



UNITED STATES OFFICE OF PERSONNEL MANAGEMENT

**STATEMENT OF
CHARLES D. GRIMES III
CHIEF OPERATING OFFICER
U.S. OFFICE OF PERSONNEL MANAGEMENT**

before the

**SUBCOMMITTEE ON FEDERAL WORKFORCE, U.S. POSTAL SERVICE AND
LABOR POLICY
COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM
UNITED STATES HOUSE OF REPRESENTATIVES**

on

**“RETIREMENT READINESS: STRENGTHENING THE FEDERAL PENSION
SYSTEM”**

January 25, 2012

Chairman Ross, Ranking Member Lynch and members of the Subcommittee:

Thank you for allowing me the opportunity to appear before you today to discuss Federal pensions. As you know, the topic of pension plans has been in the media for local, State and Federal employees over the past several months. The Office of Personnel Management’s (OPM) mission is to recruit, retain and honor a world-class workforce to serve the American people. As part of that mission, and by law, OPM oversees the administration of the Civil Service Retirement System (CSRS) and the Federal Employees’ Retirement System (FERS) on behalf of Federal annuitants. These include Federal employees in the executive, legislative and judicial branches of the Federal Government. OPM is responsible for processing the annuity payments for retired Federal employees and their survivors, including Members and Congressional

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employees. As of October 1, 2010, there were 1.52 million CSRS annuitants with an average annuity of \$2,941 per month based upon 29.6 years of service and 361 thousand FERS annuitants with an average annuity of \$1,065 per month based upon 17.2 years of service. As for Members, there were 262 retired CSRS Members with an average annuity of \$5,785 per month based upon 20.7 years of service and 181 retired FERS Members with an average annuity of \$3,205 per month based upon 16.2 years of service.

Civil Service Retirement System

Generally, Federal employees and Members that have retirement coverage and entered service prior to 1984 are covered by CSRS. CSRS is a defined benefit plan where Federal employees and Members share in the expense of the annuities. When the Civil Service was originally established in 1920, Federal employee coverage was limited to permanent competitive employees in the executive branch. In the years thereafter, coverage was extended to other classes of employees. The Act of January 24, 1942, (P.L. 77-411) changed the existing approach regarding retirement coverage, greatly expanding it. That Act extended coverage to heads of executive departments and agencies, and, upon their election, to the President, Vice President, and Members of Congress. However, this extension of coverage was promptly rescinded by legislation approved March 7, 1942 (P.L. 77-490). Members of Congress were finally permitted to be covered, at their option, by section 602 of Public Law 79-601, approved on August 2, 1946. At that time, the new law provided that Members' annuities would be computed with a multiplier of 2.5 percent per year of service, with a maximum of 75 percent attained after 30 years. By way of comparison, while there were three methods of computing annuities for employees, the one applicable to the highest paid employees (those earning over \$2,800 per year) was to multiply the

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average pay by years of service not exceeding 35 and then dividing the result by 70. This yielded approximately 1.43 percent per year of service, with a maximum annuity of 50% after 35 years of service.

At the present time, with some exceptions, Federal employees contribute 7 percent of their basic pay to CSRS, Congressional employees contribute 7.5 percent, and Members contribute a combined 8 percent of their basic pay to CSRS and Social Security while the employing agency pays those percentage rates to the Retirement Fund. In addition, Federal employees and Members under CSRS may also contribute a portion of their basic pay to the Thrift Savings Plan (TSP). Under CSRS, a Federal employee or Member must complete at least 5 years of creditable civilian service to be eligible for an annuity. The annuity is computed based on a percentage of the high-3 average pay and length of service. The average salary applicable to employees and Members was changed from a high-5 to a high-3 by the Civil Service Retirement Act of 1969 (P.L. 91-93). The high-3 average pay is the average basic pay earned during any three consecutive years of service.

Under CSRS, there were changes in the employee accrual rate, increasing under the Civil Service Retirement Act of 1956 (P.L. 84-854). Currently, for most employees, the CSRS annuity is calculated as 1.5 percent for the first 5 years of service, 1.75 percent for the next 5 years of service and 2.0 percent for each year in excess of 10 years. For Members and Congressional employees, the CSRS annuity is calculated as 2.5 percent for each year of congressional service and up to 5 years of military service, with other service computed at the regular employee rates. Generally, the CSRS annuity cannot be more than 80 percent of the high-3 average pay, or 80

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percent of final pay for Members, unless the amount over 80 percent is due to the crediting of unused sick leave.

Under CSRS, Members are eligible for an unreduced immediate annuity at age 62 if they have completed at least five years of service or at age 60 with 10 years of Member service. They are eligible for a reduced immediate annuity at age 55-59 with 30 years of service, and unless separated by resignation or expulsion, at age 50 if they have completed 20 years of service, or at any age after completing 25 years of service. Under CSRS, Federal employees are eligible for an immediate annuity at age 62 if they have completed at least five years of service, at age 60 if they have completed 20 years of service, or at age 55 after completing 30 years of service.

Federal Employees' Retirement System

The Federal Employees' Retirement System Act of 1986 (P.L. 99-335) changed the basic structure of retirement benefits. It established a new three-tier structure composed of a defined basic benefit/annuity tier, a defined contribution tier (TSP), plus Social Security. Generally, Federal employees that have retirement coverage and entered service on or after January 1, 1984 are covered by FERS and Members first elected in 1984 or later are automatically covered by FERS. When FERS was created, the Congress made a conscious and conscientious decision to prevent the underfunding problems that have plagued so many private, State, and local defined benefit retirement systems. FERS was designed as a fully funded staff retirement system, with the full dynamic normal cost of service credit paid for by employer and employee contributions. The heart of this is the concept that costs are based upon a calculation of the "normal cost percentage." While the technical definition is more detailed and complex, in essence the "normal cost percentage" is the percentage of salary that must be contributed at the time service is

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performed in order to pay the full cost of retirement benefits, assuming that the contributions begin at first creditable employment, and that the system will continue. The normal cost percentages change from time to time based upon changes in the underlying economic assumptions. To fully fund the retirement system, the normal cost percentage of basic pay is paid into the Retirement Fund at the time service is performed.

When creating FERS, the Congress also made a number of other important policy decisions. One of these was to make the structure much more portable, and able to serve the needs of an ever more mobile workforce. While FERS itself provides maximum benefits when an employee continues Federal employment into retirement, the TSP and Social Security are fully portable.

FERS was designed to replicate the replacement income ratio of the older CSRS for career employees. However, the Congress required employees to make a greater contribution towards their retirement. To achieve the same level of retirement income most employees must match the 7 percent of basic pay contributed by CSRS employees (which is paid towards FERS and Social Security), plus choose to pay an additional 5 percent towards TSP in order to receive the maximum employer TSP contribution. Realizing that this might be difficult for the lowest paid employees, the Congress took note of the fact that Social Security benefits are weighted in favor of lower income employees, thereby achieving a similar level of replacement income for them.

The basic annuity and Social Security portions of FERS require Federal employees and Members to pay their share each pay period. Currently, Federal employees contribute 0.8 percent of their basic pay under FERS and the employing agency, in fiscal year 2012, contributes an amount equal to 11.9 percent of pay. Members and Congressional employees pay 1.3 percent of their

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salary to FERS and Congress pays approximately 16.7 percent of payroll for Congressional employees and 18.3 percent of pay for Members. In addition, Federal employees and Members contribute 6.2 percent of their pay to the Social Security taxable wage base, with the exception of 2011 and the first couple months of 2012 after passage of the payroll tax relief which was signed into law.

Under FERS, a Federal employee or Member must complete at least 5 years of creditable civilian service to be eligible for the basic annuity. The FERS basic annuity is computed based on a percentage of the high-3 average pay and length of service. For most employees, the FERS basic annuity is calculated as 1.0 percent of the high-3 average salary for each year of service. For employees age 62 or older and over 20 years of service, the FERS basic annuity is calculated as 1.1 percent of the high-3 average salary for each year of service. For Members and Congressional employees, the FERS basic annuity is calculated as 1.7 percent of the high-3 average salary for the first 20 years and 1.0 percent of the high-3 average salary for each year thereafter. In addition to this basic annuity, some FERS retirees may be entitled to receive a FERS Annuity Supplement payable until the age of 62. The FERS Annuity Supplement is based upon the amount of the potential Social Security benefit earned by Federal employment.

Generally, under FERS, Federal employees and Members are eligible for an immediate annuity at age 62 if they have completed at least five years of service, at age 60 with 20 years of service, at the MRA (Minimum Retirement Age, 55-57 depending upon year of birth) with 30 years of service. They may also retire at MRA with 10 years of service on a reduced annuity. In addition,

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Members, unless separated by resignation or expulsion, may also retire at age 50 if they have completed 20 years of service, or at any age after completing 25 years of service.

President Obama's Reform Efforts

On September 19, 2011 President Obama released Living Within Our Means and Investing in the Future, the President's Plan for Economic Growth and Deficit Reduction. The President's Plan proposed an increase in the employee contribution to FERS and CSRS, as well as other defined benefit plans not administered by OPM. While Federal employees' total pension amounts would remain unchanged, the employee contribution to FERS proposed would increase 0.4 percent of pay a year over three years for a total increase of 1.2 percentage points. The President's Plan also proposed the elimination of the FERS Annuity Supplement for new employees, other than employees subject to mandatory retirement. Overall, the plan is estimated to save \$21 billion over 10 years.

Conclusion

I want to thank you for this opportunity to testify today and I am happy to address any questions you may have.



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BIOGRAPHY

Chuck Grimes

Charles D. Grimes III is the Chief Operating Officer for the U.S. Office of Personnel Management (OPM). In this role, he provides overall organization management to improve agency performance and achieve OPM's mission and goals through strategic and performance planning, measurement, analysis, and regular progress assessment. He is responsible for managing OPM's human, financial, and other resources to achieve intended program results efficiently, economically, and effectively.

Previously, Mr. Grimes served as the Deputy Associate Director, Employee Services, and Acting Associate Director, Employee Services and Chief Human Capital Officer. In those roles, he managed governmentwide staffing, compensation, employee and labor relations, employee development, and executive resources policy; agency outreach and veterans support; and OPM's internal human resources operation. He also headed the Performance and Pay Systems center at OPM.

Prior to joining OPM, Mr. Grimes served as the Assistant Director, Compensation Policy in the Internal Revenue Service's Strategic Human Resources Division. He spent most of his career in the Department of Defense (DOD), where he last served as the Director, Wage and Salary Division, in DOD's Civilian Personnel Management Service. Mr. Grimes received his B.A. in Biology from the University of Virginia and an M.A. in Management and Supervision from Central Michigan University.