THE REPUBLICAN STUDY COMMITTEE
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Legislative Bulletin……………………………….………February 15, 2012

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H.R. 3813 - The Security Annuities for Federal Employees Act of 2012 (Ross, R-FL)

Order of Business: The bill is scheduled to be considered on Wednesday, February 15, 2012.

The rule, H.Res. 547, provides one hour of general debate with 40 minutes equally divided and controlled by the chair and ranking minority member of the Committee on Oversight and Government Reform. The rule also makes in order those amendments printed in Part B of the Rules Committee report, which will be summarized in a separate bulletin. The rule also provides for one motion to recommit, with or without instructions.

Summary: H.R. 3813 would require federal employees to contribute more towards their pension plans, bringing their pensions and total compensation more in line with the private-sector.

- This legislation increases the employee retirement contribution by 1.5% of salary over three years.
- The bill also eliminates the supplemental payment to individuals who voluntarily retire before age 62.
- For new hires, H.R. 3813 increases the employee retirement contribution by 3.2%, changes the multiplier used in the pension formula, and uses a five-year average salary base (from a current three-year average).

The CBO estimates that in total this legislation will decrease the deficit by $44.3 billion (from 2012-2022).

Additional Information: A recent CBO report found that, on average, federal civilian employees receive 48% more in benefits than that of the average private-sector employee with similar characteristics. Part of this excessive benefit structure is the retirement benefit system. Federal employees hired since 1984 are entitled to a hybrid pension, which includes a 401(k)-style plan that the government matches up to 5% *and* a defined-benefit payment. Private workers typically only get a 401(k) with a 3% match.

The defined-benefit portion of federal employee's plan allows workers to retire at 62 and draw an annual income equal to 1.1% of the average of their three highest year's salary times the number of years they worked. For the average federal worker who earns $80,000 and retires after 30 years, that works out to $26,400 a year. Considering that federal workers contribute only 0.8% of their pay to the Federal Employees Retirement System this is a recipe of a shortfall. Taxpayers now chip in 11.7% of employees' salaries to keep the system solvent (here is a CBO report on Federal employee's retirement benefits).

As a result, personnel costs for current and former federal employees continue to rise. The taxpayer spends about $200 billion per year on the federal civilian workforce, and also bears the risk of the federal pension system, which has a liability nearing $700 billion.

RSC Bonus Fact: Future reforms can go even further. If the system required a 6% contribution per employee, then it may save $51 billion through 2020 (according to the Deficit Commission Report). The left-leaning think tank "Third Way" estimates that it would save closer to $114 billion, and endorse the concept of contribution parity at 6%. Third Way even estimate that the annual savings would go up from then, to $30 billion saved per year in 2050 ($300 billion 10-year impact).

Committee Action: H.R. 3813 was introduced on January 24, 2012, and referred to the House Oversight and Government Reform, and House Administration Committees. The legislation was reported out of the Oversight and Government Reform Committee on February 9, 2012 (H. Rept. 112-394, Part 1). On February 12, 2012, the Rules Committee reported resolution H. Res. 547 to the House, which provides for one hour of debate on H.R. 3813.

Amendments Made in Order Under Rule:

1. **Issa (R-CA).** This amendment amends the bill to ensure it accomplishes its goal of discretionary savings. According to the Committee on Oversight and Government Reform, "The employer match for federal workers is paid by each employing agency, using discretionary dollars the agencies receive from appropriations. Under this bill, agencies will require less discretionary funds to pay toward their employee's pensions, since the employees themselves will be picking up a greater share of the cost. We can therefore appropriate fewer discretionary dollars to each agency, saving the taxpayers money. This amendment is designed to help ensure that fewer dollars actually are appropriated. The way it does this is by ensuring that the appropriations committee is not granted extra room in their 302(a) allocation each year that allows the dollars saved here to be simply redirected to other spending. Instead, it will reduce overall discretionary spending."

2. ***Lynch (D-MA).*** This amendment prevents the increased contributions levels enacted in this bill in the event of a pay freeze. It amends the procedure for the effect of a pay freeze. It requires in the calendar year 2013, or any subsequent calendar year, rates of basic pay are not increased by reason of a pay freeze as defined in section 147 of the Continuing Appropriations, 2011. Individual and government contributions under the provisions of law shall be determined in accordance to the following:

- In any calendar year after 2012, which is a pay-freeze year, individual and Government retirement contributions shall be determined under the provisions of law which applied in the last year which was not a pay-freeze year.
- Beginning in the first year following a pay-freeze year (or, in the case of a series of pay-freeze years, the last of them), individual and government contributions shall be determined under applicable provisions of law (as amended by this section)
    - Applying the percentages which would otherwise have applied in the pay freeze year (or, in the case of a series of pay-freeze years, the first of them); and
    - Determining the percentages for subsequent years accordingly

3. **Nugent (R-FL).** This amendment grants Members of Congress the option to decline certain benefits. The legislation amends the thrift savings plan agency contributions by giving the Members the power to elect not to receive matching contributions and also the option to opt-out of the Federal Employees Retirement System. This option is effective with respect to pay periods beginning on or after the date on which the election is made.

Administration Position: No statement of Administration policy is available.

Cost Savings to Taxpayers: CBO estimates that this legislation would increase revenues by $42 billion and decrease direct spending by $2 billion over the 2012-2022 period. The overall impact on the deficit is a decrease of $44.3 billion. CBO's report can be viewed here.

Does the Bill Expand the Size and Scope of the Federal Government?: No

Does the Bill Contain Any New State-Government, Local-Government, or Private Sector Mandates?: H.R. 3813 contains no intergovernmental mandates as defined in the Unfunded Mandates Reform Act (UMRA) and would impose no costs on state, local, or tribal governments.

Does the Bill Comply with House Rules Regarding Earmarks/Limited Tax: H. Rept. 112-394, Part 1 states that "H.R. 3813 does not include any congressional earmarks, limited tax benefits, or limited tariff benefits as defined in clause 9 of rule XXI."

Constitutional Authority: Representative Ross (R-FL)'s Constitutional Authority Statement on January 24, 2012:

> "Congress has the power to enact this legislation pursuant to the following:
> 'Article I, Section 8, Clause I'"

Outside Commentary on Federal Pension Reform:

- American Enterprise Institute's Andrew Bigg's statement before the House Committee on Oversight and Government Reform on January 25, 2012. Access here.
- Heritage Foundation, Elaine Chao's: A Day of Reckoning for Public Pensions

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