

Office of Personnel Management
Retirement and Insurance Service



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Administration Letter

Number: 95-103

Date: July 6, 1995

SUBJECT: The Congressional Budget: Potential Benefit Program Changes

On June 29, 1995, the Senate and the House of Representatives passed the Congressional budget for fiscal year 1996 (House Concurrent Resolution 67). The budget resolution represents Congress's plan to balance the Federal budget by 2002. The resolution suggests certain changes in the Civil Service Retirement System (CSRS), the Federal Employees Retirement System (FERS), and the Federal Employees Health Benefits Program (FEHBP).

No changes in CSRS, FERS, or the FEHBP have been enacted. The budget resolution does not include any changes in law and therefore does not have to be signed by the President. It sets guidelines for further Congressional action, with spending limits and assumptions as to how spending can be reduced. Before any of the changes listed can take effect, the statutes governing these programs would have to be amended by Congress in separate legislation. It is likely that no specific legislation to make these changes will be approved before September.

The Conference Report for the budget resolution contains information that generally reflects House-Senate agreement in principle as to how Government savings can be achieved. The Conference Report and the resolution itself do not contain details of proposed changes, other than those given below. The next step in the process is for the Congressional committees responsible for these areas of the law to consider the proposals in detail. We will inform you of any significant developments.

Average Salary

- N** The average salary used in the computation of CSRS and FERS annuities would be changed from a high-3 to a high-5 year basis.
- N** We understand that the intention is to phase in this change with a high-4 for retirements in calendar year 1997, moving to a high-5 the following year.

N Neither the budget resolution nor the Conference Report mentions grandfathering under a high-3 or an exemption for any special group.

Contributions

N Employees' retirement deductions would go up by 1/4% in 1996 and an additional 1/4% in 1998, for a total increase of 1/2%.

N The Conference Report specifically states the savings represented by the increase in employee deductions may be substituted for with "some other changes in federal employee policies that would be sufficient to achieve these savings."

N CSRS agency contributions would be increased by 1% beginning in 1996.

N FERS agency contributions would be decreased by the amount of any employee deduction increase.

N Neither the resolution nor the Conference Report is specific as to whether the changes would occur on a fiscal year or calendar basis.

Members and Congressional Employees

N The annuity computation formula for Members of Congress and Congressional employees would be changed under CSRS and FERS to be the same as for employees generally.

Commission to Study Retirement Systems

N The budget resolution calls for a high-level commission to be formed to study the problems associated with the Federal civilian and military retirement systems and to make recommendations that will ensure the long-term solvency of Federal retirement funds.

Health Benefit Government Contributions

- N** The future Government contribution would be a fixed dollar amount, rather than an amount based on the average premium of the "big-6" health plans. This fixed dollar amount would increase based on CPI increases. This change is intended to encourage Federal employees to make more cost-effective decisions in choosing their health plans; Federal employees who choose more expensive health plans would bear the full economic burden above the amount of the fixed Government contribution.

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- N** OPM would be downsized and become a Civil Service Commission. Retirement and insurance functions would remain centralized. Most other functions would be delegated to agencies.

Update on H.R. 1215: Benefits Administration Letter 95-102 dated April 7, 1995, addresses this House-passed legislation, which, if enacted, would affect CSRS and FERS. This bill is pending in the Senate and no action on it is currently scheduled.

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