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Retirement Benefits for Members of Congress

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Summary

Prior to 1984, neither federal civil service workers nor Members of Congress paid taxes to Social Security, nor were they eligible for Social Security benefits. Members of Congress and other federal employees were instead covered by a separate pension plan called the Civil Service Retirement System (CSRS). The 1983 amendments to the Social Security Act (P.L. 98-21) required federal employees first hired after 1983 to participate in Social Security. These amendments also required *all* Members of Congress to participate in Social Security as of January 1, 1984, regardless of when they first entered Congress. Because the CSRS was not designed to coordinate with Social Security, Congress directed the development of a new retirement plan for federal workers. The result was the *Federal Employees' Retirement System Act of 1986* (P.L. 99-335).

Members of Congress first elected in 1984 or later are covered automatically under the Federal Employees' Retirement System (FERS), unless they decline this coverage. Those who already were in Congress when Social Security coverage went into effect could either remain in CSRS or change their coverage to FERS. Members are now covered under one of four different retirement arrangements:

- Full coverage under both CSRS and Social Security;
- The "CSRS Offset" plan, which includes both CSRS and Social Security, but with CSRS contributions and benefits reduced by Social Security contributions and benefits;
- FERS plus Social Security; or
- Social Security alone.

Congressional pensions, like those of other federal employees, are financed through a combination of employee and employer contributions. All members pay Social Security payroll taxes equal to 6.2% of the Social Security taxable wage base ($76,200 in 2000). Members covered by FERS also pay 1.3% of full salary to the Civil Service Retirement and Disability Fund. Members covered by CSRS Offset pay 1.8% of the first $76,200 of salary, and 8.0% of salary above this amount, into the Civil Service Retirement and Disability Fund. (An additional 0.4% of pay is being deducted for FERS and CSRS in 2000, as required by Public Law 105-33).

Under both CSRS and FERS, Members of Congress are eligible for a pension at age 62 if they have completed at least 5 years of service. Members are eligible for a pension at age 50 if they have completed 20 years of service, or at any age after completing 25 years of service. The amount of the pension depends on years of service and the average of the highest 3 years of salary. By law, the starting amount of a Member's retirement annuity may not exceed 80% of his or her final salary.

As of October 1, 1998, 413 retired Members of Congress were receiving federal pensions based fully or in part on their congressional service. Of this number, 367 had retired under CSRS and were receiving an average annual pension of $50,616. Forty-six Members had retired either with service under both CSRS and FERS or with service under FERS only. Their average annual pension was $46,908 in 1998.

Contents

List of Tables

Retirement Benefits for Members of Congress

Background on Congressional Pensions

The Civil Service Retirement Act of 1920 (P.L. 66-215) established a pension system for federal employees in the executive branch of government. Coverage under the Civil Service Retirement System (CSRS) was extended to Congress in January 1942 by P.L. 77-411. That law was repealed just 2 months later in response to adverse public opinion. In 1946, P.L. 79-601 again extended CSRS coverage to Congress, at the option of Members, with higher contributions and greater benefits than those applicable to regular federal employees. In reference to that legislation, S.Rept. 79-1400 (May 31, 1946) stated that a retirement plan for Congress:

> *would contribute to independence of thought and action, [be] an inducement for retirement for those of retiring age or with other infirmities, [and] bring into the legislative service a larger number of younger Members with fresh energy and new viewpoints concerning the economic, social, and political problems of the Nation.*

The *Social Security Amendments of 1983* (P.L. 98-21) required all federal employees hired in 1984 or later to participate in Social Security. These amendments also required *all* Members of Congress to participate in Social Security as of January 1, 1984, regardless of when they first entered Congress. The Civil Service Retirement System, having been established in 1920, predated passage of the Social Security Act by 15 years. Requiring federal workers to participate in both CSRS and Social Security would have duplicated some benefits and would have resulted in employee payroll deductions for the two programs that in 2000 would exceed 13% of pay. After mandating Social Security coverage of new federal employees beginning in 1984, Congress directed the development of a new retirement plan for federal workers with Social Security coverage as its foundation. The result of this effort was the *Federal Employees' Retirement System Act of 1986* (P.L. 99-335).

When the Federal Employees' Retirement System (FERS) went into effect in 1987, employees first hired in 1984 or later were automatically enrolled in this plan. Employees who had been in the federal government before 1984 were given the option to remain in CSRS – without Social Security coverage – or to switch to FERS. The options for Members of Congress differed from those available to other federal employees, because the 1983 amendments required *all* Members of Congress to participate in Social Security. Members first elected in 1984 or later were given the option to enroll in FERS as well as being covered by Social Security, or to be covered *only* by Social Security. Members who had been in Congress before 1984 could elect to stay in CSRS in addition to being covered by Social Security; to elect coverage under an "offset plan" that integrates CSRS and Social Security; to elect coverage under FERS in addition to being covered by Social Security; or to be covered *only* by Social Security.[1]

Because of the uncertain tenure of congressional service, FERS was designed, as CSRS had been, to provide a larger benefit for each year of service to Members of Congress and congressional staff than to most other federal employees. Members of Congress also become eligible for retirement annuities under CSRS and FERS at an earlier age and with fewer years of service than most other federal employees. However, Members of Congress and congressional staff pay a higher percentage of salary for their retirement benefits than do most other federal employees.

As of October 1, 1998, 413 retired Members of Congress were receiving federal pensions based fully or in part on their congressional service. Of this number, 367 had retired under CSRS and 46 had retired either with service under both CSRS and FERS or with service under FERS only. Those who had retired under CSRS were, on average, 75.5 years old and had 20.0 years of federal service. Their average annual CSRS annuity in was $50,616. Those who had retired under FERS had an average age of 68.3 years and 21.6 years of federal service. Their average annual retirement annuity was $46,908 in 1998.

Retirement Plans Available to Members of Congress

Members First Elected Before 1984. Members of Congress who were first elected before 1984 may be covered under one of four retirement plans:

- *Dual coverage.* This is full coverage by both CSRS and Social Security.
- *CSRS Offset.* This is coverage by CSRS and Social Security, but with CSRS contributions and benefits reduced ("offset") by the amount of Social Security contributions and benefits.
- *FERS.* This is comprised of the FERS basic annuity, Social Security, and the Thrift Savings Plan (TSP).
- *Social Security only.* This occurs if the Member declines other coverage.

Members and other federal employees who were covered under CSRS had the opportunity to switch to FERS during two 6-month "open seasons" in 1987 and 1998.

Members First Elected Since 1984. Members of Congress who were first elected in 1984 or later are covered by the Federal Employees' Retirement System

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[1] Under the "Offset Plan," payroll deductions go partly to Social Security and partly to the Civil Service Retirement and Disability Fund. In retirement, the individual's CSRS pension is reduced ("offset") by the amount of his or her Social Security benefit.

unless they decline this coverage, in which case they are covered only by Social Security. FERS is comprised of three elements:

- *Social Security*,
- the FERS *basic annuity*, a monthly pension based on years of service and the average of the 3 highest consecutive years of basic pay,
- the *Thrift Savings Plan (TSP)*, into which participants can deposit up to 10% of base pay before taxes while receiving employer matching contributions of up to 5% of pay.

Members who enter Congress with at least 5 years of previous federal employment covered by CSRS can choose to participate in the CSRS Offset plan rather than FERS.

Age and Length-of-Service Requirements

Members become *vested* in (legally entitled to) pension benefits under CSRS or FERS after 5 years of service. The age and service requirements for retirement eligibility are determined by the plan under which a Member is covered *at the time of retirement*, regardless of whether he or she has previous service covered under a different plan.[2] Depending on a Member's age and years of service, a pension can be taken immediately upon retirement or only on a deferred basis. Likewise, the Member's age and years of service, as well as the starting date of the annuity, will determine whether he or she is eligible for a full pension or a reduced pension.

Retirement Under CSRS. Four retirement scenarios are possible for Members covered by CSRS or the CSRS Offset Plan:

> ***Retirement with an immediate, full pension*** is available to Members age 60 or over with 10 years of service in Congress, or age 62 with 5 years of civilian federal service, including service in Congress.
>
> ***Retirement with an immediate, reduced pension*** is available to Members ages 55 to 59 with at least 30 years of service. It is also allowed if the Member separates for a reason other than resignation or expulsion after having completed 25 years of service, or after reaching age 50 and with 20 years of service, or after having served in nine Congresses.[3]

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[2] In general, active duty military can be counted toward retirement eligibility (but cannot be counted toward 5 year vesting). However, in order for military service to count toward the amount of one's retirement annuity, the individual must make a deposit to the Civil Service Retirement and Disability Fund in the amount that would have been withheld if retirement deductions had been made during the years of military service, plus accrued interest.

[3] The pension is reduced by 1/12 of 1% for each month not in excess of 60 months, and 1/6 of 1% for each month in excess of 60 months that the Member is under age 60 at the date of separation. Reasons for separation "other than resignation or expulsion" include both choosing not to seek re-election and not winning re-election.

> ***Retirement with a deferred, full pension*** is available if the Member leaves Congress before reaching the minimum age required to receive an immediate, unreduced pension and delays receipt until reaching the age at which full benefits are paid. A full pension can be taken at age 62 if the Member had 5 through 9 years of federal service, or at age 60 if the Member had at least 10 years of service in Congress. At the time of separation, the Member must leave all contributions in the plan in order to be eligible for the deferred pension.
>
> ***Retirement with a deferred, reduced pension*** is available to a Member at age 50 if he or she retired before that age and had at least 20 years of federal service, including at least 10 years as a Member of Congress.

Retirement Under FERS. There are four possible retirement scenarios for Members who are covered by FERS:

> ***Retirement with an immediate, full pension*** is available to Members at age 62 or older with at least 5 years of federal service; at age 50 or older with at least 20 years of service; and at any age to Members with at least 25 years of service.
>
> ***Retirement with an immediate, reduced pension*** is available at age 55 to Members born before 1948 with at least 10 years of service. The minimum age will increase to 56 for Members born from 1953 through 1964 and to 57 for those born in 1970 or later.
>
> ***Retirement with a deferred, full pension*** is available at age 62 to former Members of Congress with at least 5 years of federal service.
>
> ***Retirement with a deferred, reduced pension*** is available at the minimum retirement age of 55 to 57 (depending on year of birth) to a former Member who has completed at least 10 years of federal service. The pension annuity will be permanently reduced if it begins before age 62.[4]

Coordination of FERS Benefits with Social Security. The FERS basic annuity was designed to supplement Social Security retirement benefits. FERS retirees under age 62 who retire with an *unreduced* pension are eligible for a temporary supplement to their FERS pension to fill in until Social Security eligibility is reached at age 62. The supplement is an amount estimated to equal the Social Security benefits accrued from federal service, and is paid from the time of retirement until age 62. The FERS supplement ends at age 62 regardless of whether the individual applies for Social Security at that time. Like Social Security benefits paid before the full retirement age (currently 65), the supplement *reduced* if the retiree has earnings above a specified annual limit. This "FERS supplement" is payable to Members who retire at ages 55 to 57 (depending on year of birth) or older with at

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[4] The pension is reduced by 5% for each year the Member is under age 62 when the pension begins (unless the Member had completed 20 or more years of service).

least 20 years of service. A former Member with at least 20 years of service also may begin to draw the supplement upon reaching age 55-57.[5]

Social Security Retirement Benefits. Since January 1, 1984, *all* Members of Congress have been required to pay Social Security taxes. The laws governing payment of Social Security taxes and eligibility for Social Security benefits apply to Members of Congress in the same way they apply to any other covered worker.

> ***Retirement with full benefits***. The "full retirement age" under Social Security is currently 65. Forty quarters of covered employment are required to be eligible for retired worker benefits.[6] Under current law, the age for full benefits will gradually increase, beginning with people born in 1937, until it reaches age 67 for those born in 1960 or later.
>
> ***Retirement with reduced benefits***. The earliest that retired worker benefits can be taken under Social Security is age 62. Benefits taken at 62 are permanently reduced to approximately 80% of the full benefit that would be payable at age 65. Reduced Social Security benefits still will be available at age 62 after the age for full benefits has been raised to 67; however, the monthly benefit paid at 62 then will be only 70% of the amount that would be paid if benefits were deferred until age 67.

Social Security Earnings Limit. Social Security benefits are reduced for beneficiaries under age 65 who have earnings from paid employment that exceed thresholds that are defined in statute. In 2000, Social Security beneficiaries under age 65 are subject to a reduction in benefits if their annual earnings exceed $10,080 ($840 per month). The earnings threshold is adjusted annually for average wage growth in the U.S. economy. Beneficiaries under age 65 lose $1 in benefits for every $2 in earnings above the threshold. Retirees age 65 or older receive full benefits regardless of earnings.

The Thrift Savings Plan: An Integral Component of FERS. The Thrift Savings Plan (TSP) is a defined contribution retirement plan similar to those authorized under Section 401(k) of the tax code for employers in the private sector. For all federal employees covered by FERS, their employing agency contributes an amount equal to 1% of base pay to the TSP, whether or not the employee chooses to contribute anything to the plan. Employees covered by FERS can make voluntary contributions of as much as 10% of pay up to an annual limit that is set each year by the Internal Revenue Service ($10,500 in 2000). Employee contributions of up to 5% of pay are matched by the employing agency. Contributions are made on a pre-tax basis, and neither the contributions nor investment earnings that accrue to the plan are taxed until the money is withdrawn from the account. Employees covered by CSRS

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[5] Members, former Members and Congressional staff can receive an unreduced annuity (and the FERS supplement) with at least 20 years of service, provided they have reached the minimum retirement age of 55 to 57. Regular civil servants must complete at least 30 years of service and reach the minimum retirement age of 55 to 57 before they are eligible to receive an unreduced pension and the FERS supplement.

[6] Fewer quarters of covered employment are required for individuals born before 1929.

can participate in the TSP, but their contributions are limited to 5% of pay, and they receive no employer matching contributions. (See page 11 for more information on the Thrift Savings Plan.)

Required Contributions To Retirement Programs

CSRS. Regular federal employees covered by CSRS contribute 7.0% of pay to the Civil Service Retirement System. Their employing agencies contribute a further 7.0% of payroll to the CSRS on behalf of these workers. Members of Congress who are covered by CSRS are required to contribute 8.0% of salary to the plan, and the Congress of the United States makes an employer contribution of 8.0% of payroll on their behalf.

CSRS Offset. A Member of Congress who is covered by the CSRS Offset plan contributes 1.8% of pay up to the Social Security taxable wage base ($76,200 in 2000), and 8.0% of pay above this amount, to the CSRS.

FERS. Regular federal employees contribute 0.8% of pay to the Federal Employees' Retirement System and their employing agencies contribute an amount equal to about 11% of pay.[7] Members of Congress and congressional staff pay 1.3% of salary for FERS coverage, and the Congress pays approximately 11% of payroll as the employer contribution for Members and congressional staff covered by FERS.

Temporary Increase in Employee Contributions to CSRS and FERS. Under the terms of the *Balanced Budget Act of 1997* (P.L. 105-33), contribution rates for all federal employees covered by either CSRS or FERS, including Members of Congress, rose by 0.25% in January 1999 and by a further 0.15% on January 1, 2000. Employee contribution rates will increase by another 0.10% in 2002. Employee contributions will revert to the 1998 levels after December 31, 2002. The increases in employee contributions to CSRS and FERS were adopted as a deficit-reduction measure. Pension benefits accrued by federal workers will not increase as a result of the temporarily higher employee contributions to CSRS and FERS mandated by the Balanced Budget Act.

In the 106th Congress, **H.R. 2631 (Davis/VA)** and **S. 1472 (Sarbanes)** would repeal the increases in employee contributions mandated by the Balanced Budget Act. The President's proposed budget for FY2001 includes a legislative initiative to repeal the increase in employee contributions required by the BBA. Repeal of the increased contributions to FERS and CSRS also has been included in **H.R. 4871** and **S. 2900**, the House and Senate appropriations bills for FY2001 for the Treasury Department, Postal Service, and Civil Service. H.R. 4871, however, would require Members of Congress to continue paying the higher contribution rates mandated by the Balanced Budget Act until the scheduled expiration date of December 31, 2002.

Social Security Payroll Taxes. All Members of Congress pay Social Security payroll taxes, regardless of their other retirement plan coverage. In 2000, the Social

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[7] The employer contribution to FERS varies slightly from year to year based on estimates of the actuarial cost of the program made by the Office of Personnel Management.

Security tax rate of 6.2% is applied to gross wages up to $76,200. The Social Security *taxable wage base* is adjusted each year for wage growth in the economy.[8] Members of Congress, like all other workers covered by Social Security, pay Medicare Hospital Insurance taxes on *all* earnings at a rate of 1.45% of pay in 2000.

Total Payroll Deductions. Total payroll deductions for federal retirement programs depend on the combination of programs by which a Member is covered. The *required* payments are exclusive of any *voluntary* investments in the Thrift Savings Plan (TSP). These are the required contributions in 2000, including the additional contributions to CSRS and FERS mandated by the Balanced Budget Act[9]:

> ***Dual Coverage***. Members with full CSRS coverage plus Social Security contribute 14.6% of the first $76,200 of salary (8.4% to CSRS plus 6.2% to Social Security). They pay 8.4% to CSRS on salary above $76,200.
>
> ***CSRS Offset***. Members in the CSRS Offset Plan pay 6.2% to Social Security and 2.2% to CSRS on the first $76,200 of salary. They pay 8.4% to CSRS on salary above $76,200.
>
> ***FERS***. Members covered by FERS pay 6.2% to Social Security and 1.7% to FERS on the first $76,200 of salary. They pay 1.7% to FERS on salary above $76,200.
>
> ***Social Security***. *All* Members pay 6.2% of their first $76,200 in gross wages to Social Security. The taxable wage base of $76,200 is indexed to national average wage growth and is adjusted annually.

Pension Plan Benefit Formulas

Pension benefits under both CSRS and FERS are computed according to: (1) the retiree's *average annual salary for the 3 consecutive years of highest pay* (known as "high-3" salary); (2) the *number of years of service* covered by the pension plan; and, (3) the *"accrual rate"* at which benefits accumulate for each year of service. The pension is the product of these factors, expressed as:

High-3 Salary	x	Years of Service	x	Accrual Rate	=	Annual Pension

Pension Benefits under CSRS. The accrual rate for each year of congressional service covered by CSRS is 2.5%. Therefore, the CSRS pension equals:

High-3 Salary	x	Years of Service	x	.025	=	CSRS Pension

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[8] Social Security taxes are levied on gross wages. They are not deducted for purposes of determining adjusted gross income, as are contributions to the Thrift Savings Plan (TSP).

[9] The schedule of increased contributions required by the BBA is described on page 6.

For example, after 26 years of congressional service and a high-3 salary of \$138,233, the initial annual CSRS pension for a Member retiring in December 2000 at the end of the 106th Congress would be[10]:

$$\$138{,}233 \quad \times \quad 26 \quad \times \quad .025 \quad = \quad \$89{,}851$$

Federal law states that the maximum CSRS pension that may be paid at the *start* of retirement is 80% of the Member's final annual salary (5 U.S.C. § 8339(f)). To receive an initial pension equal to 80% of final salary, a Member must complete 32 years of congressional service covered by CSRS (32 x .025 = .80). The smallest starting pension under CSRS is 12.5% of high-3 salary with 5 years service. (A pension based on less than 10 years of service cannot be paid before age 62).

Most Members who entered Congress before 1984 and who chose to stay in the CSRS elected the "CSRS offset" plan, described on page 9. When a Member who has retired under the offset plan is age 62 or over, the CSRS pension is reduced by the amount of Social Security benefits that he or she earned during congressional service. In the example above, the offset would be approximately \$6,950 in 2001.

Pension Benefits under FERS. The accrual rate for congressional service covered by FERS is 1.7% for the first 20 years and 1.0% for each year beyond the 20th. The basic retirement annuity under FERS is equal to:

$$\left[\begin{matrix}\text{High-3}\\\text{Salary}\end{matrix} \times .017 \times \begin{matrix}\text{Years of}\\\text{Service}\\\text{through}\\\text{20}\end{matrix}\right] + \left[\begin{matrix}\text{High-3}\\\text{Salary}\end{matrix} \times .01 \times \begin{matrix}\text{Years of}\\\text{Service over}\\\text{20}\end{matrix}\right] = \begin{matrix}\text{Annual}\\\text{Pension}\end{matrix}$$

Members who began congressional service before 1984 and who elected to join FERS will receive credit toward that program from January 1, 1984, forward. Thus, at the close of the 106th Congress in 2000, FERS participants will have had a maximum of 17 years in FERS. Nevertheless, as an example of the difference in benefits between FERS and CSRS, assume that a Member retires at the end of 2000 with a full 26-year career under FERS. After 26 years of congressional service covered under FERS and a high-3 salary of \$138,233, the hypothetical initial annual FERS pension in 2001 would be:

$$[\$138{,}233 \times .017 \times 20] + [\$138{,}233 \times .01 \times 6] = \$55{,}293$$

There is no maximum pension under FERS. The smallest unreduced FERS pension is 8.5% of high-3 salary with 5 years of service (.017 x 5 years), payable at age 62. A Member with 10 years of service who takes a FERS pension at the earliest allowable age of 55 will receive a reduced pension equal to 11% of high-3 salary (.017 x 10 years, reduced by .05 times the 7-year difference between the individual's age at retirement and age 62).

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[10] Base pay for Representatives and Senators was \$136,700 in 1998 and 1999. Base pay in 2000 is \$141,300. Pay for House and Senate leadership positions is higher.

Social Security Benefits. Social Security benefits are determined by a formula based on earnings in all Social Security-covered employment. The benefit structure of Social Security was designed to replace a higher proportion of earnings for lower paid workers than for the higher paid. For example, the initial benefit payable to a worker retiring in 2000 at age 65 after having earned the federal minimum wage for his or her entire career is $631 per month, or $7,572 per year. This is equivalent to about 71% of the annual earnings of a worker employed year-round, full-time at the minimum wage in 2000.[11] For a worker whose earnings each year were equal to or greater than the Social Security maximum taxable wage base for that year, the initial benefit paid to a new retiree at age 65 in 2000 is $1,433 per month, or $17,196 per year. This is equal to about 23% of the maximum taxable wage base of $76,200 in 2000. It would represent a still smaller percentage of the annual wages of workers whose earnings exceeded the taxable wage base.

Pensions for Members with Service Under Both CSRS and FERS

Members who were participating in CSRS when the FERS plan went into effect in 1987 could elect to leave CSRS and join FERS during a 6-month "open season" in 1987.[12] Members who switched to FERS are entitled to a CSRS pension for the years before 1984, provided that they had completed at least 5 years of service under CSRS by December 31, 1983. Their service from January 1, 1984 onward is covered under FERS. When these Members retire, their pension is computed using the CSRS formula for the CSRS-covered years and the FERS formula for the years covered by FERS. The same high-3 salary is used in both formulas, which is generally the salary earned in the 3 years preceding retirement. The two pension amounts (CSRS and FERS) are then added together. For Members who switched from CSRS to FERS, FERS rules govern the age and years of service for retirement eligibility.

For example, the pension for a Representative or Senator retiring in 2000 at the end of the 106th Congress with a total of 26 years of service (9 years covered under CSRS and 17 years covered under FERS) and a high-3 salary of $138,233 would be:

$$
\begin{array}{lrcrcrcrl}
 & \$138{,}233 & \times & .025 & \times & 9 & = & \$31{,}102 & \text{(CSRS)} \\
+ & \$138{,}233 & \times & .017 & \times & 17 & = & \underline{\$39{,}949} & \text{(FERS)} \\
 & & & \multicolumn{3}{r}{\text{Total pension}} & = & \$71{,}051 &
\end{array}
$$

Retirement Benefits under the CSRS Offset Plan

Members who were participating in CSRS before January 1, 1984 and chose not to switch to FERS could elect either to have full coverage under both CSRS and Social Security or to stay in CSRS and have their CSRS contributions and benefits reduced ("offset") by the amount of Social Security taxes paid and Social Security benefits received. New Members who enter Congress with at least 5 years of previous civilian federal employment that was covered under CSRS also may join the CSRS Offset plan. Under this plan, a Members pays 6.2% of salary up to the Social

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[11] $5.15 per hour X 40 hours per week X 52 weeks = $10,712. 7,572/10,712 = .707.

[12] P.L. 101-61, enacted on October 10, 1997, authorized a second open season from July through December 1998 during which employees covered by CSRS could switch to FERS.

Security taxable maximum ($76,200 in 2000) to Social Security and 2.2% of salary up to this earnings level to CSRS. When annual earnings reach the maximum amount taxable under Social Security, the Member pays 8.4% of salary for the rest of the year to CSRS. During retirement, the individual's CSRS pension is reduced by the amount of the Social Security benefit that is attributable to their federal service. The reduction in the CSRS annuity begins at age 62 whether or not the retiree actually begins to draw Social Security at that time.

As an example of the CSRS offset plan, assume that a Representative or Senator retires at the end of the 106th Congress with 26 years of congressional service. According to the illustration of CSRS pensions on page 7, this Member's initial retirement annuity would be $89,851. However, if he or she were age 62 or over, this amount would be reduced by approximately $6,950, representing the amount of Social Security benefits earned from congressional service from January 1, 1984 through December 31, 2000.

Replacement Rates

The adequacy of pension plans is often evaluated by comparing the benefits paid at the time of retirement with pre-retirement wages. The initial annual pension is computed as a percentage of final annual pay to derive the "replacement rate." This is the proportion of pre-retirement wages replaced by the pension. In both CSRS and FERS, pensions are based on the average of the highest 3 consecutive years of earnings, which are usually the final 3 years before retirement.

Table 1 shows the percentage of high-3 average pay replaced by a congressional pension for Members retiring with an immediate pension under CSRS or FERS at specified ages and years of service. (Note that because FERS is still a relatively new system, no one will have completed 20 years of service under that plan until 2004, and no one will have completed 30 years under FERS until 2014.)

Table 1. Replacement Rates for Members Retiring With an Immediate Annuity

	CSRS	FERS
Age 50, 20 years in Congress	42.5%	34.0%
Age 55, 30 years in Congress	75.0%	44.0%
Age 60, 10 years in Congress	25.0%	15.3%
Age 62, 5 years in Congress	12.5%	8.5%

Cost-of-Living Adjustments. CSRS annuities are adjusted for inflation once each year on the same schedule and by the same percentage as Social Security benefits. These "cost-of-living adjustments," or COLAs, are based on the rate of increase in the Consumer Price Index for Urban Wage Earners (CPI-W). CSRS annuities and Social Security benefits are increased each January by the percentage change in the CPI-W over the 12-month period ending on the preceding September 30. FERS annuities also are adjusted for inflation, but as a cost-control measure, Congress has mandated that FERS annuities will increase by less than the percentage change in the CPI-W whenever the annual rate of increase in that index exceeds 2.0%.

If the CPI-W rises by 2% or less, FERS annuities are increased by the same percentage as the increase in the CPI. If the CPI rises by 2.1% to 3%, FERS annuities are increased by 2%. If the CPI rises by more than 3%, FERS annuities are increased by one percentage point *less* than the rate of increase in the CPI.

Initial CSRS annuities may not exceed 80% of a Member's final pay. Over time, however, if Congressional pay were to remain unchanged, a retired Member's CSRS pension could exceed the *nominal amount* of his or her final pay. Nevertheless, because COLAs merely prevent the purchasing power of an annuity from being eroded by inflation, the *real value* of a CSRS pension does not increase or decrease during retirement, provided that the price index on which the COLA is based is an accurate measure of the rate of inflation.

Thrift Savings Plan

The Thrift Savings Plan (TSP) is a tax-deferred investment program through which federal employees can save money to supplement their pension income.[13] The TSP is open to participants in both CSRS and FERS, but in consideration of the smaller pensions paid by FERS, Congress has authorized more generous incentives for workers covered by FERS to save for retirement through the TSP. FERS participants may invest up to 10% of their salary in the TSP, subject to maximum ($10,500 in 2000) that is indexed to inflation. Individuals covered by FERS who invest in the TSP also receive a matching contribution from their employing agency on the first 5% of pay that they invest in the plan. CSRS participants may invest up to 5% of their gross salary to the TSP ($7,065 for Representatives and Senators in 2000), but they receive no employer matching contributions.

The government automatically deposits into the TSP an amount equal to 1.0% of basic pay on behalf of all employees enrolled in FERS, regardless of whether the individual voluntarily invests additional sums. Members of Congress and congressional staff become vested in this 1.0% "agency automatic contribution," plus any investment earnings on it after completing 2 years of service. All participants in FERS are immediately vested in their own contributions and in government matching contributions to the TSP, as well as any investment earnings on these contributions. Contributions to the TSP are made on a pre-tax basis, and neither the contributions nor the investment earnings are taxable until money is withdrawn from the plan.

Employees who leave federal service before age 55 can continue to defer taxes on their accounts either by leaving the money in the TSP or by transferring all or part of these funds to an Individual Retirement Account (IRA) or other eligible retirement arrangement, such as a 401(k) plan. Withdrawals from the TSP before age 55 are subject to a 10% tax penalty unless they are in the form of a life annuity or in a series

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[13] For a more thorough description of the Thrift Savings Plan, see CRS Report RL30387, *Federal Employees' Retirement System: Role of the Thrift Savings Plan,* by Patrick Purcell.

of payments based on the individual's remaining life expectancy.[14] At retirement, participants may withdraw money from their TSP accounts in any of three ways:

- They can receive their account balance in **a single payment**;
- They can receive **a series of monthly payments**. (Payments may be for a fixed number of months or a fixed dollar amount. Monthly payments also can be based on an IRS life expectancy table.); or
- They can purchase **a life annuity**.

All withdrawals from the TSP are subject to the federal income tax, and withdrawals before age 55 that are not made on a schedule based on remaining life expectancy are subject to a 10% tax penalty. Participants who have separated from federal service must make an election for withdrawing funds from the TSP no later than February 1 of the year following the year in which the *later* of two events occurs: (1) the individual turns 65, (2) the individual reaches the 10th anniversary of the first contribution to his or her account. Separated employees must begin withdrawals no later than age 70½, at which time the TSP will begin to distribute funds to the participant automatically if he or she has not yet made a withdrawal election. Until an employee separates from the federal government, he or she can continue to contribute to the TSP, regardless of age.

[14] Individuals who separate from federal service before age 55 can receive monthly payments based on life expectancy without a tax penalty and withdraw the remaining balance at age 59½ in a lump sum. If life annuity payments are elected, remaining undistributed amounts may not be withdrawn later as a lump sum.