Threats to Federal Employee and Retiree Earned Benefits

President Trump and Republican leadership in the House and Senate are planning to advance budget reconciliation that could include costs offsets that target federal benefits. ***NARFE is asking members of Congress to oppose any legislation, including reconciliation legislation, that includes cuts to earned federal benefits.***

NARFE Position

NARFE opposes proposals that would reduce the value of hard-earned federal retirement benefits promised to federal employees in exchange for their service to this country. As part of the compensation for hard work over long careers, our government made a commitment to provide modest benefits to middle-class federal and postal workers. Their annuities are not gifts; they were earned. Diminishing their value in any way fails to honor the commitments made to our public servants.

NARFE also opposes proposals that would effectively reduce the take-home pay or overall compensation of current federal employees; these proposals would hamper the government's ability to recruit and retain valuable employees at a time in which our country needs the best and the brightest to meet the many challenges the nation faces.

Budget Proposals Threatening the Earned Benefits of Federal Employees and Retirees

Recent proposals to cut federal benefits have arisen from various sources. This brief focuses on proposals included in (i) budget proposals from the first Trump Administration, (ii) Republican Study Committee (RSC) budget proposals, and in (iii) recent lists of potential cost offsets circulated by the House Budget Committee.

1. Reducing the government contribution towards Federal Employees Health Benefits (FEHB) plans by switching to a flat-rate voucher model.
   - Breaks promises to retirees by making earned retiree health benefits unaffordable.
   - Diminishes the affordability of health benefits for employees, significantly below private-market standards.
   - Based on historical average FEHB premium increases compared to consumer prices increases as measured by the Consumer Price Index for Urban Wage Earners and Clerical Workers, which is currently used to calculate cost-of-living adjustments to federal annuities, this policy would force employees and retirees to pay nearly 50 percent of FEHB premiums after 10 years, and more thereafter.
     - This could cost an employee/annuitant more than $20,000 over 10 years, and $4,000 annually by the 10th year for self only; more than $44,000 over 10 years, and more than $9,000 annually by the 10th year for self plus one; and more than $48,000 over 10 years, and more than $10,000 annually by the 10th year for self and family coverage.
     - The cost would be even greater if reducing the initial government share from 72 percent to 70 percent of the government-wide weighted

average, or if using a cheaper measure of inflation, such as the Chained-CPI, as some previous proposals have suggested.

- *Supported by the RSC budget proposal, and listed as potential option in list of reconciliation "pay-fors."*

2. Eliminating cost-of-living adjustments (COLAs) for current and future Federal Employees Retirement System (FERS) retirees.
   - Breaks promises to retirees.
   - Eliminates FERS retirees' ability to keep up with inflation, decreasing purchasing power and quality of life.
   - Based on a historical average COLAs, this could reduce the value of a typical (median) FERS annuity (about $17,000 per year) by more than $228,000 over 30 years of retirement.
   - *Supported by Trump and RSC budget proposals.*

3. Reducing COLAs for Civil Service Retirement System (CSRS) retirees by 0.5 percent.
   - Breaks promises to retirees.
   - Based on a historical average COLA, this would reduce the value of a typical (median) CSRS annuity (about $47,000 per year) by more than $179,000 over 30 years of retirement.
   - *Supported by Trump and RSC budgets.*

4. Reducing the rate of return on the Thrift Savings Plan (TSP) G Fund.
   - The G Fund rate of return is the same rate of interest earned by the Social Security Trust Fund, as well as the Civil Service Retirement and Disability Fund.
   - This proposal would not realize the savings it seeks, as TSP participants would likely invest their money elsewhere. If they did not, this policy would be converting hard-earned retirement savings into a poor investment, failing to align with the government's fiduciary role in this instance.
   - This not only hurts federal employees and retirees, but also would impact the increasing number of military personnel and retirees who invest in TSP.
   - *Supported by Trump and RSC budget proposals, and listed as potential option in list of reconciliation "pay-fors."*

5. Increasing federal employee payroll contributions toward retirement by 4.4 percent, or by as much as 9.5 percent or more, of pay, without any added benefit.
   - This is nothing more than a thinly-veiled across-the-board pay cut. According to the Federal Salary Council, federal employees are already paid nearly 25 percent less than their private-sector counterparts. This would exacerbate that problem.
   - This would impact current employees, who have already vested into the retirement system.
   - *Supported by Trump and RSC budget proposals, and listed as potential option in list of reconciliation "pay-fors."*

6. Converting new federal employees to at-will unless they accept a higher FERS contribution (of 4.4 percent)
   - The merit-based civil service does not exist to protect federal employees; it exists to protect against cronyism and corruption in the civil service, and fill the ranks of government with qualified individuals. Congress should protect the merit-based civil service, not encourage employees to undermine it.
   - *Listed as potential option in list of reconciliation "pay-fors."*

7. Charge a Fee for Federal Employee MSPB Appeals
   - The merit-based civil service does not exist to protect federal employees; it exists to protect against cronyism and corruption in the civil service, and fill the ranks of government with qualified individuals. Congress should not make it more difficult for individuals to challenge potentially illegal and politically motivated actions.
   - *Listed as potential option in list of reconciliation "pay-fors."*

8. Basing federal annuities on the highest five years of salary instead of the highest three years of salary.
   - This proposal could apply to already vested employees, including those who are near, at or even above retirement age, negating years of hard work.
   - This would cost a federal retiree anywhere from a few hundred to several thousands of dollars every year of retirement.
   - *Supported by Trump and RSC budget proposals, and listed as potential option in list of reconciliation "pay-fors."*

9. Eliminating the FERS Annuity Supplement.
   - This fully-funded supplement is provided to FERS retirees who retire before they are eligible for Social Security. Many of those eligible for this supplement work in jobs with a mandatory retirement age, such as law enforcement officers, firefighters and air traffic controllers. This has been proposed, in some cases, to apply to already vested employees, including those who are nearing retirement, and would be particularly harmful to public servants subject to a mandatory retirement age.
   - This proposal could cost a federal employee who is mandated to retire at age 57, with an expected Social Security benefit of $2,000/month, over $105,000 in just the five years before becoming eligible for Social Security at age 62.
   - *Supported by Trump and RSC budget proposals, and listed as potential option in list of reconciliation "pay-fors."*