

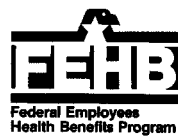
# Office of Personnel Management Retirement and Insurance Service



1920



1954



1959



1986

## Federal Employee Benefit Programs FINANCIAL MANAGEMENT LETTER

Number: F-98-07

Date: October 19, 1998

**Subject: 1998 Cost Factors for Pension and Other Retirement Benefits Expenses**

As required by Statement of Federal Financial Standards No. 5 (SFFAS-5) -- *Liabilities of the Federal Government* – we are providing you with the “costs factors” for the Federal civilian benefit programs. These factors will enable you to determine your “service costs” for pensions and other retirement benefits (ORB), as they relate to the Civil Service Retirement System (CSRS), Federal Employees Retirement System (FERS), Federal Employees Health Benefits Program (FEHB) and Federal Employees Group Life Insurance Program (FEGLI).

### PENSIONS

#### **CIVIL SERVICE RETIREMENT SYSTEM**

**Service Cost** represents an estimate of the amount of funds which, if accumulated annually and invested over the careers of covered employees, will be enough to pay their future benefits. For most “regular” CSRS covered employees, the service cost is 24.2 percent of basic pay<sup>1</sup>. Since this exceeds the 14 percent of basic pay that is contributed by and for covered employees, the CSRS is less than fully funded. Employing agencies must recognize the difference between the service cost and the contributions by and for their employees as an *imputed financing source*.

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<sup>1</sup> See CSRS/FERS Handbook, Section 30A1.1-2 for definition of basic pay.

Attachment A presents the 1998 cost factors for all categories of CSRS coverage, expressed as a percentage of basic pay. Please note that the 1998 cost factor for “regular” coverage, under which the vast majority of employees are covered, is 24.2 percent of basic pay, the same as the 1997 factor.

### ***FEDERAL EMPLOYEES RETIREMENT SYSTEM***

Unlike the CSRS, FERS is a fully funded retirement plan. That is, the cost of FERS is financed completely by contributions made by and for covered employees. As a consequence, no imputed financing sources are necessary for FERS. The 1998 cost factors for FERS are presented as Attachment B.

### ***CALCULATION OF IMPUTED FINANCING FOR PENSIONS***

To determine the amount of imputed financing you must recognize for the CSRS and FERS, follow these steps:

1. Determine the basic pay of covered employees in each category of CSRS and FERS coverage.
2. Multiply the basic pay for each category of covered employee by the associated cost factor.
3. Compute the grand total of each of the individual calculations in step 2 for both CSRS and FERS -- this is your service cost.
4. Subtract, from the amount derived in step 3, the total contributions by and for all employees covered by CSRS and FERS. This is your imputed financing.

For your information, Attachment C is a comprehensive illustration provided by the Financial Management Service of the entries needed to record pension cost.

### ***ILLUSTRATION: CALCULATION OF IMPUTED FINANCING FOR PENSIONS***

Agency XYZ as “regular” CSRS employees, who earn total basic pay of \$500,000, and “regular” FERS employees, who earn basic pay of \$250,000.

Contributions by and for these employees during 1998 were \$106,300, computed as follows:

	A	B	C	D	E	F
	Annual Gross Basic Pay	Employee Withholding Rate (%)	Agency Contribution Rate (%)	Employee Deductions [A*B]	Employer Contributions [A*C]	Total Contributions [D+E]
CSRS	\$500,000	7.00	8.51	\$35,000	\$42,550	\$77,550
FERS	\$250,000	.80	10.7	\$2,000	\$26,750	\$28,750
TOTAL				\$37,000	\$69,300	\$106,300

After it receives the cost factors, the agency computes its imputed financing cost as \$43,450, as follows:

	A	B	C	D	E
	Annual Basic Pay	Cost Factor (%)	Service Cost [A*B]	Total Annual Contributions	Imputed Financing [C - D]
CSRS	\$500,000	24.2	\$121,000	\$77,550	\$43,450
FERS	\$250,000	11.5	\$28,750	\$28,750	\$0
TOTAL			\$149,750	\$106,300	\$43,450

### OTHER RETIREMENT BENEFITS – HEALTH BENEFITS

We have computed the cost factor you need to determine your cost for postretirement health benefits. The cost factor for 1998 is *\$2,529 per employee enrolled* in the FEHB. Since neither your agency nor your employees make any contributions for postretirement health benefits, the *entire service cost must be recognized as an imputed cost*.

To determine your service cost , perform the following steps:

1. Determine enrollment in the FEHB at three points in time: October 1, 1997; March 31, 1998; and September 30, 1998.
2. Multiply the October 1, 1997 enrollment by one; the March 31, 1998

enrollment by two; and the September 30, 1998 enrollment by one.

3. Calculate the grand total of each of the individual computations in step 2.
4. Divide the total in Step 3 by four – this is your computed FEHB enrollment.
5. Multiply the computed FEHB enrollment by the FEHB cost factor – this is your *service cost*.

**ILLUSTRATION: CALCULATION OF IMPUTED FINANCING FOR HEALTH BENEFITS**

	10/1/97	3/31/98	9/30/98
Enrollment	70	66	60
Multiplier	1	2	1
Product	70	132	60
Total			262
Divide Total by 4 = COMPUTED ENROLLMENT			65.5
Cost Factor			\$2,529
<b>SERVICE COST = Computed Enrollment * Cost Factor</b>			<b>\$165,650</b>

**OTHER RETIREMENT BENEFITS – LIFE INSURANCE**

The 1998 cost factor for FEGLI is the same as in 1997, that is, *.02 percent of basic pay*. You would use this cost factor to determine your imputed financing cost.

**ILLUSTRATION: CALCULATION OF IMPUTED FINANCING FOR LIFE INSURANCE**

You will recall that the employees in Agency XYZ above earned a total basic pay of \$750,000. The agency would determine its imputed financing cost for post-retirement life insurance by multiplying this total basic pay by the cost factor of .02 percent. The cost would be \$150 [ $\$750,000 * .0002$ ].

**ASSURANCE FOR AUDITORS**

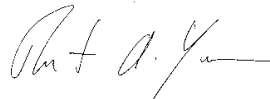
The cost factors (service costs) for regular CSRS and FERS coverage were disclosed in

the footnotes accompanying the 1997 Retirement Program financial statements. The financial statements were audited by the independent public accounting firm of KPMG Peat

Marwick (KPMG), which issued an unqualified opinion on them. As the cost factors for “regular” CSRS and FERS employees (the vast majority) did not change for 1998, we believe your auditors can rely upon their validity.

### **INQUIRIES**

If you have any questions about the cost factors or the manner in which they were computed, please contact the Financial Policy Staff on 202-606-0606 or email us at [finance@opm.gov](mailto:finance@opm.gov). If your questions concern the accounting entries in Attachment C, they should be referred to the Financial Management Service on 202-874-6308.



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**Robert A. Yuran, Chief  
Financial Policy Staff  
Retirement and Insurance Service**

**Attachments (3)**



## COST FACTORS - CSRS

CATEGORY	1998 COST FACTOR (%)
Regular	24.2
Regular offset <sup>2</sup>	19.3
Law enforcement officers	40.0
Law enforcement officers - offset <sup>2</sup>	36.2
Air traffic controllers	31.9
Air traffic controllers - offset <sup>2</sup>	28.2
Members of Congress	29.3
Members of Congress - offset <sup>2</sup>	27.0
Congressional employees	32.5
Congressional employees - offset <sup>2</sup>	27.8

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<sup>2</sup> Offset employees contribute a percentage of basic pay equal to the full CSRS contribution rate for their category of coverage minus the OASDI tax rate. When total basic pay reaches the Social Security maximum taxable wage, the withholding rate reverts to the full CSRS withholding rate.

**COST FACTORS - FERS**

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



**PENSION COST ENTRIES**  
*[Provided by the Financial Management Service]*

**SCENARIO**

An agency has one employee, who makes \$26,000 per year of basic pay or \$1,000 per pay period. Since he is a “regular” CSRS employee, he contributes 7% of his salary to the Civil Service Retirement and Disability Fund and the agency contributes 8.51%. For the sake of simplicity, the only deduction made from the employee’s salary is his contributions to the CSRS. Entries to record payroll expense and the employer’s portion of pension expense for contributions are made biweekly.

**ACCRUAL ENTRY**

Biweekly entries to record accrued payroll and contributions are, as follows [entries are coded as “N” or “G” for elimination purposes on the Consolidated Financial Statements]:

6100N Operating/Program Expense (payroll)	1,000	
6400G Benefit Program Expense (6100G may also be used)	85	
2210N Accrued Funded Payroll & Benefits (employee pay, net)		930
2210N Accrued Funded Payroll & Benefits (employee contribution)		70
2210G Accrued Funded Payroll & Benefits (employer contribution)		85

**CASH ENTRY**

When the employee is paid, the entries are as follows:

2210N Accrued Funded Payroll & Benefits (employee pay, net)	930	
2210N Accrued Funded Payroll & Benefits (employee contribution)	70	
2210G Accrued Funded Payroll & Benefits (employer contribution)	85	
1010 Fund Balance with Treasury		1,085

*- - and, if paid from an appropriation –*

3100 Unexpended Appropriations	1,085	
5700 Appropriations Used		1,085

*Note: If the fiscal year-end falls in the middle of a pay period, an expense for the closing fiscal year must be accrued. This accrual must be reversed at the beginning of the new year.*

**IMPUTED FINANCING ENTRY**

At fiscal year-end, the entry to record cost that will be covered by imputed financing is calculated. \$6,292 [24.2% of \$26,000] is the service cost of CSRS for this year. Employees have contributed 7% or \$1,820 for the year and the agency has contributed another 8.51% or \$2,213. \$2,259 [\$6,292 - \$1,820 - \$2,213] of additional cost will be “financed” by an imputed financing source.

For FY 1998 reporting, the SGL Board implemented an Imputed Financing Sources account. The entry will be:

6400G Benefit Program Expense	2,259	
– or –		
6100G Operating Expenses/Program Costs		
5780 Imputed Financing Sources (“G” by definition)		2,259

For FY 1999 reporting, the SGL Board has voted to implement an “Imputed Cost” account and delete account 6400. The entry will be:

6730 Imputed Cost (“G” by definition)	2,259	
5780 Imputed Financing Sources (“G” by definition)		2,259