

NARFE SUPERCOMMITTEE RECOMMENDATIONS SUMMARY

Page 1 of 5



PROTECT *America's Heartbeat*

RECOMMENDATIONS MADE TO THE SUPERCOMMITTEE ON PROPOSALS TO CUT FEDERAL CIVILIAN RETIREMENT AND PAY AND TO UNDERMINE JOB SECURITY

(Updated October 2011)

The debt-limit increase law directed congressional authorizing committees to provide recommendations by October 14th to the Joint Select Committee on Deficit Reduction (super committee) regarding which programs under their jurisdiction could be cut or amended to achieve costs savings.

Below are the excerpted proposals by **President Obama**, the House Committee on Oversight and Government Reform (OGR) Chairman **Darrell Issa (R-CA)** and jointly by Senate Committee on Homeland Security and Governmental Affairs Chairman **Joseph Lieberman (I-CT)** and Ranking Member **Susan Collins (R-ME)**.

OGR Ranking Member **Elijah Cummings (D-MD)**, House Subcommittee on the Federal Workforce Ranking Member **Stephen Lynch (D-MA)** and Senate Subcommittee on the Federal Workforce **Daniel Akaka (D-HI)** submitted proposals to the Super Committee that would reduce costs without cutting federal civilian retirement, pay and health benefits.

None of the recommendations were ratified by any formal action of the respective committees or subcommittees.

1. INCREASE EMPLOYEE PAYROLL RETIREMENT CONTRIBUTIONS

Who SUPPORTS:

- **PRESIDENT** – Increases employee payroll contribution by 1.2 percent over three years for Federal Employees Retirement System (FERS) and Civil Service Retirement System (CSRS).
- **ISSA** – Increases employee payroll contribution to 8 percent for FERS and 10 percent for CSRS.
- **LIEBERMAN/COLLINS** – Increases employee contribution by 1.2 percent for FERS and CSRS.

Who OPPOSES:

- **CUMMINGS/LYNCH** – Does not propose any increase.
- **AKAKA** – Does not propose any increase.

The additional contribution would not result in any change in an employee's retirement annuity. In fact, workers would pay more for a smaller retirement since their future annuities will be reduced by the two-year pay freeze, which became law

NARFE SUPERCOMMITTEE RECOMMENDATIONS SUMMARY

Page 2 of 5

in December 2010. NARFE is also puzzled by the fact that there is bipartisan support for a Social Security payroll tax holiday, yet no serious consideration is being given to the imposition of a tax increase on middle-class federal workers.

This policy would also widen the disparity in benefits between the federal workforce and the private sector. While employees currently make contributions from their salary to the Civil Service Retirement and Disability Fund, most large private-sector employers historically have not required their workers to make any contribution toward their defined-benefit pensions. According to the U.S. Department of Labor, private-sector workers put in \$1 for every \$109 their employers contributed to their defined-benefits plans in 2008, the latest year for which statistics were available.

2. BASE ANNUITIES ON THE HIGHEST FIVE YEARS OF SALARY

Who SUPPORTS:

- **ISSA**
- **LIEBERMAN/COLLINS** – Lieberman and Collins wrote that the “high-five” proposal be structured so as not to encourage retirement by federal employees currently eligible to retire.

Who OPPOSES:

- **PRESIDENT** – Does not address.
- **CUMMINGS/LYNCH** – Does not address.
- **AKAKA** – does not address.

This proposal is estimated to result in future CSRS retirees receiving an average of \$1,424 less, and FERS retirees receiving an average of \$462 less under the high-five scenario (figures based on 2009 data).

3. EXTEND PAY FREEZE AND END STEP INCREASES

Who SUPPORTS:

ISSA – Extend pay freeze until 2015 and eliminate step increases.
LIEBERMAN/COLLINS – Extend pay freeze until 2013.

Who OPPOSES:

PRESIDENT – Does not address.
CUMMINGS/LYNCH – Specifically opposes.
AKAKA – Specifically opposes.

The present pay freeze is a steep price for federal employees to pay in these challenging economic times. It will save an estimated \$2 billion by the end of 2011 and more than \$60 billion over the next 10 years. Freezing or cutting pay sends the wrong signal to the best and brightest workers federal agencies will need to recruit and retain to make government operate more efficiently, prevent the next terrorist attacks, fight two wars, cure diseases, provide assistance to unemployed and disabled Americans, and treat wounded military personnel and veterans. Indeed, the Office of Personnel Management reported in October that the salary advantage

NARFE SUPERCOMMITTEE RECOMMENDATIONS SUMMARY

Page 3 of 5

private-sector workers have over federal employees grew to 24 percent in 2010, two percentage points higher than in 2009.

4. END FERS ANNUITY SUPPLEMENT

Who SUPPORTS:

**PRESIDENT
ISSA**

Who OPPOSES:

CUMMINGS/LYNCH - Does not address.

AKAKA - Does not address.

LIEBERMAN/COLLINS - Does not address.

President Obama and Chairman Issa have recommended that that the FERS annuity supplement be eliminated for newly hired federal employees, other than workers subject to mandatory retirement. The FERS annuity supplement is compensation paid in addition to the FERS monthly annuity to certain federal employees who are eligible to retire with an immediate annuity before age 62. Unlike CSRS annuitants, FERS retirees depend on the "three-legged stool" of their smaller FERS annuity, the 401(k)-style Thrift Savings Plan and Social Security. However, the earliest age eligible individuals can begin receiving a Social Security benefit (albeit a reduced amount) is 62 years old. To ensure retirees receive all three legs of FERS, the authors of the 1986 FERS law (including NARFE) created the annuity supplement to provide retirees the equivalent of a Social Security benefit until age 62.

5. FEDERAL EMPLOYEES' COMPENSATION ACT (FECA) REDUCTION

Who SUPPORTS:

LIEBERMAN/COLLINS

Who OPPOSES:

NOT addressed by the others.

Chairman Lieberman and Ranking Member Collins have suggested that the supercommittee reform the Federal Employees' Compensation Act (FECA) program by including Collins' bill, S. 261, or a Department of Labor (DOL) proposal, in the Super Committee bill. S. 261, would place FECA beneficiaries into the federal civilian retirement system at retirement age. This likely would reduce recipients' retirement incomes far below what they would have been without their job-related injuries or illnesses. The DOL proposal would reduce benefits to 50 percent of gross salary. The DOL plan does not fully account for disadvantages faced by FECA recipients, notably for many of the same reasons S. 261 does not – foregone raises and promotions, lost Thrift Savings Plan (TSP) matching contributions and reduced Social Security benefits.

NARFE SUPERCOMMITTEE RECOMMENDATIONS SUMMARY

Page 4 of 5

6. REPEAL FERS SICK LEAVE LAW

Who SUPPORTS:

LIEBERMAN/COLLINS

Who OPPOSES:

NOT addressed by the others.

Chairman Lieberman and Ranking Member Collins have suggested the supercommittee include in its legislation a repeal of a 2009 law, championed by NARFE, that permits FERS workers to initially credit half, and in 2014 all, of their unused sick leave toward retirement.

7. ELIMINATE THE FERS ANNUITY

Who SUPPORTS:

ISSA

Who OPPOSES:

NOT addressed by the others.

Chairman Issa would end the FERS annuity for newly hired workers and replace it with a mandatory "defined-contribution" retirement savings option, payable at Social Security retirement age, which would be similar to, and supplement, the TSP. The "defined-benefit" annuity of the FERS three legged stool protects federal workers from the volatility of the stock market. Absent this protection – and making retirement dependent upon defined-contribution plans – would weight federal employees' retirement too heavily toward the stock market and expose them to too much risk. This could force many federal employees to delay their retirement when the economy crashes and, as a result, the value of their retirement plan plunges.

8. CUT THE FEDERAL WORKFORCE BY 10 PERCENT

Who SUPPORTS:

ISSA

Who OPPOSES:

NOT addressed by the others.

Chairman Issa has recommended that the supercommittee include a proposal in its bill to cut the federal workforce by 10 percent through attrition, hiring one new worker for every three who leave. Our nation has already lost more than 200,000 federal jobs in the last 20 years. NARFE believes this proposal is more about politics than good human resource management. In fact, 60 percent of all federal workers will be eligible to retire in the next five years. We can ill afford to lose our most talented and experienced employees at a time when we are facing unprecedented crises.

9. CONTAIN PRESCRIPTION DRUG COSTS IN THE FEDERAL EMPLOYEES HEALTH BENEFITS PROGRAM (FEHBP)

Who SUPPORTS:

PRESIDENT

CUMMINGS/LYNCH

AKAKA

LIEBERMAN/COLLINS

Who OPPOSES:

ISSA – Does not address.

NARFE SUPERCOMMITTEE RECOMMENDATIONS SUMMARY

Page 5 of 5

A proposal made by the president and Chairmen Lieberman and Akaka and Ranking Members Collins, Cummings and Stephens that does not cut benefits but would help to reduce the deficit is a plan to contain prescription drug costs in the FEHBP. Under the proposal, the Office of Personnel Management would contract with a single pharmaceutical benefits manager to negotiate discounts with drug manufacturers using the leverage of all nine million participants in the FEHBP. This proposal is modeled after the pharmacy benefit currently offered through the Defense Department's TRICARE For Life program. NARFE supports this plan as well as past proposals that would allow FEHBP plans to buy prescription drugs for enrollees at the discount mandated by the Federal Supply Schedule -- an initiative that could save the government and enrollees significantly.

10. SHIFT FEHBP PREMIUM COSTS TO FEDERAL EMPLOYEES AND ANNUITANTS

While not included in the recommendations made by Issa, Lieberman or Collins, the president's Fiscal Commission proposed to index the government/employer share contribution for Federal Employee Health Benefits Program premiums to the percentage growth in the Gross Domestic Product, plus 1 percent. Under this plan, federal employees, retirees and survivors would pay an increasingly higher share of their health insurance benefits -- merely cutting federal spending by shifting costs to enrollees. Active and retired federal employees already pay 30 percent of the overall premium. Based upon the way this requirement would be implemented, workers and retirees would be forced to pay a higher percent of the premium each year to the point where many could no longer afford health insurance. Under the proposal, program enrollees would see their premium contribution grow from 30 percent to 43 percent -- an increase of \$2,850 -- by 2020.

11. "CHAINED CPI" / REDUCE INFLATION PROTECTION

Another proposal not included in the Issa, Lieberman and Collins recommendations is a proposal by the president's Fiscal Commission that would underestimate inflation and could cut cost-of-living adjustments (COLAs). The proposal would base the Social Security, federal civilian and military retirement COLAs on an alternative measure of inflation called the "chained-consumer price index" (C-CPI-U), which is likely to lower annuities/retirement pay by 3 percent after a 10-year period. Rather than adjust the COLA to reflect the disproportionately higher health care costs paid by older Americans, the Fiscal Commission's proposal to use an alternative inflation index would further erode federal annuitant inflation protection.