UNITED STATES OFFICE OF PERSONNEL MANAGEMENT
Washington, DC 20415

The Director

May 4, 2018

The Honorable Paul D. Ryan
Speaker
United States House of Representatives
H-232 Capitol
Washington, DC 20515

Dear Mr. Speaker:

I have enclosed legislative proposals for consideration of the Congress. OPM is responsible for administering the Civil Service Retirement System (CSRS) and the Federal Employees Retirement System (FERS) under chapters 83 and 84 of title 5, United States Code, respectively. These programs serve nearly 2.6 million Federal retirees and survivors who receive monthly annuity payments. These legislative proposals would amend chapters 83 and 84 of title 5, United States Code, to bring Federal benefits more in line with the private sector.

The legislative proposals included in this transmittal are as follows:

- **Elimination of Federal Employees' Retirement System Annuity Supplements**

This proposal would amend section 8421 of title 5, United States Code, to eliminate the Federal Employees' Retirement System (FERS) annuity supplement for new retirees and the supplementary annuity for survivor annuitants. The proposal retains language that requires OPM to apportion a FERS annuity supplement to a former spouse when a court order expressly divides a FERS annuity for purposes of annuitants who retain a FERS annuity supplement under prior provisions of section 8421. Also, the proposal retains language that requires OPM to reduce or eliminate an annuitant's FERS annuity supplement based on earnings for those who retain FERS annuity supplements under prior provisions.

- **Increase of CSRS and FERS Average Pay Period to Five Years**

This proposal would amend sections 8331(4) and 8401(3) of title 5, United States Code, to increase the period of service used to compute an annuitant's average salary under the Civil Service Retirement System and Federal Employees' Retirement System by averaging an employee's basic pay in effect over a five-year consecutive pay period rather than over a three-year consecutive pay period as is required under current law.

- **Increased Contributions to Federal Employees Retirement System**

This proposal amends parts of section 8422 of title 5, United States Code, to increase the employee deduction rates for the Federal Employees' Retirement System (FERS). The rate increase will be one percent per year until the employee is contributing half of the current regular FERS employee normal cost percentage.

Currently, most employees pay 0.8 percent of basic pay as the PERS employee retirement deduction. Some groups (Members of Congress, congressional staff, law enforcement officers, firefighters, and others) pay an additional one half of one percent (1.3%) of basic pay. Employees hired after 2012 pay a higher employee deduction rate, 3.1 or 4.4 percent depending on when first hired. Under this proposal, PERS employee deduction rates will increase by 1 percent per year until they reach 7.25 percent of basic pay.

PERS is a fully funded system with the "normal cost" of benefits paid through employee deductions and agency contributions. The PERS normal cost percentage is an estimate of the percentage of pay that must be contributed for a group of employees over their entire working careers in order to fully pay for their PERS basic retirement benefits. The normal cost must be computed by OPM in accordance with generally accepted actuarial practices and standards (using dynamic assumptions). The normal cost calculations depend on economic and demographic assumptions. Subpart D of part 841 of title 5, Code of Federal Regulations, regulates how normal costs are determined. OPM generally revises the PERS normal cost percentage every three years. The employing agency contribution is the PERS normal cost percentage minus the employee deduction rate. Employee groups that receive enhanced retirement benefits (such as law enforcement officers) or are able to retire under other special provisions (such as air traffic controllers) have a higher normal cost percentage.

This proposal would require PERS employees to fund a greater portion of their retirement benefit. The current normal cost percentage for regular PERS employees is 14.5 percent. Regular employees will reach a 7.25 percent deduction rate (one-half of the current normal cost rate) on October 1, 2024, paying an equal share of their normal cost with their employer. Deduction rates are scheduled to increase by one percent per fiscal year, with any remainder less than 1 percent in the final year of the schedule. Because of the differences in deductions paid by employee groups, the various groups will reach the end of scheduled increases at various times ranging from October 1, 2020, to October 1, 2024, when a regular PERS employee will have half of the normal cost percentage withheld from basic pay for retirement (currently 7.25). After October 1, 2024, when the normal cost percentage fluctuates up or down, the employee deduction will also change so that it remains at half of the normal cost percentage for regular PERS employees. For non-regular employees, the employee deduction rate under this proposal is fixed at half of the normal cost percentage for regular PERS employees. Therefore, these non-regular employees will pay less than half the norm.al cost of their PERS retirement benefit.

- **Reduction or Elimination of Retirement Cost-of-Living Adjustments**

This proposal would amend sections 8340 and 8462 of title 5, United States Code, to reduce the cost-of-living adjustments (COLAs) under the Civil Service Retirement System (CSRS) by one half of one percent and to eliminate COLAs under the Federal Employees' Retirement System (PERS) for current and future retirees.

The proposal would retain the provisions requiring OPM to update a PERS disability annuitant's average salary by all COLAs payable for the period during which the annuitant was receiving a disability annuity when the annuity is redetermined at age 62; however, CSRS COLAs would be used in lieu of the PERS COLAs after those COLAs are eliminated.

The amendments would eliminate the provision requiring a reduction to an annuitant's PERS disability annuity by the amount of the annuitant's Social Security "assumed disability insurance benefit," and would require the reduction to be based on an annuitant's actual Social Security disability benefit. Under current law, a FERS disability benefit computed under section 8452(a) of title 5, United States Code, is reduced by the "assumed disability insurance benefit" when the annuitant is entitled to a Social Security disability insurance (SSDI) benefit. The assumed disability insurance benefit differs from the annuitant's actual Social Security disability insurance (SSDI) benefit because the assumed disability insurance benefit is based on the SSDI benefit amount increased by FERS COLAs, whereas the actual Social Security disability insurance benefit is updated by CPI increases. With the elimination of FERS COLAs the reduction for SSDI would be based on the actual amount of the SSDI benefit.

The FERS Basic Employee Death Benefit and child annuities would be updated by CSRS COLAs, albeit at the reduced COLA rate proposed under the amended COLA provisions.

In summary, the employee retirement landscape continues to evolve as private companies are providing less compensation in the form of retirement benefits. The shift away from defined-benefit programs and cost-of-living adjustments for annuitants is part of that evolution. By comparison, the Federal Government continues to offer a generous package of retirement benefits. Consistent with the goal of bringing Federal retirement benefits more in line with the private sector, adjustments to reduce the long term costs associated with these benefits are included in these proposals. OPM estimates that the interactive savings of enacting these proposals together to be $143,509,000,000 over ten years. I urge the Congress to give prompt and favorable consideration to these legislative proposals.

The Office of Management and Budget (0MB) has advised there is no objection to the transmittal of these legislative proposals to the Congress and that their enactment would be in accord with the program of the President. 0MB further advises that it is willing to work with the Congress to ensure deficit savings are realized from the proposal to increase the contributions of Federal employees and reduce the agency share of such costs by enacting legislation to reduce the non-defense discretionary caps starting in Fiscal Year 2019, as outlined in the President's Fiscal Year 2018 Budget.

Sincerely,

Dr. Jeff T.H. Pon
Director

Enclosures

UNITED STATES OFFICE OF PERSONNEL MANAGEMENT
Washington, DC 20415

The Director

May 4, 2018

The Honorable Michael R. Pence
President of the Senate
United States Senate
S-212 Capitol
Washington, DC 20510

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The amendments would eliminate the provision requiring a reduction to an annuitant's FERS disability annuity by the amount of the annuitant's Social Security "assumed disability insurance benefit," and would require the reduction to be based on an annuitant's actual Social Security disability benefit. Under current law, a FERS disability benefit computed under section 8452(a) of title 5, United States Code, is reduced by the "assumed disability insurance benefit" when the annuitant is entitled to a Social Security disability insurance (SSDI) benefit. The assumed disability insurance benefit differs from the annuitant's actual Social Security disability insurance (SSDI) benefit because the assumed disability insurance benefit is based on the SSDI benefit amount increased by FERS COLAs, whereas the actual Social Security disability insurance benefit is updated by CPI increases. With the elimination of FERS COLAs the reduction for SSDI would be based on the actual amount of the SSDI benefit.

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Sincerely,

Dr. Jeff T.H. Pon
Director

Enclosures

SEC._____. ELIMINATION OF FEDERAL EMPLOYEES' RETIREMENT SYSTEM ANNUITY SUPPLEMENTS.

(a) ELIMINATION OF RETIREE ANNUITY SUPPLEMENT FOR NEW RETIREMENTS.—

(1) Section 8421 of title 5, United States Code, is amended—

(A) by striking subsections (a) and (b); and

(B) in subsection (c), by striking "(c) An amount under this section shall" and inserting "An amount payable pursuant to the provisions of this section in effect for retirements under this chapter prior to October 1, 2018 shall".

(2) Section 8421a(a) is amended by striking "is entitled under section 8421 for any month (determined without regard to subsection (c) of such section)" and inserting "is entitled under section 8421 (based on the provisions of that section in effect before October 1, 2018) for any month (determined without regard to any apportionment of the annuity supplement in accordance with sections 8421 and 8467)".

(b) ELIMINATION OF SURVIVOR ANNUITY SUPPLEMENT.— Section 8442 of title 5, United States Code, is amended—

(1) by striking subsection (f); and

(2) by redesignating subsections (g) and (h) as subsections (f) and (g), respectively.

(c) CONFORMING AMENDMENTS.—

(1) Section 8349(a)(3)(B)(i)(II) of title 5, United States Code, is amended by striking "a fraction, as determined under section 8421(b)(3) with respect to the individual, except that the reference to 'service' in subparagraph (A) of such section shall be considered to mean Federal service"; and inserting—

"a fraction, as determined with respect to the individual—

"(aa) the numerator of which is the annuitant's total years of Federal service (rounding a fraction to the nearest whole number, with ½ being rounded to the next higher number), not to exceed the number under subparagraph (B); and

"(bb) the denominator of which is 40".

(2) Section 8412a of title 5, United States Code, is amended—

(A) by striking subsection (j); and

(B) by redesignating subsections (k) through (o) as subsections (j) through (n), respectively.

(3) Section 8420a of title 5, United States Code, is amended by striking subsection (c) and inserting—

"(c) Each alternative provided for under subsection (b) shall, to the extent practicable, be designed such that the present value of the benefits provided under such alternative (including any lump-sum credit) is actuarially equivalent to the sum of the present value of the annuity that would otherwise be provided under this subchapter, as computed under section 8415.”.

Section-by-Section Analysis

This proposal would amend section 8421 of title 5, United States Code, to eliminate the Federal Employees’ Retirement System (FERS) annuity supplement for new retirees and the supplementary annuity for survivor annuitants. The proposal retains language that requires OPM to apportion a FERS annuity supplement to a former spouse when a court order expressly divides a FERS annuity for purposes of annuitants who retain a FERS annuity supplement under prior provisions of section 8421. Also, the proposal retains language that requires OPM to reduce or eliminate an annuitant’s FERS annuity supplement based on earnings for those who retain FERS annuity supplements under prior provisions.

Budget Implications:

U.S. Office of Personnel Management
FY 2018 Legislative Proposals Impacting Retirement Programs
Civil Service Retirem ent and Disability Fund (CSRDF)
($ Millions)

2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	10 Years
($497)	($867)	($1,274)	($1,596)	($1,818)	($2,028)	($2,290)	($2,540)	($2,762)	($3,003)	**($18,675)**

SEC.___. INCREASE OF CSRS AND FERS AVERAGE PAY PERIOD TO FIVE YEARS.

(a) CSRS AVERAGE PAY.— Paragraph (4) of section 8331 of title 5, United States Code, is amended—

(1) by striking “3 consecutive years” and inserting “5 consecutive years”; and

(2) by striking “3 years” and inserting “5 years”.

(b) FERS AVERAGE PAY.— Paragraph (3) of section 8401 of title 5, United States Code, is amended—

(1) by striking “3 consecutive years” and inserting “5 consecutive years”; and

(2) by striking “3 years” and inserting “5 years”.

Section-by-Section Analysis

This proposal would amend sections 8331(4) and 8401(3) of title 5, United States Code, to increase the period of service used to compute an annuitant's average salary under the Civil Service Retirement System and Federal Employees' Retirement System by averaging an employee's basic pay in effect over a five-year consecutive pay period rather than over a three-year consecutive pay period as is required under current law.

Budget Implications:

U.S. Office of Personnel Management
FY 2018 Legislative Proposals Impacting Retirement Programs
Civil Service Retirem ent and Disability Fund (CSRDF)
($ Millions)

2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	10 Years
($277)	($339)	($405)	($476)	($549)	($623)	($698)	($778)	($860)	($944)	**($5,949)**

SEC.______. INCREASED CONTRIBUTIONS TO FEDERAL EMPLOYEES RETIREMENT SYSTEM.

(a) INDIVIDUAL DEDUCTIONS AND WITHHOLDINGS.— IN GENERAL.—Section 8422(a) of title 5, United States Code, is amended by striking paragraph (3) and inserting the following:

"(3)(A) Except as provided in subparagraph (D), the applicable percentage under this paragraph for civilian service by employees or Members other than revised annuity employees or further revised annuity employees shall be as follows:

	Percentage	Service Period
Employee	7	January 1, 1987, to December 31, 1998.
	7.25	January 1, 1999, to December 31, 1999.
	7.4	January 1, 2000, to December 31, 2000.
	7	December 31, 2000, to September 30, 2018
	8	September 30, 2018, to September 30, 2019.
	9	September 30, 2019, to September 30, 2020
	10	September 30, 2020 to September 30, 2021.
	11	September 30, 2021, to September 30, 2022.
	12	September 30, 2022, to September 30, 2023
	13	September 30, 2023, to September 30, 2024.
	13.45	After September 30, 2024.
Congressional employee	7.5	January 1, 1987, to December 31, 1998.
	7.75	January 1, 1999, to December 31, 1999.
	7.9	January 1, 2000, to December 31, 2000.
	7.5	December 31, 2000, to September 30, 2018.

	8.5	September 30, 2018, to September 30, 2019.
	9.5	September 30, 2019, to September 30, 2020.
	10.5	September 30, 2020, to September 30, 2021.
	11.5	September 30, 2021, to September 30, 2022.
	12.5	September 30, 2022, to September 30, 2023.
	13.45	After September 30, 2023.
Member	7.5	January 1, 1987, to December 31, 1998.
	7.75	January 1, 1999, to December 31, 1999.
	7.9	January 1, 2000, to December 31, 2000.
	8	January 1, 2001, to December 31, 2002.
	7.5	December 31, 2002, to September 30, 2018.
	8.5	September 30, 2018, to September 30, 2019.
	9.5	September 30, 2019, to September 30, 2020.
	10.5	September 30, 2020, to September 30, 2021.
	11.5	September 30, 2021, to September 30, 2022.
	12.5	September 30, 2022, to September 30, 2023.
	13.45	After September 30, 2023.
Law enforcement officer, firefighter, member of the Capitol Police, member of the Supreme Court Police, or air traffic controller	7.5	January 1, 1987, to December 31, 1998.
	7.75	January 1, 1999, to December 31, 1999.
	7.9	January 1, 2000, to December 31, 2000.

	7.5	December 31, 2000, to September 30, 2018.
	8.5	September 30, 2018, to September 30, 2019.
	9.5	September 30, 2019, to September 30, 2020.
	10.5	September 30, 2020, to September 30, 2021.
	11.5	September 30, 2021, to September 30, 2022.
	12.5	September 30, 2022, to September 30, 2023.
	13.45	After September 30, 2023.
Nuclear materials courier	7	January 1, 1987, to October 16, 1998.
	7.5	October 17, 1998, to December 31, 1998.
	7.75	January 1, 1999, to December 31, 1999.
	7.9	January 1, 2000, to December 31, 2000.
	7.5	December 31, 2000, to September 30, 2018.
	8.5	September 30, 2018, to September 30, 2019.
	9.5	September 30, 2019, to September 30, 2020.
	10.5	September 30, 2020, to September 30, 2021.
	11.5	September 30, 2021, to September 30, 2022.
	12.5	September 30, 2022, to September 30, 2023.
	13.45	After September 30, 2023.
Customs and border protection officer	7.5	June 29, 2008, to September 30, 2018
	8.5	September 30, 2018, to September 30, 2019.
	9.5	September 30, 2019, to September 30, 2020.

	10.5	September 30, 2020, to September 30, 2021.
	11.5	September 30, 2021, to September 30, 2022.
	12.5	September 30, 2022, to September 30, 2023.
	13.45	After September 30, 2023.

"(B) Except as provided in subparagraph (D), the applicable percentage under this paragraph for civilian service by revised annuity employees shall be as follows:

	Percentage	Service Period
Employee	9.3	December 31, 2012, to September 30, 2018
	10.3	September 30, 2018, to September 30, 2019.
	11.3	September 30, 2019, to September 30, 2020.
	12.3	September 30, 2020, to September 30, 2021.
	13.3	September 30, 2021, to September 30, 2022.
	13.45	After September 30, 2022.
Congressional employee	9.3	December 31, 2012, to September 30, 2018
	10.3	September 30, 2018, to September 30, 2019.
	11.3	September 30, 2019, to September 30, 2020.
	12.3	September 30, 2020, to September 30, 2021.
	13.3	September 30, 2021, to September 30, 2022.
	13.45	After September 30, 2022.
Member	9.3	December 31, 2012, to September 30, 2018.

	10.3	September 30, 2018, to September 30, 2019.
	11.3	September 30, 2019, to September 30, 2020.
	12.3	September 30, 2020, to September 30, 2021.
	13.3	September 30, 2021, to September 30, 2022.
	13.45	After September 30, 2022.
Law enforcement officer, firefighter, member of the Capitol Police, member of the Supreme Court Police, or air traffic controller	9.8	December 31, 2012, to September 30, 2018.
	10.8	September 30, 2018, to September 30, 2019.
	11.8	September 30, 2019, to September 30, 2020.
	12.8	September 30, 2020, to September 30, 2021.
	13.45	After September 30, 2021.
Nuclear materials courier	9.8	December 31, 2012, to September 30, 2018.
	10.8	September 30, 2018, to September 30, 2019.
	11.8	September 30, 2019, to September 30, 2020.
	12.8	September 30, 2020, to September 30, 2021.
	13.45	After September 30, 2021.
Customs and border protection officer	9.8	December 31, 2012, to September 30, 2018.
	10.8	September 30, 2018, to September 30, 2019.
	11.8	September 30, 2019, to September 30, 2019.

	12.8	September 30, 2020, to September 30, 2021.
	13.45	After September 30, 2021.

"(C) Except as provided in subparagraph (D), the applicable percentage under this paragraph for civilian service by further revised annuity employees shall be as follows:

	Percentage	Service Period
Employee	10.6	December 31, 2013, to September 30, 2018.
	11.6	September 30, 2018, to September 30, 2019.
	12.6	September 30, 2019, to September 30, 2020.
	13.45	After September 30, 2020.
Congressional employee	10.6	December 31, 2013, to September 30, 2018
	11.6	September 30, 2018, to September 30, 2019.
	12.6	September 30, 2019, to September 30, 2020.
	13.45	After September 30, 2020.
Member	10.6	December 31, 2013, to September 30, 2018.
	11.6	September 30, 2018, to September 30, 2019.
	12.6	September 30, 2019, to September 30, 2020.
	13.45	After September 30, 2020.

Law enforcement officer, firefighter, member of the Capitol Police, member of the Supreme Court Police, or air traffic controller	11.1	December 31, 2013, to September 30, 2018.
	12.1	September 30, 2018, to September 30, 2019.
	13.1	September 30, 2019, to September 30, 2020.
	13.45	After September 30, 2020.
Nuclear materials courier	11.1	December 31, 2013, to September 30, 2018.
	12.1	September 30, 2018, to September 30, 2019.
	13.1	September 30, 2019, to September 30, 2020.
	13.45	After September 30, 2020.
Customs and border protection officer	11.1	December 31, 2013, to September 30, 2018.
	12.1	September 30, 2018, to September 30, 2019.
	13.1	September 30, 2019, to September 30, 2020.
	13.45	After September 30, 2020.

"(D) After September 30, 2024, when the Office makes a determination to adjust the normal-cost percentage as determined for employees under section 8423(a)(1)(A)(i) (other than employees covered by subsection 8423(a)(1)(B), and revised annuity employees or further revised annuity employees), if the amount required to be deducted from the pay of employees or Members under subsection (a)(2) immediately prior to the effective date of such adjustment is not equal to one-half of the normal-cost percentage as determined by the Office for employees under section 8423(a)(1)(A)(i) then the applicable percentage for such employee or Member class (under subparagraphs (A) through (C)) in effect immediately prior to the effective date of such adjustment shall be increased or decreased, effective at the same time the adjustment to the normal-cost percentage is made effective, such that the amount required to be deducted from pay shall be equal to one-half of the normal-cost percentage as determined by the Office for employees.".

(b) MILITARY SERVICE.—Section 8422(e) of title 5, United States Code, is amended—

(1) in the lead-in text, by striking "during";

(2) in paragraph (6)(A)--

(A) by inserting "during" after "(A)"; and

(B) by striking “and”;

(3) in paragraph (6)(B)--

(A) by inserting "during" after "(B)"; and

(B) by striking “.” and inserting “; and”; and

(4) in paragraph (6), by inserting “(C) after September 30, 2018, shall be the percentage of basic pay applicable to an employee as determined in the table in paragraph (3)(A).” at the end.

(c) VOLUNTEER SERVICE.—Section 8422(f) of title 5, United States Code, is amended—

(1) in the lead-in text, by striking "during";

(2) in paragraph (4)(A)--

(A) by inserting "during" after "(A)"; and

(B) by striking “and”;

(3) in paragraph (4)(B)--

(A) by inserting "during" after "(B)"; and

(B) by striking “.” and inserting “; and”; and

(4) in paragraph (4), by inserting “(C) after September 30, 2018, shall be the percentage of basic pay applicable to an employee as determined in the table in paragraph (3)(A).” at the end.

Section-by-Section Analysis

This proposal amends parts of section 8422 of title 5, United States Code, to increase the employee deduction rates for the Federal Employees' Retirement System (FERS). The rate increase will be one percent per year until the employee is contributing half of the current regular FERS employee normal cost percentage.

Currently, most employees pay 0.8 percent of basic pay as the FERS employee retirement deduction. Some groups (Members of Congress, congressional staff, law enforcement officers, firefighters, and others) pay an additional one half of one percent (1.3%) of basic pay. Employees hired after 2012 pay a higher employee deduction rate, 3.1 or 4.4 percent depending on when first hired. Under this proposal, FERS employee deduction rates will increase by 1 percent per year until they reach 7.25 percent of basic pay.

FERS is a fully funded system with the "normal cost" of benefits paid through employee deductions and agency contributions. The FERS normal cost percentage is an estimate of the percentage of pay that must be contributed for a group of employees over their entire working careers in order to fully pay for their FERS basic retirement benefits. The normal cost must be computed by OPM in accordance with generally accepted actuarial practices and standards (using dynamic assumptions). The normal cost calculations depend on economic and demographic assumptions. Subpart D of part 841 of title 5, Code of Federal Regulations, regulates how normal costs are determined. OPM generally revises the FERS normal cost percentage every three years. The employing agency contribution is the FERS normal cost percentage minus the employee deduction rate. Employee groups that receive enhanced retirement benefits (such as law enforcement officers) or are able to retire under other special provisions (such as air traffic controllers) have a higher normal cost percentage.

This proposal would require FERS employees to fund a greater portion of their retirement benefit. The current normal cost percentage for regular FERS employees is 14.5 percent. Regular employees will reach a 7.25 percent deduction rate (one-half of the current normal cost rate) on October 1, 2024, paying an equal share of their normal cost with their employer. Deduction rates are scheduled to increase by one percent per fiscal year, with any remainder less than 1 percent in the final year of the schedule. Because of the differences in deductions paid by employee groups, the various groups will reach the end of scheduled increases at various times ranging from October 1, 2020, to October 1, 2024, when a regular FERS employee will have half of the normal cost percentage withheld from basic pay for retirement (currently 7.25). After October 1, 2024, when the normal cost percentage fluctuates up or down, the employee deduction will also change so that it remains at half of the normal cost percentage for regular FERS employees. For non-regular employees, the employee deduction rate under this proposal is fixed at half of the normal cost percentage for regular FERS employees. Therefore, these non-regular employees will pay less than half the normal cost of their FERS retirement benefit.

Budget Implications:

U.S. Office of Personnel Management										
FY 2018 Legislative Proposals Impacting Retirement Programs										
Civil Service Retirem ent and Disability Fund (CSRDF)										
($ Millions)										
2019	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**	**10 Years**
$0	($2,267)	($4,602)	($6,442)	($8,068)	($9,441)	($9,456)	($9,470)	($9,480)	($9,479)	**($68,705)**

SEC.____. REDUCTION OR ELIMINATION OF RETIREMENT COST-OF-LIVING ADJUSTMENTS.

(a) REDUCTION OF CIVIL SERVICE RETIREMENT SYSTEM COST-OF-LIVING ADJUSTMENT.— Section 8340 of title 5, United States Code, is amended—

(1) in subsection (b), by striking ", adjusted to the nearest 1/10 of 1 percent." and inserting " (adjusted to the nearest 1/10 of 1 percent) minus one-half of 1 percent."; and

(2) in subsection (c)(1), by striking "," after "or former spouse".

(b) ELIMINATION OF FEDERAL EMPLOYEES' RETIREMENT SYSTEM COST-OF-LIVING ADJUSTMENT.— Section 8462 of title 5, United States Code, is amended—

(1) by striking subsections (a) through (d) and inserting—

"(a) An annuity under this chapter shall not be subject to adjustment under section 8340. Nothing in the preceding sentence shall affect the computation of any amount under section 8443(a)(2)."; and

(2) by redesignating subsection (e) as subsection (b).

(c) CONFORMING AMENDMENTS.—

(1) Section 8412a of title 5, United States Code is amended—

(A) by striking subsection (c)(3);

(B) in subsection (c), by redesignating paragraphs (4) through (7) as paragraphs (3) through (6), respectively;

(C) in subsection(f)(1)(A), by striking ", including any adjustments made under section 8462" and inserting ", including any adjustments allowed and in force under section 8462 before October 1, 2018";

(D) by striking subsection (f)(3); and

(E) by redesignating subsection (f)(4) as subsection (f)(3).

(2) Section 8418(b) of title 5, United States Code, is amended by striking ", including adjustments under section 8462." and inserting ", including any cost-of-living adjustments allowed and in force under section 8462.".

(3) Section 8442 of title 5, United States Code, is amended--

(A) in subsection (b)(1)(A)(ii), by striking "section 8462(e)" and inserting "section 8462(b)"; and

(B) in subsection (g)(2)(A), by striking "under section 8462 allowed under section 8452" and inserting "allowed and in force under sections 8462 and 8452".

(4) Section 8452 of title 5, United States Code is amended--

(A) in subsection (a)(1)(A)(ii), by striking "clause (i)" and inserting "subparagraph (A)";

(B) in subsection (a)(2)(A)(i)—

(i) by striking “paragraph (1)(A)(i)” and inserting “paragraph (1)(A)”; and

(ii) by striking “assumed”;

(C) in subsection (a)(2)(A)(ii)—

(i) by striking “paragraph (1)(A)(i)” and inserting “paragraph (1)(A)”; and

(ii) by striking “assumed”;

(D) by striking subsection (a)(1)(B);

(E) in subsection (a)(1)(A)—

(i) by striking “(A) Except” and inserting “ Except”; and

(ii) by redesignating clauses (i) and (ii) as subparagraphs (A) and (B), respectively;

(F) by striking subsection (a)(2)(B) and replacing it with the following:

“(B) For purposes of applying section 224 of the Social Security Act to the disability insurance benefit used to compute the reduction under this paragraph, the amount of the annuity under this subchapter that is considered shall be the amount of the annuity as determined before the application of this paragraph.”;

(G) by striking subsection (a)(3);

(H) in subsection (b)(2)(B), by striking clause (ii) and inserting the following:

“(ii) the average pay that would otherwise be used shall be adjusted to reflect—

“(I) all cost-of-living adjustments made to annuities under this chapter (before October 1, 2018), with the exception of section 8443, made under section 8462(b) with respect to any period (or periods) referred to in clause (i) before October 1, 2018 (without regard to whether the annuitant's annuity was affected by any of those adjustments); and

“(II) all cost-of-living adjustments made to annuities under section 8340(b) after September 30, 2018 with respect to any period (or periods) referred to in clause (i) after September 30, 2018.”; and

(I) in subsection (d)(2)—

(i) by inserting “whose annuity commences before October 1, 2018” after “with respect to any annuitant”; and

(ii) by striking “under section 8462 (including subsection (c) thereof)” and inserting “to reflect all cost-of-living adjustments allowed and in force before October 1, 2018 under this chapter, with the exception of section 8443”.

Section-by-Section Analysis

This proposal would amend sections 8340 and 8462 of title 5, United States Code, to reduce the cost-of-living adjustments (COLAs) under the Civil Service Retirement System (CSRS) by one half of one percent and to eliminate COLAs under the Federal Employees' Retirement System (FERS) for current and future retirees.

The proposal would retain the provisions requiring OPM to update a FERS disability annuitant's average salary by all COLAs payable for the period during which the annuitant was receiving a disability annuity when the annuity is redetermined at age 62; however, CSRS COLAs would be used in lieu of the FERS COLAs after those COLAs are eliminated.

The amendments would eliminate the provision requiring a reduction to an annuitant's FERS disability annuity by the amount of the annuitant's Social Security "assumed disability insurance benefit," and would require the reduction to be based on an annuitant's actual Social Security disability benefit. Under current law, a FERS disability benefit computed under section 8452(a) of title 5, United States Code, is reduced by the "assumed disability insurance benefit" when the annuitant is entitled to a Social Security disability insurance (SSDI) benefit. The assumed disability insurance benefit differs from the annuitant's actual Social Security disability insurance (SSDI) benefit because the assumed disability insurance benefit is based on the SSDI benefit amount increased by FERS COLAs, whereas the actual Social Security disability insurance benefit is updated by CPI increases. With the elimination of FERS COLAs the reduction for SSDI would be based on the actual amount of the SSDI benefit.

The FERS Basic Employee Death Benefit and child annuities would be updated by CSRS COLAs, albeit at the reduced COLA rate proposed under the amended COLA provisions.

Budget Implications:

U.S. Office of Personnel Management
FY 2018 Legislative Proposals Impacting Retirement Programs
Civil Service Retirem ent and Disability Fund (CSRDF)
($ Millions)

2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	10 Years
($1,119)	($1,783)	($2,524)	($3,350)	($4,247)	($5,213)	($6,250)	($7,357)	($8,539)	($9,798)	**($50,180)**