CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

October 3, 2003

H.R. 978

A bill to amend chapter 84 of title 5, United States Code, to provide that certain federal annuity computations are adjusted by 1 percentage point relating to periods of receiving disability payments, and for other purposes

As cleared by the Congress on September 11, 2003

SUMMARY

H.R. 978 will increase federal retirement benefits for certain employees who suffer a workplace injury and then return to work for the federal government. Specifically, the legislation applies to employees who are covered by the Federal Employees' Retirement Program (FERS) and collect worker compensation payments under the Federal Employees' Compensation Act (FECA) for at least two months before returning to work. CBO estimates this legislation will increase direct spending on retirement benefits by $1 million in 2004, $16 million during the 2004-2008 period, and $68 million during the 2004-2013 period.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of H.R. 978 is shown in the following table. The costs of this legislation fall within budget function 600 (income security). The act would not affect federal revenues.

	By Fiscal Year, in Millions of Dollars									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
CHANGES IN DIRECT SPENDING										
Federal Retirement Benefits										
Estimated Budget Authority	1	2	3	4	6	7	9	10	12	14
Estimated Outlays	1	2	3	4	6	7	9	10	12	14

BASIS OF ESTIMATE

Under current law, most federal employees who participate in the FERS program earn retirement benefits at the rate of 1 percent for each year of creditable service. Time spent on FECA is considered creditable service under FERS. H.R. 978 will increase the annual accrual rate from 1 percent to 2 percent during any period in which a FERS employee has collected FECA benefits, provided the employee spent a total of at least two months on FECA. Fractions of a year spent receiving FECA benefits will be credited at the higher accrual rate on a prorated basis. The legislation will only apply to federal workers who separate from federal service after the bill is enacted, regardless of when the FECA benefits were received. Therefore, outlays for retirement benefits will increase as those workers who have previously collected FECA benefits begin to retire.

Based on data provided by the Department of Labor, CBO projects that between 4,500 and 5,500 FERS employees, about 0.3 percent of the workforce, return to federal service each year after having spent at least two months receiving FECA benefits. (We estimate that these workers will spend an average of about six months on FECA during such an absence.) Based on this information, CBO estimates that future FERS retirees will have eight to 10 periods of creditable FECA coverage for every 100 retirements. As a result, H.R. 978 will increase direct spending on retirement benefits by $1 million in 2004, $16 million during the 2004-2008 period, and $68 million during the 2004-2013 period.

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