



**CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE**

October 9, 2003

**H.R. 3054
District of Columbia Military Retirement Equity Act of 2003**

*As ordered reported by the House Committee on Government Reform
on September 25, 2003*

SUMMARY

H.R. 3054 would permit participants in the pension system created by the District of Columbia Policemen and Fireman's Retirement and Disability Act to have military service credits included in retirement benefit calculations by allowing them to purchase such credits. Pension liabilities for participants in this pension system, which includes D.C. police officers and firefighters as well as members of the U.S. Park Police and uniformed Secret Service, were assumed by the federal government in 1997. In order to have military service credits included in their benefit calculations, participants would have to purchase the credits. However, current law does not provide a way for participants in this pension system to purchase military service credits.

CBO estimates that enacting H.R. 3054 would increase revenues to the federal government by \$1 million in 2004, \$1 million over the 2004-2008 period, and by \$2 million over the 2004-2013 period. We also estimate that the bill would increase direct spending on retirement benefits by \$1 million in 2004, \$8 million during the 2004-2008 period, and \$28 million over the 2004-2013 period.

H.R. 3054 contains no private-sector mandates as defined by the Unfunded Mandates Reform Act (UMRA). The bill would impose an intergovernmental mandate on the District of Columbia, but CBO estimates the costs of that mandate would be small over the next five years and would be significantly below the threshold established in UMRA (\$59 million in 2003, adjusted annually for inflation).

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of H.R. 3054 is shown in the following table. The costs of this legislation fall within budget function 600 (income security). For the purposes of this estimate, CBO assumes that the legislation becomes effective in January 2004.

	By Fiscal Year, in Millions of Dollars											2004-	2004-	
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2008	2013		
CHANGES IN REVENUES														
Employee Purchase of Military Service Credits Estimated Revenues	1	*	*	*	*	*	*	*	*	*	*	1	2	
CHANGES IN DIRECT SPENDING														
Retirement Annuities Estimated Budget Authority	1	1	2	2	2	3	3	4	5	5	8	28		
Estimated Outlays	1	1	2	2	2	3	3	4	5	5	8	28		

* = less than \$500,000.

BASIS OF ESTIMATE

Under the Balanced Budget Act of 1997, the federal government assumed responsibility for all pension liabilities accrued under the District of Columbia's pension system. This system includes coverage of D.C. police officers and firefighters, as well as members of the U.S. Park Police and Uniformed Division of the U.S. Secret Service. The federal government pays all benefits accrued under the pension system before June 30, 1997, and administers all benefits payments.

After assuming responsibility for the pension system, officials at the Department of the Treasury discovered that the D.C. pension system had been incorrectly including post-1956 military service credits in calculations of retiree benefits. Federal law requires that any post-1956 military service must be purchased to be considered creditable for retirement purposes. If the military service credits are not purchased, the retiree's annuity should be reduced once reaching age 65. Retirees covered under D.C.'s Policemen and Fireman's Retirement and Disability Act had never been permitted to purchase post-1956 military service credits, although those credits had been included in calculations of their benefits. As such, about 250 retirees had their benefits recalculated and reduced starting in June 2003.

H.R. 3054 would allow all current and future retirees covered by the Policemen and Fireman's Retirement and Disability Act to purchase any applicable military service credits and have those credits included in calculations of their retirement benefits. This would increase federal revenues from the purchase of the service credits. By allowing those credits to be used in benefit calculations, the bill would also increase federal outlays for benefits payments above what they will be under current law.

Revenues

Under H.R. 3054, to have military service credits included in benefit calculations, covered retirees would be required to pay 7 percent of the salary they received while performing military service for each period of post-1956 military service. Current retirees would have until October 1, 2004, to make these payments without interest or October 1, 2006, to make these payments with interest. Current workers would be allowed to make the payments upon retirement without interest.

According to information provided by the Treasury Department, there are currently about 4,000 retirees who receive benefits under the Policemen and Fireman's Retirement and Disability Act. Of those, roughly 250 retirees are at least 65 years old and have performed military service after 1956. In addition, there are about 1,100 covered retirees who are younger than 65 years old and have on average about three years of post-1956 military service. Finally, there are approximately 4,100 active workers covered by this pension plan, of whom between 40 percent to 45 percent performed military service after 1956. Given that the average annual increase in benefits is projected to be at least twice as large as the one-time payment required to purchase military service credits, CBO assumes that virtually all current and future retirees would elect to purchase the credits. Based on assumptions about average pay for the individual periods of such service, and assuming that about 100 workers retire each year, CBO estimates that the purchase of military service credits would increase federal revenues by \$1 million in 2004, \$1 million over the 2004-2008 period, and \$2 million over the 2004-2013 period.

Direct Spending

In order to comply with current law, benefits for current retirees over the age of 65 covered by the D.C. pension system have been recalculated and reduced so as not to include any post-1956 military service credits. Furthermore, those retirees who are younger than 65, as well as future retirees, will not be able to have post-1956 military service credits included in their benefit calculations when they reach age 65. By allowing military service credits to be

included in calculations of retirement benefits, H.R. 3054 would increase federal outlays for retirement benefits above what they would be under current law.

Of the approximately 4,000 current retirees, roughly 1,350 have performed post-1956 military service. Moreover, there are another 4,100 active workers who participate in this pension system. Assuming an average military service credit of between two and three years, the purchase of credits for this service would increase retirement benefits by between 8 percent and 12 percent. CBO estimates this would increase the average annual benefit provided to retirees by between \$3,400 and \$3,700 in 2004. In total, CBO estimates H.R. 3054 would increase retirement benefits payable by the federal government by \$1 million in 2004, \$8 million over the 2004-2008 period, and \$28 million over the 2004-2013 period.

ESTIMATED IMPACT ON STATE, LOCAL, AND TRIBAL GOVERNMENTS

H.R. 3054 would require the District of Columbia to increase retirement payments for a limited number of enrollees over time. That requirement would be an intergovernmental mandate as defined in UMRA. However, CBO estimates that the costs of the mandate would be small because of the limited number of people affected, especially during the first five years following enactment of the bill. Those costs would be significantly below the threshold established in UMRA (\$59 million in 2003, adjusted annually for inflation).

ESTIMATED IMPACT ON THE PRIVATE SECTOR

The bill contains no private-sector mandates as defined in UMRA.

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