CSRS and FERS annuities paid from the fund that year.

CSRDF receives income from several sources. Some of the fund's income results from *cash transactions*. Other income comes from *intra-governmental transfers*. The largest cash transaction (\$3.7 billion in 2006) consists of employee contributions to CSRS and FERS. These contributions are equal to 7.0% of base pay under CSRS and 0.8% of pay under FERS.¹¹ Smaller

¹¹ Under the Balanced Budget Act of 1997 (P.L. 105-33), employee contribution rates under CSRS and FERS rose by 0.25% in January 1999 and by a further 0.15% in January 2000. They were to increase by another 0.1% in January 2001 before reverting to their previous levels—7.0% under CSRS and 0.8% under FERS—after Dec. 31, 2002, but the (continued...)

cash payments are received from the District of Columbia to finance retirement benefits for its employees, and from additional cash contributions made by federal workers. These usually are former federal employees who are returning to government service and who had previously withdrawn their retirement contributions.

The fund's largest sources of income are (1) interest payments on the U.S. Treasury bonds it holds, (2) a payment from the general fund of the Treasury to make up for the insufficient funding of benefits accrued under CSRS, and (3) payments from federal agencies and the Postal Service on behalf of their employees.¹² Agency contributions under CSRS are equal to 7.0% of payroll, and are supplemented by transfers from the general fund of the Treasury equal to approximately 10% of payroll. Agency contributions to FERS are required by law to be equal to the full actuarial cost of the program minus employee contributions. Agency contributions to FERS equal 11.2% of pay in 2006. These three sources of income are not cash transactions, but *intra-governmental transfers* which result in an increase in the fund's budget authority as recorded in the accounts of the U.S. Treasury. The fund receives Treasury bonds as a record of this budget authority, which it redeems periodically as annuity payments come due.¹³

Expenditures from the retirement and disability fund consist mainly of payments to retired federal employees and their surviving spouses and dependents. Annuity payments totaled \$57.5 billion in 2006, while payments to the estates of decedents and payments to separating employees accounted for another \$318 million. Administrative expenses for the fund were \$134 million, just 0.23% of expenditures.

Table 8. Income and Expenditures of the Civil Service Retirement and Disability Fund, 2006-2008

(amounts in millions)

	FY2006	FY2007 (est.)	FY2008 (est.)
Beginning balance	\$660,773	\$689,954	\$701,757
Income to the fund			
<i>Cash transactions:</i>			
Employee contributions	\$3,715	\$4,010	\$3,908
District of Columbia	\$50	\$38	\$33
Other employee deposits	\$535	\$636	\$665
<i>Intragovernmental transfers:</i>			
Agency contributions	\$13,819	\$14,072	\$15,714
Postal Service (total)	\$4,429	\$3,382	\$3,596

(...continued)

increased contributions were repealed by P.L. 106-346.

¹² At the time CSRS was created in 1920, it was common for private employers to pay some retirement benefits directly from their sales revenues rather than from reserves held in a pension fund. Because CSRS was not designed to be funded entirely from employee and agency contributions, some of the benefits accrued by workers covered by CSRS are financed through transfers from the general revenues of the U.S. Treasury.

¹³ See CRS Report RL30023, *Federal Employee Retirement Programs: Budget and Trust Fund Issues*, by Patrick Purcell.

	FY2006	FY2007 (est.)	FY2008 (est.)
Interest on securities	\$36,432	\$42,059	\$43,725
General fund receipts	\$28,151	\$32,105	\$33,544
Re-employment offset	\$33	\$39	\$40
Total income to the fund	\$87,164	\$96,341	\$101,225
Expenditures from the fund			
Employee and survivor annuities	-\$57,531	-\$61,145	-\$63,821
Refunds and payments to estates	-\$318	-\$302	-\$307
Administration	-\$134	-\$91	-\$104
Transfer to PSRHB ^a	—	-\$23,000	—
Total expenditures from the fund	-\$57,983	-\$84,538	-\$64,232
Ending balance	\$689,954	\$701,757	\$738,750

Source: U.S. Office of Management and Budget, Budget of the United States Government, FY2008.

- a. This one-time payment to the Postal Service Retiree Health Benefits Fund was authorized by the *Postal Accountability and Enhancement Act* (P.L. 109-435).

Recent Trends in the Balance of the Civil Service Retirement and Disability Fund

Between 1990 and 2006, the balance of the Civil Service Retirement and Disability Fund rose from \$236 billion to \$690 billion, an increase of 192%. (See **Table 9**.) The balance of the fund has been rising partly because the civil service retirement programs are in a long-term transition from pay-as-you-go financing under CSRS to advance-funding under FERS.

For most of its history, CSRS benefits were funded on a pay-as-you-go basis with a small reserve equal to about one year of benefit payments to meet unexpected contingencies. Employee contributions and agency contributions were less than the actuarial value of the benefits that were accrued each year by federal employees. In 1969, P.L. 91-93 mandated annual payments to the fund from the general revenues of the U.S. Treasury to make up most of this shortfall.¹⁴ When Congress passed the legislation that created FERS in 1986, it required that the *full actuarial value* of benefits accrued each year by federal employees covered by the program (including the value of future COLAs) must be funded by the sum of employee and agency contributions. The Office of Personnel Management estimates that at some time in the 21st century, the trust fund will reach a steady state in which it holds sufficient budget authority to finance about 20 years of retirement and disability benefits.

¹⁴ The Office of Management and Budget has estimated that employee and agency contributions and the transfers from the general fund are sufficient to meet all of the actuarial costs of CSRS except for the increase in benefits represented by COLAs.

Table 9. Income and Expenditures of the Civil Service Retirement and Disability Fund, 1990 to 2008

(in billions of dollars)

Fiscal Year	CSRDF Income	CSRDF Expenditures	Ending Balance
1990	\$52.2	-\$31.1	\$235.6
1995	65.7	-38.4	366.2
1996	66.6	-39.8	393.0
1997	70.2	-41.7	421.5
1998	72.2	-43.1	450.7
1999	74.5	-43.9	481.3
2000	76.0	-45.2	512.1
2001	77.9	-47.4	542.6
2002	80.1	-49.0	573.7
2003	78.4	-50.4	601.7
2004	82.4	-52.3	631.9
2005	83.7	-54.8	660.8
2006	87.2	-58.0	690.0
2007 ^a	96.3	-84.5	701.8
2008	101.2	-64.2	738.8

Source: Office of Management and Budget, *Budget of the United States Government*, various years.

a. Expenditures for 2007 include a \$23 billion payment to the Postal Service Retiree Health Fund.

Number of Civil Service Annuitants and Total Annuity Payments, 1970 to 2006

The number of people receiving civil service annuity payments has more than doubled since 1970, but the rate of increase has slowed since 1985. (See **Table 10**.) The rapid rise in the number of civil service annuitants from less than one million in 1970 to approximately two million in 1985 resulted from the increase in federal employment that occurred between 1940 and 1955. (See **Table 11**.) Throughout the 1930s, civilian federal employment (including postal employees) was less than one million. 1940 was the first year in which there were more than one million people in the federal workforce. By 1955, civilian federal employment had reached 2.4 million. There were brief upward spikes in federal employment during World War II and the Korean War, but relatively few of these war-time workers remained in service long enough to become vested in pension benefits.

After 1955, civilian federal employment increased much more slowly. It reached 2.9 million in 1970, due in part to the war in Vietnam and the creation of such large-scale social programs as Medicare and Medicaid in the 1960s. The slower but still steady increase in the number of federal employees in the years between 1955 and 1970 had as one of its consequences the slower but steady increase in the number of civil service annuitants in the years since 1985. Between 1985 and 2005, the number of civil service annuitants rose from around 2 million to about 2.5 million.

The Office of Management and Budget estimates that by 2012 there will be approximately 2.9 million people receiving federal civil service annuities.

Expenditures for civil service annuities have grown by a greater percentage than the number of annuitants because they are affected not only by the number of people employed by the federal government, but also by increases in average life-span, growth in real wages, and inflation. Cost-of-living adjustments—which have been applied to civil service annuities since 1962—do not represent an increase in the real value of these annuities. They merely keep purchasing power from eroding due to the effects of inflation.¹⁵

Under current law, the real value of a civil service annuity either remains constant (CSRS) or declines (FERS) during retirement.¹⁶ Therefore, the increase in the real value of annuities has been the result of increases in the average value of the “high-3” average pay on which these annuities are based. Rates of increase in the high-3 average pay of retiring federal employees are in turn affected by adjustments to pay for each grade-and-step level; special pay increases such as locality pay adjustments; the distribution of federal employees among various grade-and-step levels over time; and average length of service (since each additional year of service tends to increase the high-3 average pay). The average real value of civil service annuities per annuitant can be expected to decline in the future as a growing number of new retirees are covered by FERS rather than CSRS. FERS annuities are supplemented by Social Security benefits and the Thrift Savings Plan.

Table 10. Annuitants and Annuity Payments, 1970 to 2006

Year	Total Annuitants (thousands)	Payments in Nominal Dollars (millions)	Payments in Constant 2006 Dollars (millions)
1970	962	\$2,746	\$14,268
1975	1,391	7,048	26,410
1980	1,675	14,662	35,872
1981	1,779	17,597	39,027
1982	1,829	19,405	40,539
1983	1,869	20,717	41,933
1984	1,910	21,813	42,324
1985	1,971	23,012	43,115
1986	2,008	23,942	44,039
1987	2,055	25,713	45,632
1988	2,095	28,047	47,796
1989	2,122	29,134	47,366
1990	2,143	31,036	47,872

¹⁵ Federal tax revenues increase each year partly as a result of inflation. Income tax brackets are indexed in recognition of increases in personal income that result solely from inflation.

¹⁶ Some CSRS COLAs in the 1970s exceeded the rate of inflation because P.L. 91-93, enacted in 1969, called for COLAs of “CPI plus one percentage point.” The additional one percentage point was repealed by P.L. 94-440, enacted in 1976.

Year	Total Annuitants (thousands)	Payments in Nominal Dollars (millions)	Payments in Constant 2006 Dollars (millions)
1991	2,184	33,188	49,124
1992	2,185	33,545	48,202
1993	2,242	34,792	48,540
1994	2,263	36,254	49,317
1995	2,311	38,319	50,690
1996	2,333	39,670	50,972
1997	2,343	41,604	52,258
1998	2,361	42,943	53,112
1999	2,369	43,828	53,036
2000	2,372	45,072	52,767
2001	2,380	47,244	53,780
2002	2,383	48,838	54,729
2003	2,400	50,248	55,054
2004	2,446	52,122	55,626
2005	2,486	54,657	56,420
2006	2,453	57,816	57,816
2007 ^a	2,471	61,408	60,086
2008 ^a	2,488	64,090	61,360
2009 ^a	2,518	66,492	62,290
2010 ^a	2,541	68,725	62,996
2011 ^a	2,564	70,815	63,514
2012 ^a	2,587	72,977	64,044

Source: Office of Personnel Management and Office of Management and Budget.

Note: Depending on the day that the fiscal year begins, a year can have 11, 12, or 13 payments.

a. Estimated number of annuitants and nominal outlays from the *Budget of the United States*.

Civilian Federal Employment, 1940 to 2006

Since 1990, the number of civilian federal employees (including the U.S. Postal Service, which participates in both CSRS and FERS) has fallen from 3.1 million to 2.7 million. (See **Table 11**.) Civilian federal employment outside the Postal Service fell from 2.25 million in 1990 to 1.88 million in 2006, a decline of 16.4%. Reductions in federal employment yield immediate savings in payroll costs, and ultimately they will result in lower expenditures for retirement annuities for federal employees. In the near-term, however, reductions in the federal work force may result in a greater number of annuitants to the extent that the reductions are achieved by inducing employees to retire early. Employment in the Judicial Branch (34,000) exceeded employment in the Legislative Branch (29,000) in 2006. Since 1980, employment in the Legislative Branch has declined from 40,000 employees to 29,000 employees. Over the same period, employment in the Judicial Branch rose from 15,000 to 34,000.

Table II. Civilian Federal Employment, 1940 to 2006
(in thousands, as of September 30 each year)

Year	Legislative Branch	Judicial Branch	Executive Branch	Postal Service	Total
1940	20	2	758	312	1,091
1945	25	3	3,181	379	3,588
1950	23	4	1,449	485	1,961
1955	22	4	1,860	512	2,397
1960	23	5	1,808	563	2,398
1965	26	6	1,900	596	2,528
1970	31	7	2,158	726	2,922
1975	39	10	2,149	699	2,897
1980	40	15	2,161	660	2,876
1981	39	16	2,143	663	2,861
1982	39	16	2,110	660	2,825
1983	39	17	2,157	663	2,876
1984	39	17	2,171	683	2,910
1985	39	18	2,214	750	3,021
1986	38	19	2,193	774	3,024
1987	38	20	2,235	798	3,091
1988	38	22	2,222	832	3,114
1989	38	22	2,238	826	3,124
1990	38	24	2,250	817	3,129
1991	39	26	2,244	804	3,113
1992	39	28	2,227	792	3,086
1993	38	28	2,157	790	3,013
1994	35	28	2,085	823	2,971
1995	33	29	2,012	845	2,919
1996	32	30	1,934	852	2,848
1997	31	30	1,872	854	2,787
1998	30	32	1,856	871	2,789
1999	30	32	1,821	866	2,749
2000	31	32	1,778	861	2,702
2001	30	34	1,792	848	2,704
2002	31	35	1,818	811	2,695
2003	31	34	1,867	799	2,731

<http://wikileaks.org/wiki/CRS-98-972>

Year	Legislative Branch	Judicial Branch	Executive Branch	Postal Service	Total
2004	30	34	1,882	768	2,714
2005	31	34	1,872	764	2,701
2006	29	34	1,880	757	2,700

Source: Office of Personnel Management.

Note: Table shows total persons employed, including part-time.

Age Distribution of Executive Branch Employees

Employees of the federal government are older on average than workers in the private sector. Forty percent of employees in the Executive branch were under age 45 in 2004. Eighteen percent were between the ages of 45 and 49, and 42% were age 50 or older. (See **Table 12.**) In contrast, according to data collected by the U.S. Bureau of the Census, 63% of all wage and salary workers in the private sector were under age 45 in 2004. Twelve percent of private sector employees were ages 45 to 49, and 25% were age 50 or older.¹⁷

Under CSRS and FERS, an employee can retire with an immediate, unreduced annuity at age 55 (CSRS) or 56 (FERS) with 30 years of service or at age 60 with 20 years of service. About 37% of federal employees will reach age 55 within 10 years, but not all of them will have 30 years of service at that age. Of those who do, not all will retire immediately. The average age among *all* federal employees who retired in 2006 was 59. The average among those who took *normal* retirement—as opposed to early retirement or disability retirement, for example—was 61.¹⁸

Table 12. Age Distribution of Full-time, Permanent Employees

(employees in thousands, as of September 30, 2004)

Age	Under Age 45	45 -49	50 -54	55 -59	60 -64	65 or older	Total
Number of employees	657	291	315	242	94	33	1,632
Percent	40.3	17.8	19.3	14.8	5.8	2.1	100

Source: U.S. Office of Personnel Management.

¹⁷ CRS analysis of data from the *Current Population Survey*. Based on wage and salary workers employed in the private sector.

¹⁸ Retirements other than normal retirements include disability retirements, voluntary early retirements, involuntary retirements, special retirements for law enforcement officers and firefighters, and other unclassified retirements.

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