CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

April 27, 2012

Reconciliation Recommendations of the House Committee on Oversight and Government Reform

As approved by the House Committee on Oversight and Government Reform on April 26, 2012

SUMMARY

H. Con. Res. 112, the Concurrent Budget Resolution for fiscal year 2013, as passed by the House of Representatives on March 29, 2012, instructed several committees of the House to recommend legislative changes that would reduce deficits over the 2012-2022 period. As part of this process, the House Committee on Oversight and Government Reform was instructed to recommend changes to current law that would reduce the deficit by $78.9 billion for fiscal years 2012 through 2022.

The proposal by the House Committee on Oversight and Government Reform would make several changes to the current federal employee retirement program. Specifically, the legislation would increase the percentage of salary that federal employees in the Civil Service Retirement System (CSRS) and Federal Employees Retirement System (FERS) are required to pay towards their retirement and eliminate the FERS retirement supplement that would be paid under current law to certain future retirees under the age of 62. The proposal also would allow federal employees to contribute to their Thrift Savings Plan (TSP) accounts any payment received at retirement for accumulated and accrued annual leave.

CBO and the staff of the Joint Committee on Taxation (JCT) estimate that this proposal would have no impact in 2012, and would reduce deficits by $2.3 billion in 2013 and by $83.3 billion over the 2013-2022 period. Those estimates are relative to CBO's March baseline projections and assume enactment on or near October 1, 2012. The reduction is achieved mostly through an increase in estimated revenues—$2.4 billion in 2013 and $87.8 billion over the 10-year period—partially offset by higher direct spending ($0.2 billion in 2013 and nearly $4.5 billion over the 2013-2022 period). The estimate of budgetary effects would be the same whether enactment is assumed to occur by July 1, 2012, or around October 1, 2012, because the retirement proposals would not take effect until January 1, 2013, while the TSP proposal would not take effect until one year after enactment.

The legislation contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA) and would impose no costs on state, local or tribal governments.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of the proposal is shown in the following table. The costs of this legislation fall within nearly all functions of the budget.

	By Fiscal Year, in Millions of Dollars												
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2012-2017	2012-2022
CHANGES IN REVENUES[a]													
Estimated Revenues	0	2,426	4,505	6,625	8,633	10,514	10,671	10,849	11,009	11,212	11,350	32,704	87,794
CHANGES IN ON-BUDGET DIRECT SPENDING													
Estimated Budget Authority	0	313	565	800	998	1,161	1,117	1,077	1,030	987	938	3,838	8,987
Estimated Outlays	0	313	565	800	998	1,161	1,117	1,077	1,030	987	938	3,838	8,987
CHANGES IN OFF-BUDGET DIRECT SPENDING													
Estimated Budget Authority	0	-157	-283	-400	-499	-581	-559	-539	-515	-494	-469	-1,919	-4,493
Estimated Outlays	0	-157	-283	-400	-499	-581	-559	-539	-515	-494	-469	-1,919	-4,493
NET INCREASE OR DECREASE (-) IN THE DEFICIT FROM CHANGES IN DIRECT SPENDING AND RECEIPTS													
Impact on Deficits	0	-2,269	-4,223	-6,225	-8,134	-9,933	-10,112	-10,310	-10,494	-10,718	-10,881	-30,785	-83,301
CHANGES IN SPENDING SUBJECT TO APPROPRIATION													
Estimated Authorization Level	0	-1,887	-3,633	-5,439	-7,191	-8,882	-9,149	-9,446	-9,722	-10,026	-10,265	-27,032	-75,641
Estimated Outlays	0	-1,887	-3,633	-5,439	-7,191	-8,882	-9,149	-9,446	-9,722	-10,026	-10,265	-27,032	-75,641
Memorandum													
Reduction in Offsetting Receipts Resulting from Lower Employer Contributions[b]	0	1,887	3,633	5,439	7,191	8,882	9,149	9,446	9,722	10,026	10,265	27,032	75,641

Sources: Congressional Budget Office and the staff of the Joint Committee on Taxation.

Note: The estimate of budgetary effects in the table above would apply whether the enactment date is assumed to be July 1, 2012, or around October 1, 2012.

a. For revenues, positive numbers indicate a decrease in the deficit.

b. Employer contributions are intragovernmental transactions that do not affect the deficit; positive numbers indicate a decrease in such intragovernmental receipts. The receipts shown in the memorandum result from federal employer contributions financed by future appropriations; such receipts are not considered to be an offset to direct spending because they are contingent on future appropriations.

BASIS OF ESTIMATE

CBO estimates that the proposal would increase revenues by nearly $88 billion over the 10-year period because of changes to the retirement contribution rates for federal employees ($88 billion), offset slightly by lower revenues ($355 million) from a proposal to allow employees to contribute any payment received for accumulated and accrued annual leave to their TSP accounts.

Proposed reductions in the rates that the U.S. Postal Service pays into the Civil Service Retirement and Disability Fund (CSRDF) on behalf of its employees subject to FERS would increase direct spending by a net of roughly $4 billion over the 2013-2022 period, CBO estimates. That increase results from additional on-budget outlays of nearly $9 billion (because of fewer receipts into the CSRDF), partially offset by more than $4 billion in off-budget savings (because of lower Postal Service agency contributions).

Similar reductions in the rates that agencies other than the Postal Service would pay into the CSRDF on behalf of their FERS employees would reduce spending subject to appropriation by $76 billion over the 2013-2022 period, CBO estimates. Those lower payments from agencies would also reduce the amount of offsetting receipts received by the CSRDF; together, those changes would offset each other.

Changes in Employee and Agency Contributions

The proposal would increase the required contribution rates paid by federal employees and Members of Congress (in both CSRS and FERS), phased in over five years, beginning in January 2013. Under current law, most CSRS employees contribute 7 percent of their salary towards retirement, and most FERS employees contribute 0.8 percent.

The proposed annual increases in employee contribution rates would be as follows:

	2013	2014	2015	2016	2017
CSRS	1.5%	0.5%	1.0%	1.0%	1.0%
CSRS Members of Congress	2.5%	1.5%	1.5%	1.5%	1.5%
CSRS Congressional staff	2.5%	1.5%	1.5%	1.5%	1.5%
FERS	1.5%	0.5%	1.0%	1.0%	1.0%
FERS Members of Congress	2.5%	1.5%	1.5%	1.5%	1.5%
FERS Congressional staff	1.5%	1.5%	1.5%	1.5%	1.5%

By the end of the phase-in period, most CSRS employees would contribute 12 percent of salary, and most FERS employees would contribute 5.8 percent. (Employees hired on January 1, 2013, or later with less than five years of federal service would immediately begin contributing at a rate of 5.8 percent.) The rate paid by Members of Congress in CSRS would increase from 8.0 percent to 16.5 percent, while the rate paid by Members of Congress in FERS would increase from 1.3 percent to 9.8 percent.

Contributions by federal employees for their retirement are shown as revenues to the federal government; CBO estimates that the proposed increase in the contribution rates would boost revenues by $88 billion over the 2013-2022 period.

Federal agencies are also required to make contributions toward their employees' retirement. For each of the proposed rate increases for FERS employees and Members described above, the proposal would make a corresponding reduction in the rate required to be paid by the employing agencies. (Rate reductions are not proposed for CSRS; agencies would continue to pay the rate in current law on behalf of their CSRS employees.) Reducing the employer contribution rates for FERS employees in agencies other than the Postal Service would lower spending subject to appropriation by $76 billion over the 2013-2022 period, CBO estimates. Such a reduction in employer retirement payments would lower the intragovernmental offsetting receipts of the CSRDF by an equal amount, but because that budgetary action is contingent on future appropriations, the drop in offsetting receipts is not considered an offset to direct spending.

Under the legislation, the total amount of retirement contributions (employee plus agency shares) paid into the CSRDF for FERS employees would remain the same as under current law. That is, the legislation would replace some of the payments by agencies with payments by federal employees. Budgetary savings would be attributed to the proposal because of the different budgetary classification of the employee share (revenues) versus the agency share (an intragovernmental transfer subject to future appropriation action).

CBO estimates that reducing the Postal Service's contribution rate for its employees subject to FERS would lower its required payments by nearly $9 billion over the 2013-2022 period. However, CBO expects that lower retirement expenses would lead the agency to modify its ongoing efforts under current law to reduce spending by doing so less aggressively; CBO estimates that the resulting increase in Postal Service outlays over the 10-year period would be about half of the total estimated reduction in retirement payments. Because the activities of the Postal Service are considered mandatory spending and classified as off-budget, such outlay reductions would result in a total savings of more than $4 billion in off-budget direct spending. In addition, reducing the payments made by the Postal Service on behalf of their FERS employees would result in correspondingly fewer receipts to the CSRDF, which CBO estimates would increase on-budget direct spending by nearly $9 billion over the 2013-2022 period.

Eliminate the FERS Annuity Supplement

Under current law, certain FERS employees who retire before the age of 62 receive a supplement to their annuity that is intended to equal what they would receive from the

Social Security Administration if they were eligible for Social Security benefits at the time of retirement. The supplement ends when the retiree turns 62 or becomes eligible to receive actual Social Security benefits. The proposal would eliminate that supplement for all FERS employees other than law enforcement officers, fire fighters, air traffic controllers and nuclear materials couriers who enter into federal service after December 31, 2012. That provision would have no impact over the next 10 years (employees hired in 2013 or later would not be eligible to receive the supplement under current law until at least 2033), but would reduce direct spending in later years.

Leave Payout Contributions to the Thrift Savings Plan

The legislation would allow any employee of the federal government who is eligible to make contributions to the TSP to contribute to it any payment received for accumulated and accrued annual leave. Such contributions would be subject to the annual limits that otherwise apply—annual contributions are currently limited to $17,000 for individuals ages 49 or younger and $22,500 for individuals ages 50 or older.

Because income taxes are deferred on contributions to regular (non-Roth) TSP accounts, and earnings within the accounts would not be taxable, the anticipated increase in contributions would initially result in lower revenues from income taxes. JCT estimates that the legislation would reduce revenues by $355 million over the 2013-2022 period.

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

The legislation contains no intergovernmental or private-sector mandates as defined in UMRA and would impose no costs on state, local, or tribal governments.

ESTIMATE PREPARED BY:

Federal Costs: Amber G. Marcellino
Impact on State, Local, and Tribal Governments: Elizabeth Cove Delisle
Impact on the Private Sector: Paige Piper/Bach

ESTIMATE APPROVED BY:

Theresa Gullo
Deputy Assistant Director for Budget Analysis