Office of Personnel Management

Retirement and Insurance Service

CSRS
Civil Service Retirement System
1920

FEGLI
Federal Employees Group Life Insurance
1954

FEHB
Federal Employees Health Benefits Program
1959

FERS
Federal Employees Retirement System
1986

Federal Employee Benefit Programs

FINANCIAL MANAGEMENT LETTER

Number: F-97-08 ***Date: October 23, 1997***

SUBJECT: Cost Factors for Pensions and Other Retirement Benefits

On December 20, 1995, the Federal Accounting Standards Advisory Board issued Statement of Federal Financial Accounting Standards Number 5 (SFFAS-5) -- *"Accounting for Liabilities of the Federal Government".* Among other provisions, SFFAS-5 establishes accounting and reporting standards for liabilities relating to the Federal employee benefit programs (Retirement, Health Benefits and Life Insurance). The adoption of SFFAS-5 is required for fiscal year 1997 financial reporting.

Currently, employing agencies recognize no cost for the pensions, health benefits or life insurance their employees will receive after they retire. Instead, SFFAS-5 requires that employing agencies recognize the cost of pensions and other retirement benefits during their employees' active years of service. So that you may compute these costs, SFFAS-5 requires that the Office of Personnel Management, as administrator of the Civil Service Retirement (CSRS) and Federal Employees Retirement Systems, the Federal Employees Health Benefits Program, and the Federal Employees Group Life Insurance Program, provide you with ***"cost factors".***

PENSION EXPENSE

The Office of Personnel Management actuaries begin the process of determining the costs factors by calculating the value of pension benefits expected to be paid in the future. This calculation is based in large measure on assumptions they make about the future; both economic (inflation, interest rates, and future salary levels) and demographic (e.g., rates of retirement, mortality, and separation). After they

calculate future benefits, the actuaries determine the amount of money that must be contributed by and for covered employees to pay for it. Using an actuarial cost method, the actuaries determine the percentage of an employee's pay that would be sufficient to fund his/her projected pension benefit. The "cost factors" for the Civil Service and Federal Employees Retirement Systems are these percentages of pay; they are also referred to as "normal cost" rates.

In February 1997, the Board of Actuaries of the Civil Service Retirement and Disability Fund (CSRDF) adopted new economic and demographic assumptions. The new assumptions have resulted in lower 1997 cost factors for both the Federal Employees Retirement System (FERS) and Civil Service Retirement System (CSRS). Although the new cost factors were not effective until October 1, 1997, for agency contribution purposes, they must be used to compute your 1997 Employer's Pension expense.

Federal Employees Retirement System (FERS). The law requires that FERS be fully funded. That means the amount contributed by and for FERS-covered employees must be sufficient to cover the projected cost of providing a basic pension benefit to them when they retire. For "regular" FERS employees, this amount is 11.5 percent of pay. Thus, for regular FERS employees, the cost factor for 1997 is *11.5 percent of basic pay*. [Note that this cost factor pertains to the basic-benefit component of FERS only -- not to the Thrift Savings Plan or Social Security components.]

Civil Service Retirement System (CSRS). Most employees and their employers each contribute seven percent of basic pay for CSRS coverage. The combined 14 percent of basic pay contributed by and for these "regular" CSRS-covered employees, however, is less than the amount calculated to be sufficient to pay for the projected CSRS benefit. The amount that, in fact, would be required to fund fully the projected CSRS benefit, for regular CSRS-covered employees, is 24.2 percent of basic pay. Thus, for regular CSRS employees, the cost factor for 1997 is *24.2 percent of basic pay*.

Your agency may employ other categories of CSRS and FERS employees in addition to "regular" employees. The chart below presents the major categories of CSRS and FERS coverage and the 1997 cost factors pertaining to each:

Classification	CSRS Cost Factor	FERS Cost Factor
Regular	24.2	11.5
CSRS-offset	14.8	n/a
Law enforcement officers	40.0	24.6
Air traffic controllers	31.9	23.1
Members of Congress	29.3	16.5
Congressional employees	32.5	16.7
Military reserve technicians	n/a	11.9

To calculate your Employer's Pension Expense, perform the following steps:

1. Determine the basic pay of employees subject to CSRS or FERS withholdings for each CSRS and FERS category. *[Basic pay is short for the "annual basic salary or compensation"; it does not generally include bonuses, allowances, overtime, holiday, or military pay.* ***The CSRS and FERS Handbook****, Chapter 30, contains a complete definition of basic pay; your payroll and personnel office should have a copy.]*

2. Multiply the basic pay for each category by the associated cost factor.

3. Compute the grand total of all of the individual computations performed in Step 2 -- this is your "normal cost".

4. Subtract the contributions deducted from the pay of all CSRS and FERS-covered employees -- this is your *Employer's Pension Expense*.

For a simplified illustration of the computation of Employer's Pension Expense, take the case of fictional Agency XYZ. Agency XYZ, which has 50 "regular" CSRS-covered employees and 25 "regular" FERS, computes its 1997 Employer's Pension Expense, as follows:

	A	B	C	D	E	F
	Basic Pay in 1997	Cost Factor (%)	Normal Cost [AxB]	1997 Employer Cont.	1997 Employee Cont.	Employers Pension Expense [C-E]
CSRS	$2,500,000	24.2	$605,000	$175,000	$175,000	$430,000
FERS	$1,250,000	11.5	$143,750	$142,500*	$10,000	$133,750
Total			$748,750	$317,500	$185,000	*$563,750*

* During 1997, actual FERS agency contributions were 11.4 percent of pay, based on a normal cost of 12.2 percent.

Agency XYZ's Employer's Pension Expense for 1997 would be $563,750.

OTHER RETIREMENT BENEFITS

The postretirement benefits administered by the Office of Personnel Management are the Federal Employees Health Benefits Program (FEHB) and the Federal Employees Group Life Insurance Program (FEGLI). So that you may compute your Employer's Other Retirements Benefit Expense, SFFAS-5 requires that we, as administrators of the FEHB and FEGLI, provide you with the necessary cost factors.

Past Accounting Practice. Prior to SFFAS-5, postretirement health benefits and life insurance were accounted for on the cash basis of accounting. The Civil Service Retirement and Disability Fund would recognize an expense at the time it made a contribution (drawn from an appropriation account) to the retiree's health benefits and life insurance premiums. Employing agencies would recognize **no** expense whatsoever for the cost to provide health benefits and life insurance for their retirees.

SFFAS-5 Requirements. SFFAS-5 prohibits the cash basis of accounting for postretirement benefits. It requires employing agencies to recognize an expense for the Government's cost of providing health benefits and life insurance to their employees after they retire. This expense is called the Employer's Other Retirement Benefits (ORB) Expense.

Employer's Other Retirement Benefits (ORB) Expense - FEHB

In accordance with SFFAS-5, we have computed the cost factor you will need to determine your Employer's ORB Expense relating to the FEHB for 1997. The cost factor is ***$2,493 per employee*** enrolled in the FEHB. To compute your Employer's ORB Expense, related to the FEHB, follow the following steps:

1. To compute average enrollment, determine your enrollment in the FEHB Program at three points-in-time during fiscal year 1997 -- on October 1, 1996; March 31, 1997; and September 30, 1997.

2. Multiply your October 1, 1996, enrollment by 1; your March 31, 1997, enrollment by 2; and your September 30, 1997, enrollment again by 1.

3. Divide the total computed in Step 2 by 4 -- this is your average FEHB enrollment in 1997.

4. Multiply the average FEHB enrollment determined in Step 3 by the cost factor -- this is your *Employer's ORB Expense relating to the FEHB*.

For example, assume Agency XYZ has the following enrollment in the FEHB -- 70 on October 1, 1996; 66 on March 31, 1997; and 60 on September 30, 1997. XYZ would compute its ORB Expense relating to the FEHB, as follows:

	10/1/96	3/31/97	9/30/97
Enrollment in FEHB	70	66	60
Multiplier	1	2	1
Product	70	132	60
Total	262		
Divisor	4		
Average Enrollment	65.5		
Cost Factor	$2,493		
Employer's ORB Expense - FEHB	$163,292		

Employer's ORB Expense - FEGLI

In accordance with SFFAS-5, we have computed the cost factor you would use to determine your Employer's ORB Expense relating to the Federal Employees Group Life Insurance (FEGLI) Program. The cost factor for 1997 is ***.02 percent of basic pay.*** Thus, employers would recognize an Employer's ORB Expense relating to the Federal Employees Group Life Insurance Program of .02 percent of the basic pay paid to each employee enrolled in the FEGLI Program in 1997.

Assume Agency XYZ had 50 employees enrolled in FEGLI in 1997. These employees received basic pay of $2,500,000 in 1997. XYZ's Employer's ORB Expense relating to FEGLI for 1997 would be **$500** [$2,500,000 basic pay times .02 percent].

If you have any questions about any of the matters discussed in this letter, please contact us on 202-606-0667.

Kathleen M. McGettigan

Kathleen M. McGettigan
Assistant Director
for Systems, Finance and Administration

J. Gilbert Seaux

J. Gilbert Seaux
Chief Financial Officer