STATEMENT BY
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BEFORE

THE NATIONAL COMMISSION ON FISCAL RESPONSIBILITY AND REFORM

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Chairmen Bowles and Simpson, and Members of the Commission:

Thank you for allowing me to speak to you today about the concerns of the federal workforce and retirement community, and how your role in trying to achieve fiscal balance may affect them.

The National Active and Retired Federal Employees Association (NARFE) represents the retirement interests of 4.6 million currently employed and retired federal workers from the entire federal community. In that role, we guard very seriously the earned retirement annuities and health insurance of federal workers and the pay and benefit structure of current and future civil servants.

At the moment there are over 2.3 million retirees and survivors who depend on either the Civil Service Retirement System (CSRS) or the relatively new Federal Employees Retirement System (FERS). These two systems are different from other public retirement plans offered at the state and local level. They are also very different from the Social Security program which covers over 40 million beneficiaries.

Entitlements, along with defense programs and the tax code, will no doubt be a principal focus of your deliberations. Many see the federal civilian retirement systems in the same vein as other federal entitlement programs. However, there is one significant difference: civil service retirement and health benefits are earned by employees as part of the federal government personnel system and have been designed to attract and retain a skilled workforce. Unlike other entitlements, they are not modeled on a social insurance design or means-tested for the individual's income, health or ability to sustain a certain living standard.

As many of you know, workers pay a portion of their salary towards both their retirement benefits and their health care coverage. Once they become annuitants, they continue to pay a portion of the cost of their health insurance premiums. The federal service has always been a program of shared costs between the federal agencies and the worker. Regrettably, the public is often misinformed and believes federal employees get 'free' or overly generous benefits.

In fact, many do not know that federal workers now are a part of the Social Security system as part of the FERS, which was redesigned in 1986 to provide federal workers Social Security benefits, supplemented by a smaller defined benefit plan and a thrift savings plan similar to the 401(k) plans prominent in today's private defined contribution retirement plans. FERS annuitants receive no cost-of-living adjustment (COLA) if they retire early and when they do receive a COLA it is reduced to a CPI minus one.

I mention this because we are all concerned about the long term fiscal ramifications of the aging baby boomers. In fact, while Social Security and the major health entitlements will consume two percentage points more of the Gross Domestic Product over the next 10 years, civil service retirement's share will shrink by 0.06 percent. Federal retirement costs are a function, not of the aging of the general population, but the size of the federal workforce. As these boomers retire from federal service, more of them will be on the FERS plan with its pared-down defined benefit.

Federal civilian retirement does not face the same solvency challenges as trust funds that support Social Security and Medicare. Indeed, the Civil Service Retirement and Disability Fund (CSRDF) is fully funded and actuarially sound. According to the nonpartisan Congressional Research Service: "Using a 75-year projection period, the Office of Personnel Management estimates that the total value of securities in the trust fund will grow throughout the projection period, ultimately reaching about 4.2 times payroll, or nearly 18 times the amount needed to pay annual benefits. In summary, by definition, under the financing arrangements set out in current law, the system is not now and never will be 'insolvent' or without adequate budget authority for payment of benefits. Again, because the budget cost of the system can never exceed the cost of monthly benefits to living annuitants, the cash required from the Treasury or taxpayers will never exceed the cost of those monthly payments."

Nonetheless, federal civilian programs are often swept into the general budget cutting exercises, sometimes in contrast to other entitlements. During the 1980s and 1990s, which included the Gramm-Rudman-Hollings era, civil service annuitants lost $50 billion as a result of deferred, reduced and canceled COLAs, but Social Security COLAs were not affected. Similar instances are now occurring in pay. This year the Administration proposed a small 1.4% increase in pay for the civilian workforce and a larger one for the military. However, Congress is now considering eliminating that pay raise at a time when the Office of Personnel Management is attempting to recruit a younger, more technically skilled workforce to replace the large wave of seasoned workers that will inevitably retire from service in the next decade.

Let me mention one area that we hope you will address when you are looking at the future of Social Security. That issue is the Government Pension Offset and Windfall Elimination Provision; also known as GPO/WEP. These provisions reduce Social Security benefits for about one million Social Security beneficiaries who worked for public sector pension plans or the CSRS plan not covered by Social Security. The provisions have been in the law for decades and were designed to reduce Social Security benefits. However, even Congress has recognized the unfairness of these provisions, as evidenced by the large bipartisan support indicated for repeal or reform of these two measures. We understand that GPO/WEP reform is best handled when the entire Social Security program is under review, and we hope that you will consider a fairer approach than the current law offsets. Please remember that the GPO affects women particularly hard, and of those who do lose Social Security benefits, 85 percent lose their entire spousal or survivor benefits. In the case of the Windfall Elimination Provision, the offset is leveled against many who have incomes at or below the poverty line. Your opportunity to finally right this wrong is very timely. We look forward to being of help in any way that we can as you develop new policy in this area.

Your mission is to produce a long-term trend of fiscal balance. When it comes to federal programs, that goal must be balanced against the quality, skills, retention and productivity of the next generation of federal employees --- also a long term balance. Outsized reductions in pay and benefits will not result in the kind of workforce the federal government needs to meet the growing complexities of our global world, make government more efficient and deliver the quality of service the taxpayers deserve. NARFE urges you to keep these competing elements in mind as you work towards a new fiscal blueprint for the future.