Statement of Congressman Tim Griffin

Subcommittee on Federal Workforce, U.S. Postal Service and Labor Policy
House Oversight and Government Reform Committee

"Retirement Readiness: Strengthening the Federal Pension System"
January 25, 2012

I thank Chairman Ross and Ranking Member Lynch for inviting me to testify on my bill, H.R. 3480, the End Pensions in Congress (EPIC) Act.

My top priorities as a Member of the U.S. House of Representatives have been to limit excessive federal spending and to restore stability to the U.S. economy so we can continue to lead the world in innovation and job creation. I have heard from many of my constituents in the Second Congressional District of Arkansas who expressed their support for ending both Congressional pensions and pensions for future federal employees. Congress and the President must work together to institute common sense reforms to how our federal government spends hard-earned taxpayer dollars. Your subcommittee's jurisdiction over the federal workforce can help to provide a critical role in determining how we can reform retirement benefits for Members of the House and Senate and the future federal workforce to save American taxpayers hundreds of billions of dollars.

On November 18, 2011, I introduced the EPIC Act to end the Congressional pension plan for recently-elected Members of the House and Senate who have not yet qualified for pension benefits and for future Members. The EPIC Act would also end the pension plan for Members of the House and Senate who have served for five or more years and do not opt in to continue their pension benefits within 90 days of the bill's enactment. This bill is an important first step to reforming the retirement programs for all future federal civilian employees so that we can reduce government spending and get our fiscal house in order.

Under current law, at the age of retirement, Members of the House and Senate who serve for at least five years receive a pension. This pension provides them with an annual payment of 1.7 percent of their salary multiplied by the number of years they served in Congress. In 2009, under the current plan, the average annual pension for those retiring from Congress was $40,140. Some Members, however, are eligible to receive up to 80 percent of their final annual salary, which currently would equal over $137,000 a year.[1]

Here's the bottom line: our national debt has topped $15 trillion, and the federal government borrows 42 cents for every dollar it spends. The American taxpayer can no longer afford to pay for the retirement benefits of Members of Congress. Although the elimination of Congressional pensions will not fix our federal debt problems, or even make a significant dent in the reduction of our federal spending, it is a necessary starting point for reforming the Federal Employees' Retirement Program (FERS).

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[1] Congressional Research Service, *Federal Employees' Retirement System: Benefits and Financing* (Washington, DC: CRS, October 20, 2011).

I believe that the EPIC Act is necessary because Congress needs to lead by example and cannot credibly tackle FERS without first reforming our own federally funded benefits. Reforming FERS for future federal employees will save the American taxpayer hundreds of billions of dollars. It has become clear that pensions for future federal employees have also become a luxury that this nation can no longer afford.

The EPIC Act is an important first step towards instituting necessary reforms to retirement benefits for all future federal employees while still ensuring that benefits offered by the federal government remain competitive with those in the private sector. Since President Obama took office in 2009, he has increased the federal civilian workforce by more than 190,000 individuals, which totaled 2,130,289 federal civilian employees in September 2011.[2] As the number of federal employees continues to rise under this Administration, it is important that we acknowledge the additional burden that hard working American taxpayers are required to shoulder in order to provide the generous benefits that these individuals are eligible to receive.

The private sector has already realized that defined benefit pension plans for employees are a thing of the past. This realization, though, came at a cost with the failure of the pension programs of some of America's biggest companies, including United Airlines and Delphi Corporation, one of the world's largest automotive parts manufacturers. Both of these companies' pension programs were turned over to the Pension Benefit Guarantee Corporation (PBGC), and some participants in these pension programs will receive reduced payments.[3]

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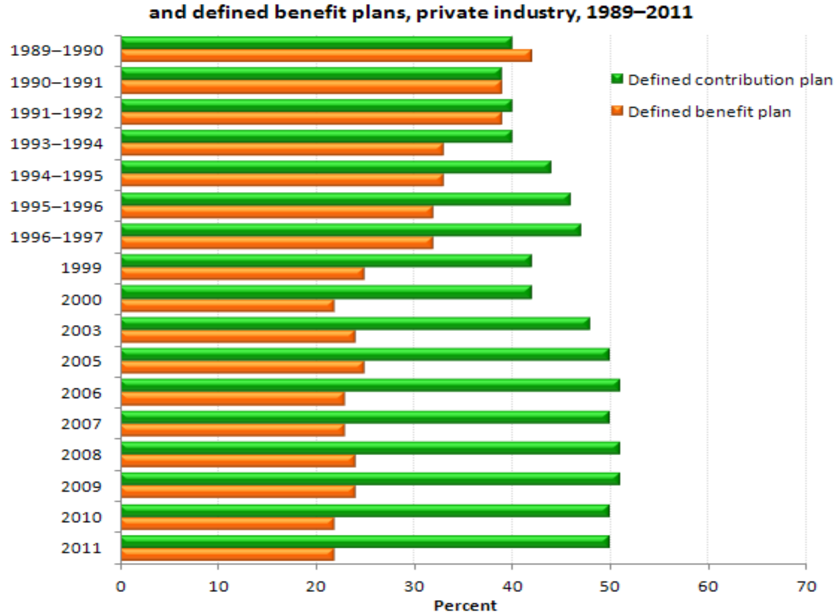
[2] U.S. Office of Personnel Management, http://www.fedscope.opm.gov/employment.asp (accessed 18 Jan. 2012)
[3] "The 10 Biggest Failed Pension Plans," *U.S. News and World Report*, 23 Aug. 2010, http://money.usnews.com/money/blogs/planning-to-retire/2010/08/23/the-10-biggest-failed-pension-plans (accessed 19 Jan. 2012)

In general, all full-time permanent civilian federal employees are eligible to receive a pension, health benefits, and participate in the Thrift Savings Plan, which is similar to a 401(k), with up to a ***five*** percent match by the federal government.[4] As noted in the chart below, the number of full-time private industry employees that participate in a defined benefit pension plan has been in a steady decline over the past two decades, and now nearly 80 percent of private sector employees do not receive a pension.[5] Currently, thirty-one percent of private sector employees do not have access to employer-provided health care[6], and the most common retirement benefit for a private sector employee is a 401(k) with only a ***three*** percent employer match.[7] By only eliminating the pension program, federal employees will still be eligible to receive generous health and retirement benefits while saving billions in taxpayer dollars.

Chart 1. Percent of full-time employees participating in defined contribution and defined benefit plans, private industry, 1989–2011



Source: U.S. Bureau of Labor Statistics, National Compensation Survey

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[4] Congressional Research Service, *Federal Employees' Retirement System: Benefits and Financing* (Washington, DC: CRS, October 20, 2011).
[5] U.S. Department of Labor Bureau of Labor Statistics, *Changing Landscape of Employment-based Retirement Benefits* (Washington, DC: BLS, September 29, 2011).
[6] U.S. Department of Labor Bureau of Labor Statistics, *Employee Benefits in the United States – March 2011* (Washington, DC: BLS, July 26, 2011).
[7] Emily Brandon, "5 Employers With Generous 401(k) Matches," *U.S. News and World Report*, 27 Sep. 2010, http://money.usnews.com/money/retirement/articles/2010/09/27/5-employers-with-generous-401k-matches (accessed 18 Jan. 2012).

According to the September 2010 Civil Service Retirement and Disability Fund Annual Report, in 2012, the federal government is projected to contribute about $24.9 billion to the Federal Employees' Retirement System (FERS). By 2065, FERS required contributions from the federal government are projected to rise to $221.7 billion, with the government paying out $341.1 billion in benefits.[8] Furthermore, the current Civil Service Retirement and Disability Fund, which provides these pension funds to beneficiaries, is currently facing $663 billion in unfunded liabilities that is projected to peak in 2023 at nearly 749 billion.[9] If we do not adjust these benefits for future recipients, our retired federal employees may be faced with potential cuts to their benefits – as we have seen happen in other countries.

TABLE 3: Past and Projected Flow of Plan Assets (FERS)

(Dollars in Billions)

Fiscal Year	Employee Contrib.	Agency Contrib.	Treasury Amort. Payment	Postal Amort. Payment	Total Govt. Contrib.	Invest-ment Income	Total Income	FERS Benefit Payment	Transfer to (from) CSRS	Total Expense	Net Assets End of Year	Dynamic FERS UAL EOY	FERS Payroll
PROJECTED FLOW													
2010	$1.4	$20.9	$1.2	$0.0	$22.1	$20.1	$43.6	$5.5	$0.0	$5.5	$380.1	$9.0	$156.0
2011	1.5	22.2	1.2	0.0	23.4	22.3	47.2	6.6	0.0	6.6	420.8	8.3	166.0
2012	1.6	23.7	1.2	0.0	24.9	24.7	51.2	7.7	0.0	7.7	464.2	7.6	177.0
2013	1.7	25.2	1.2	0.0	26.4	27.2	55.3	9.1	0.0	9.1	510.4	6.9	188.2
2014	1.8	26.7	1.2	0.0	27.9	29.9	59.5	10.6	0.0	10.6	559.3	6.1	199.6
2015	1.9	28.2	1.2	0.0	29.4	32.7	63.9	12.3	0.0	12.3	610.9	5.3	211.1
2016	2.0	29.8	1.2	0.0	31.0	35.6	68.6	14.2	0.0	14.2	665.3	4.5	222.6
2017	2.1	31.3	1.2	0.0	32.5	38.7	73.3	16.3	0.0	16.3	722.4	3.5	234.3
2018	2.2	32.9	1.2	0.0	34.1	42.0	78.3	18.7	0.0	18.7	781.9	2.6	246.0
2019	2.3	34.5	1.2	0.0	35.7	45.4	83.4	21.3	0.0	21.3	844.0	1.6	257.8
2020	2.4	36.1	1.2	0.0	37.3	48.9	88.6	24.2	0.0	24.2	908.4	0.5	269.8
2021	2.5	37.7	1.2	0.0	38.9	52.6	94.0	27.4	0.0	27.4	975.0	-0.7	281.8
2022	2.6	39.3	1.2	0.0	40.5	56.4	99.4	30.8	8.1	38.9	1035.5	6.2	294.1
2023	2.7	41.0	1.7	0.0	42.7	59.8	105.2	34.4	26.4	60.8	1079.9	31.3	306.5
2024	2.8	42.7	3.6	0.0	46.3	62.3	111.4	38.2	27.2	65.4	1125.9	56.7	319.2
2025	2.9	44.4	5.5	0.0	49.9	64.9	117.7	42.1	28.1	70.2	1173.5	82.5	332.3
2030	3.5	54.1	15.8	0.0	69.9	79.5	152.9	63.7	29.9	93.6	1445.3	209.1	404.3
2035	4.2	65.4	26.3	0.0	91.7	97.9	193.8	89.4	28.9	118.3	1787.1	320.4	488.8
2040	5.0	78.7	34.7	0.0	113.4	121.6	240.0	119.4	23.7	143.1	2228.8	392.5	588.4
2045	6.0	94.4	42.1	0.0	136.5	151.9	294.4	154.1	16.3	170.4	2792.7	408.6	705.9
2050	7.2	113.3	46.7	0.0	160.0	190.7	358.0	192.2	8.6	200.8	3509.8	353.9	847.4
2055	8.6	136.2	44.6	0.0	180.8	239.5	428.9	234.6	3.4	238.0	4400.0	235.9	1018.3
2060	10.4	163.7	35.2	0.0	198.9	297.4	506.7	283.3	1.1	284.4	5447.8	102.0	1224.2
2065	12.5	196.8	24.9	0.0	221.7	364.5	598.7	341.1	0.2	341.3	6662.4	-26.3	1472.1
2070	15.0	236.7	15.4	0.0	252.1	442.4	709.5	409.9	0.1	410.0	8071.8	-142.0	1770.0
2075	18.0	284.5	8.0	0.0	292.5	533.4	843.9	491.9	0.1	492.0	9721.9	-248.5	2127.8
2080	21.7	342.0	3.4	0.0	345.4	640.7	1007.8	590.5	0.1	590.6	11671.9	-356.9	2557.6
2085	26.1	411.0	1.2	0.0	412.2	768.2	1206.4	709.6	0.0	709.6	13990.4	-482.7	3074.2

[8] U.S. Office of Personnel Management, *Civil Service Retirement and Disability Fund Annual Report (*Washington, DC: (OPM, February 2011).
[9] Congressional Research Service, *Federal Employees' Retirement System: Budget and Trust Fund Issues* (Washington, DC: CRS, October 20, 2011).

The financial problems in Greece have led to an agreement by the cabinet to cut pensions to help address their budget shortfalls. According to Greek government officials, there will be a 20 percent cut in pensions for current retirees, pensions paid to those younger than 55 will receive a cut of 40 percent for the amount exceeding 1,000 Euros, and wages will be lowered for 30,000 government employees.[10] If we do not act now to transition future generations of federal employees into a retirement system that is in line with the private sector, by eliminating the defined benefit plan of pensions and reverting to a defined contribution plan through TSP, I believe we risk altering the pensions of those currently vested.

It must be emphasized that the choice is not between the current system and reform, but between reform or mandated cuts to the benefits of those currently vested in FERS. Reform must happen to ensure the sustainability of payments promised by the federal government to those who are currently vested in FERS. This will also help to limit the amount of hard-earned taxpayer dollars that will be required to pay for future federal retirees and save hundreds of billions of dollars over the next few decades.

This is simply a program that the American taxpayer can no longer afford and should not be required to pay for. Likewise, the federal government should stop misleading its employees and the American people about the affordability and sustainability of federal pension programs, especially since our federal government continues to dig our country deeper and deeper into debt.

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[10] Eleni Chrepa and Natalie Weeks, "Greece Speeds Budget Cuts to Ensure Aid as Transport Workers Hold Strike," *Bloomberg*, 22 Sep. 2010, http://www.bloomberg.com/news/2011-09-21/greece-accelerates-cuts-to-wages-pensions-to-ensure-next-bailout-payment.html (accessed 18 Jan. 2012).

Federal benefits will remain competitive with the private sector, and we will be able to save the American taxpayers hundreds of billions of dollars by eliminating the current defined benefit pension program for federal employees and Members of Congress.

I again thank Chairman Ross and Ranking Member Lynch for inviting me to testify today. I look forward to working with you and your subcommittee to ensure passage of the EPIC Act and additional bills to reform retirement benefits for future federal employees.