CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

May 17, 2012

H.R. 4363
Federal Employee Phased Retirement Act

As ordered reported by the House Committee on Oversight and Government Reform on April 18, 2012

SUMMARY

H.R. 4363 would allow eligible federal employees to enter into a phased retirement, during which they continue to work part time while drawing a partial salary and a partial civil service retirement annuity. The bill also would allow participating employees to contribute to their Thrift Savings Plan (TSP) accounts any payment received at retirement for accumulated and accrued annual leave.

CBO estimates that enacting the legislation would decrease direct spending by $427 million and increase revenues by $24 million over the 2013-2022 period. Pay-as-you-go procedures apply because enacting the legislation would affect direct spending and revenues. Implementing H.R. 4363 would decrease employer contributions to retirement accounts, thus reducing discretionary spending for those activities; such reductions in spending would be subject to future appropriation actions consistent with the bill.

H.R. 4363 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 H.R. 4363 is shown in the following table. The impact of this legislation falls within nearly all functions of the budget.

	By Fiscal Year, in Millions of Dollars											
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2013-2017	2013-2022
CHANGES IN DIRECT SPENDING[a]												
Estimated Budget Authority	-9	-26	-45	-54	-53	-52	-50	-49	-46	-42	-187	-427
Estimated Outlays	-9	-26	-45	-54	-53	-52	-50	-49	-46	-42	-187	-427
CHANGES IN REVENUES[b]												
Estimated Revenues	1	2	3	4	4	4	3	3	1	-1	14	24
NET INCREASE OR DECREASE (-) IN THE DEFICIT FROM CHANGES IN DIRECT SPENDING AND REVENUES												
Impact on Deficits	-9	-28	-48	-58	-57	-55	-54	-51	-47	-41	-201	-451
CHANGES IN SPENDING SUBJECT TO APPROPRIATION												
Estimated Authorization Level	0	-2	-3	-3	-3	-3	-2	-1	0	1	-11	-15
Estimated Outlays	0	-2	-3	-3	-3	-3	-2	-1	0	1	-11	-15
Memorandum												
Reduction in Offsetting Receipts Resulting from Lower Employer Contributions[c]	0	2	3	3	3	3	2	1	0	1	11	15

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

a. For direct spending, negative numbers indicate a decrease in the deficit.
b. For revenues, positive numbers indicate a decrease in the deficit.
c. Employer contributions are intragovernmental transactions that do not affect the deficit; positive numbers indicate a decrease in receipts.

BASIS OF ESTIMATE

For the estimate, CBO assumed that about 1,000 federal employees per year—a mix of employees in the Civil Service Retirement System (CSRS) and the Federal Employees Retirement System (FERS)—would enter into phased retirement for a period of three years before fully retiring.[1] During phased retirement, employees would move from a full-time to a part-time work schedule while also drawing a partial retirement benefit. Such employees would continue to make contributions toward retirement and their employing agencies would also continue their corresponding contributions toward retirement on behalf of those employees. To be eligible to participate in phased retirement, employees must be eligible for full retirement.

[1] The estimated number of participants is based on assumptions used by the Office of Personnel Management for their evaluation of this proposal.

Because participants in phased retirement would draw a lower retirement benefit than they would have if they had fully retired, CBO estimates that direct spending would be reduced by $427 million over the 2013-2022 period.

In addition, CBO estimates that H.R. 4363 would increase revenues by $24 million over the 2013-2022 period. For this estimate, CBO assumed that any employees who enter phased retirement would have otherwise retired and that they would have been replaced by FERS employees. Most CSRS employees pay a rate of 7.0 percent of salary towards retirement, while most FERS employees currently pay a rate of 0.8 percent. As a result, more contributions would be collected from a CSRS employee remaining employed while in phased retirement than would have been collected from a replacement employee covered by FERS. However, the same contributions would be collected from a FERS employee who remained employed while in phased retirement as would have been collected from a replacement employee covered by FERS—except for a small decrease in revenues in later years because of the implementation of revised annuity contribution rates for employees hired after January 1, 2013.[2] Any participating agency's total expenditures for salaries were assumed to remain the same as under current law.

Because the disparity in rates for CSRS and FERS employees also affects the amount of employer contributions that agencies must pay on behalf of their employees, H.R. 4363 would decrease discretionary spending for those activities by $15 million over the 2013-2022 period, CBO estimates. However, this bill—or any legislation that would reduce the funds available for a particular discretionary program—would only reduce projected total appropriations if the caps on discretionary spending were also lowered. Without a reduction in the caps, CBO assumes funding for other discretionary programs would fill the gap created by any specific reduction or savings.

H.R. 4363 would allow federal employees who participate in phased retirement and who are eligible to make contributions to the TSP to contribute to it any payment received for accumulated 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. The staff of the Joint Committee on Taxation estimates that the legislation would reduce revenues by an insignificant amount over the 2013-2022 period.

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[2] Under provisions of the Middle Class Tax Relief and Job Creation Act of 2012 (Public Law 112-96), future federal employees in FERS will eventually contribute 2.3 percent of their salary towards retirement. CBO has incorporated that scheduled increase in its estimate of this bill.

PAY-AS-YOU-GO CONSIDERATIONS

The Statutory Pay-As-You-Go Act of 2010 establishes budget-reporting and enforcement procedures for legislation affecting direct spending or revenues. The net changes in outlays and revenues that are subject to those pay-as-you-go procedures are shown in the following table.

CBO Estimate of Pay-As-You-Go Effects for H.R. 4363 as ordered reported by the House Committee on Oversight and Government Reform on April 18, 2012

	By Fiscal Year, in Millions of Dollars											
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2013-2017	2013-2022
NET INCREASE OR DECREASE (-) IN THE DEFICIT												
Statutory Pay-As-You-Go Impact	-9	-28	-48	-58	-57	-55	-54	-51	-47	-41	-201	-451

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

H.R. 4363 contains no intergovernmental or private-sector mandates as defined in UMRA and would impose no costs on state, local, or tribal governments.

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