CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

June 24, 2003

S. 481

A bill to amend chapter 84 of title 5, United States Code, to provide that certain Federal annuity computations are adjusted by 1 percentage point relating to periods of receiving disability payments, and for other purposes

As reported by the Senate Committee on Governmental Affairs on June 17, 2003

SUMMARY

S. 481 would increase federal retirement benefits for certain employees who suffer a workplace injury and then return to work for the federal government. Specifically, the legislation would apply to employees who are covered by the Federal Employees' Retirement Program (FERS) and collect worker compensation payments under the Federal Employees' Compensation Act (FECA) for at least two months before returning to work. CBO estimates this legislation would increase direct spending on retirement benefits by $1 million in 2004, $16 million during the 2004-2008 period, and $68 million during the 2004-2013 period.

S. 481 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 S. 481 is shown in the following table. The costs of this legislation fall within budget function 600 (income security).

	By Fiscal Year, in Millions of Dollars										
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
CHANGES IN DIRECT SPENDING											
Federal Retirement Benefits											
Estimated Budget Authority	0	1	2	3	4	6	7	9	10	12	14
Estimated Outlays	0	1	2	3	4	6	7	9	10	12	14

BASIS OF ESTIMATE

Direct Spending

Under current law, most federal employees who participate in the FERS program earn retirement benefits at the rate of 1 percent for each year of creditable service. Time spent on FECA is considered creditable service under FERS. (In contrast, Social Security ignores time spent on the FECA rolls, and FECA participants cannot contribute to the Thrift Savings Plan.) S. 481 would increase the annual accrual rate from 1 percent to 2 percent during any period in which a FERS employee has collected FECA benefits, provided the employee spent a total of at least two months on FECA. Fractions of a year spent receiving FECA benefits would be credited at the higher accrual rate on a pro-rated basis. The legislation would only apply to federal workers who separate from federal service after the bill is enacted, regardless of when the FECA benefits were received. Therefore, outlays for retirement benefits would increase as those workers who have previously collected FECA benefits begin to retire.

Based on data provided by the Department of Labor, CBO projects that between 4,500 and 5,500 FERS employees return to federal service each year after having spent at least two months receiving FECA benefits. The average amount of time on FECA for these workers is about six months. Based on this information, CBO estimates S. 481 would increase direct spending on retirement benefits by $1 million in 2004, $16 million during the 2004-2008 period, and $68 million during the 2004-2013 period. For the purposes of this cost estimate, CBO assumes the legislation will become effective in October 2003.

Spending Subject to Appropriation

FERS is financed on an accrual basis with agencies and employees sharing the cost of financing the program. The contribution rate for employees is fixed in law, but the percent of payroll that agencies pay toward FERS is determined by the actuarial costs of the program. Increasing FERS benefits would cause the program's actuarial costs to increase, which could cause agency contributions to increase. Any increase in agency retirement contributions would be classified as spending subject to appropriation. However, CBO estimates that the cost increases projected to occur under S. 481 would not be large enough to require a change in agency contribution rates.

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

S. 481 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: Geoffrey Gerhardt
Impact on the Private Sector: Paige Piper/Bach
Impact on State, Local, and Tribal Governments: Marjorie Miller

ESTIMATE APPROVED BY:

Peter H. Fontaine
Deputy Assistant Director for Budget Analysis