Congressional Research Service

Retirement Benefits for Members of Congress

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October 28, 2008

Congressional Research Service
7-5700
www.crs.gov
RL30631

CRS Report for Congress
Prepared for Members and Committees of Congress

Summary

Prior to 1984, neither federal civil service employees 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:

- 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 and 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 ($102,000 in 2008 and $106,800 in 2009). Members enrolled in FERS also pay 1.3% of full salary to the Civil Service Retirement and Disability Fund. In 2008, Members covered by CSRS Offset pay 1.8% of the first $102,000 of salary, and 8.0% of salary above this amount, into the Civil Service Retirement and Disability Fund.

Under both CSRS and FERS, Members of Congress are eligible for a pension at age 62 if they have completed at least five 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 three 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, 2007, 435 retired Members of Congress were receiving federal pensions based fully or in part on their congressional service. Of this number, 286 had retired under CSRS and were receiving an average annual pension of $63,696. A total of 149 Members had retired with service under both CSRS and FERS or with service under FERS only. Their average annual pension was $36,732 in 2007.

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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 two 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.[1] 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. 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 2008 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).

The Federal Employees' Retirement System (FERS) went into effect in 1987, and 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.[2]

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.

[1] The Social Security Act became law in 1935 and at that time covered only workers in the private sector.

[2] 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.

As of October 1, 2007, 435 retired Members of Congress were receiving federal pensions based fully or in part on their congressional service. Of this number, 286 had retired under CSRS and 149 had retired either with service under both CSRS and FERS or with service under FERS only. Members who had retired under CSRS had completed, on average, 20 years of federal service. Their average annual CSRS annuity in 2007 was $63,696. Those who had retired under FERS had completed, on average, 16 years of federal service. Their average retirement annuity in 2007 (not including Social Security) was $36,732. The average age of retired Members of Congress receiving retirement annuities in 2007 was 78 for those who had retired under CSRS and 69 for those who had retired under FERS.

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 composed 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 six-month "open seasons" in 1987 and 1998. In 1987, fewer than 5% of eligible federal employees switched from CSRS to FERS, and in 1998 fewer than 1% of eligible employees switched.

Members First Elected Since 1984

Members of Congress who were first elected in 1984 or later are covered by the Federal Employees' Retirement System unless they decline this coverage, in which case they are covered only by Social Security. FERS is composed of three elements:

- *Social Security*,
- the FERS *basic annuity*, a monthly pension based on years of service and the average of the three highest consecutive years of basic pay,
- the *Thrift Savings Plan* (TSP), into which participants can deposit up to a maximum of $15,500 in 2008 and 16,500 in 2009. Their employing agency matches employee contributions up to 5% of pay.

Members who enter Congress with at least five 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) a pension benefit under CSRS or FERS after five 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.[3] 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 older with 10 years of service in Congress, or age 62 with five years of civilian federal service, including service in Congress.

Retirement with an immediate, reduced pension is available to Members aged 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.[4]

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 five through nine 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.

[3] Active-duty military service can be counted toward retirement eligibility, but not toward five-year vesting. In order for military service to count toward the amount of one's retirement annuity, the individual must deposit in the Civil Service Retirement and Disability Fund the amount that would have been withheld if retirement deductions had been made during the person's years of military service, plus accrued interest on this amount.

[4] 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 an immediate, full pension is available to Members at age 62 or older with at least five 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 five 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.[5]

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 (65 years and 10 months in 2008), the supplement is 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 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 to 57.[6]

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 65 years and 10 months in 2008. Forty quarters of covered employment are required to be eligible for retired worker benefits.[7] Under current law, the age for full benefits is gradually increasing, beginning with people born in 1937, until it reaches age 67 for those born in 1960 or later.

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

[6] 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 55-57. Regular federal employees must complete at least 30 years of service and reach the minimum retirement age of 55-57 before they are eligible to receive an unreduced retirement annuity and the FERS supplement.

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

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, based on the number of months between the person's age at retirement and the full retirement age. A worker retiring at age 62 in 2008 would receive a benefit equal to 75% of the benefit that would be payable if the worker were retiring at the Social Security full retirement age. When the full retirement age reaches age 67, the monthly benefit paid at 62 will be 70% of the amount that would be paid if the beneficiary were 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 2008, Social Security beneficiaries under the full retirement age are subject to a reduction in benefits if their annual earnings exceed $13,560 ($1,130 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 who have passed the full retirement age receive full benefits regardless of earnings.

The Thrift Savings Plan: An Integral Component of FERS

The 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 enrolled in FERS, their employing agency contributes an amount equal to 1% of their base pay to the TSP, whether or not the employee chooses to contribute anything to the plan. In 2008, employees enrolled in FERS can make voluntary contributions of up to $15,500. The contribution limit will increase to $16,500 in 2009. 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. Employees covered by CSRS can participate in the TSP, but they receive no employer matching contributions.

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

Members of Congress covered by the CSRS Offset plan contribute 1.8% of pay up to the Social Security taxable wage base ($102,000 in 2008 and $106,800 in 2009), and 8.0% of pay above this amount, to the Civil Service Retirement System. They also contribute 6.2% of pay up to the Social Security taxable wage base to the Social Security trust fund.

FERS

Regular federal employees contribute 0.8% of pay to the Federal Employees' Retirement System and their employing agencies contribute an amount equal to 11% of pay.[8] Members of Congress and congressional staff pay 1.3% of salary for FERS coverage, and the Congress pays approximately 16% of payroll for congressional employees and 17% of pay for Members who are enrolled in FERS. Members and employees enrolled in FERS also contribute 6.2% of pay up to the Social Security taxable wage base to the Social Security trust fund.

Temporary Increase in Employee Contributions to CSRS and FERS

Under the terms of the *Balanced Budget Act of 1997* (P.L. 105-33), employee contributions under CSRS and FERS rose by 0.25% in January 1999 and by a further 0.15% on January 1, 2000. Employee contribution rates were scheduled to increase by another 0.10% on January 1, 2001. Employee contributions were then revert to the 1998 levels after December 31, 2002. Pension benefits accrued by federal workers would not have increased as a result of the temporarily higher employee contributions to CSRS and FERS mandated by the Balanced Budget Act. The higher contribution rates mandated by the Balanced Budget Act were repealed for all federal employees *except* Members of Congress by P.L. 106-346, the FY2001 Department of Transportation and Related Agencies Appropriations Act. Contribution rates for Members reverted to 8.0% under CSRS and 1.3% under FERS on January 1, 2003.

Social Security Payroll Taxes

All Members of Congress pay Social Security payroll taxes, regardless of their other retirement plan coverage. In 2008, the Social Security tax rate of 6.2% applies to gross wages up to $102,000. The Social Security *taxable wage base* is adjusted each year for wage growth in the economy.[9] 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.

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 TSP. The following are the required contributions in 2008.

Dual Coverage

Members with full CSRS coverage plus Social Security contribute 14.2% of the first $102,000 of salary (8.0% to CSRS plus 6.2% to Social Security). They pay 8.0% to CSRS on salary above $102,000.

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

[9] Social Security taxes are levied on gross wages. They are not deducted for purposes of determining adjusted gross income. TSP contributions are deducted in determining AGI.

CSRS Offset

Members in the CSRS Offset Plan pay 6.2% to Social Security and 1.8% to CSRS on the first $102,000 of salary. They pay 8.0% to CSRS on salary above $102,000.

FERS

Members enrolled in FERS pay 6.2% to Social Security and 1.3% to FERS on the first $102,000 of salary. They pay 1.3% to FERS on salary above $102,000.

Social Security

All Members pay 6.2% of their first $102,000 in gross wages to Social Security. The taxable wage base of $102,000 is indexed to national average wage growth and is adjusted annually. The Social Security taxable wage base will increase to $106,800 in 2009.

Pension Plan Benefit Formulas

Pension benefits under both CSRS and FERS are computed according to (1) the retiree's average annual salary for the three consecutive years of highest pay (known as "high-3" average salary); (2) the number of years of service completed under 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 follows:

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

For example, after 30 years of congressional service and a high-3 average salary of $165,533, the initial annual CSRS pension for a Member who retires in December 2008 at the end of the 110th Congress at age 60 or later would be[10]

$$\$165{,}533 \times 30 \times .025 = \$124{,}150$$

Federal law limits the maximum CSRS pension that may be paid at the start of retirement to 80% of the Member's final annual salary. (See 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 × .025 = .80). The smallest starting pension under CSRS is 12.5% of high-3 salary for

[10] Base pay for Representatives and Senators was $162,100 in 2006, $165,200 in 2007, and $169,300 in 2008. Pay for House and Senate leadership positions is higher.

a Member with five years service. (Pensions based on less than 10 years of service cannot begin before age 62.)

Most Members who entered Congress before 1984 and who chose to stay in the CSRS elected the "CSRS offset" plan. When a Member who has retired under the offset plan is age 62 or older, 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 $14,300 in 2008.

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

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

Members who began congressional service before 1984 and who elected to join FERS will receive credit under FERS from January 1, 1984, forward. Thus, at the close of the 110th Congress in December 2008, a participant could have a maximum of 25 years of service under FERS. Assuming that a Member retired at the end of 2008 with 20 years of congressional service under FERS, and a high-3 average salary of $165,533, the initial annual FERS pension in 2008 would be

$$[\$165{,}533 \times .017 \times 20] = \$56{,}281$$

There is no maximum pension under FERS. (It would take 66 years of service under FERS to reach the 80% maximum permissible under CSRS.) The smallest unreduced FERS pension is 8.5% of high-3 salary with five years of service (.017 × 5 years), which is payable no earlier than age 62. A Member with 10 years of service who takes a FERS pension at the earliest allowable age of 55 would receive a reduced pension equal to 11% of high-3 salary (.017 × 10 years, reduced by .05 times the seven-year difference between the individual's age at retirement and age 62).

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 low-wage worker retiring at the full retirement age in 2008 is $852 per month, or $10,224 per year.[11] This is equivalent to about 75% of the annual earnings of a worker employed year-round, full-time at the minimum wage in 2008.[12] For a worker whose earnings each year were equal to or greater than the Social Security maximum taxable wage base, the initial benefit paid to a new retiree at the full retirement age in 2008 is $2,185 per month, or

[11] The Social Security Administration defines a "low-wage" worker as one who earns 45% of the national average wage or less.

[12] $6.55 per hour × 40 hours per week × 52 weeks = $13,624. $10,224/$13,624 = .75. In July 2009, the federal minimum wage will increase to $7.25 per hour.

$26,220 per year. This is equal to about 26% of the maximum taxable wage base of $102,000 in 2008. It would represent a 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 could elect to leave CSRS and join FERS during a six-month "open season" in 1987.[13] Members who switched to FERS are entitled to a CSRS pension for the years before 1984, provided that they had completed at least five 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, which is generally the salary earned in the three years immediately preceding retirement, is used in both formulas. 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 who retires in December 2008 at the end of the 110th Congress with a total of 30 years of service (5 years covered under CSRS and 25 years covered under FERS) and a high-3 salary of $165,533 would be:

	$165,533	×	.025	×	5	=	$20,692 (CSRS)
+	$165,533	×	.017	×	20	=	$56,281 (FERS)
+	$165,533	×	.01	×	5	=	$ 8,277 (FERS)

Total pension = $82,250

Retirement Benefits under the CSRS Offset Plan

Members who were participating in CSRS before January 1, 1984, and who 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 five 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 Security taxable maximum ($102,000 in 2008) to Social Security and 1.8% of salary up to this earnings level to CSRS. When annual earnings reach the maximum amount taxable under Social Security, the Member pays 8.0% 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 his or her federal service. The reduction in the CSRS annuity begins at age 62, whether or not the retiree elects to receive Social Security at that time.

[13] P.L. 105-61, 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.

As an example of the CSRS offset plan, assume that a Representative or Senator retires at the end of the 110th Congress with 30 years of congressional service. According to the CSRS benefit formula, this Member's initial retirement annuity would be $124,150. However, if he or she were age 62 or older, this amount would be reduced by an amount equal to the Social Security benefits earned from congressional service from January 1, 1984, through December 31, 2008. For an individual retiring in December 2008 at age 62 with 25 years of congressional service covered by Social Security, the reduction would be approximately $14,300.

Replacement Rates

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

Table 1 shows the percentage of high-3 average pay replaced by a congressional pension for a Member retiring with an immediate pension under CSRS or FERS at specified ages and years of service. (Note that because FERS benefits apply only to service after 1983, 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	71.3%	44.0%
Age 60, 10 years in Congress	25.0%	15.3%
Age 62, 5 years in Congress	12.5%	8.5%

Source: The Congressional Research Service.

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 annual percentage change in the CPI-W. 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.

The 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.[14] 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. In 2008, FERS participants may invest up to $15,500 in the TSP. The maximum annual contribution is indexed to inflation.[15] It will increase to $16,500 in 2009. Individuals enrolled in 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 also may invest up to the annual statutory maximum in the TSP, 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 an employee 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 two 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. Contributions and investment earnings are not taxed until money is withdrawn from the plan.

Withdrawals from the TSP are subject to the federal income tax, and withdrawals before age 59½ may be subject to a 10% tax penalty.[16] There is no penalty if the individual is 55 or older and is eligible for an immediate pension from CSRS or FERS; if the withdrawals are in the form of a life annuity; or if the withdrawals are taken in a series of "substantially equal periodic payments" on the basis of the individual's remaining life expectancy.[17] Employees who leave federal employment can continue to defer taxes on their TSP account balances 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. At retirement, participants may withdraw money from their TSP accounts in any of four ways. They can

- receive the account balance in a single payment.

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

[15] The annual contribution limits are established in law at 26 USC §402(g).

[16] There are some exceptions to the 10% penalty for withdrawals before age 59½. For more information, see CRS Report RL31770, *Individual Retirement Accounts and 401(k) Plans: Early Withdrawals and Required Distributions*, by Patrick Purcell.

[17] 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.

- 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.)
- purchase a life annuity.
- elect a partial distribution as a lump sum and take the remainder as either a series of equal payments or as an annuity.

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 April of the year after they reach 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.

Forfeiture of Annuity

Section 8312 of Title 5 provides that a federal employee, including a Member of Congress, may not receive a retirement annuity for any period of federal service if that individual is convicted of certain offenses that were committed during the period of service when the annuity was earned. In general, the crimes that would lead to forfeiture of a federal retirement annuity under this provision of law are limited to acts of treason and/or espionage.

Section 401 of the Honest Leadership and Open Government Act of 2007 (P.L. 110-81, September 14, 2007) amended 5 USC §8332 to exclude from creditable service toward a retirement annuity any service as a Member of Congress of an individual convicted of a felony involving (1) bribery of public officials and witnesses; (2) acting as an agent of a foreign principal while a federal public official; (3) fraud by wire, radio, or television, including as part of a scheme to deprive citizens of honest services; (4) prohibited foreign trade practices by domestic concerns; (5) engaging in monetary transactions in property derived from specified unlawful activity; (6) tampering with a witness, victim, or an informant; (7) racketeer influenced and corrupt organizations; (8) conspiracy to commit an offense or to defraud the United States; (9) perjury; or (10) subornation of perjury.

The law directs the Office of Personnel Management to issue regulations to specify the circumstances under which the spouse or children of such individual may be eligible for benefit payments under CSRS or FERS, taking into consideration (1) the financial needs of the spouse or children; (2) whether the spouse or children participated in a specified offense of which such individual was convicted; and (3) what measures, if any, may be necessary to ensure that the convicted individual does not benefit from any such payment.

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