CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

September 2, 1998

H.R. 633
Department of State Special Agents Retirement Act of 1998

As ordered reported by the House Committee on International Relations on August 6, 1998

SUMMARY

H.R. 633 would provide higher retirement benefits for employees in the Foreign Service who are covered by the Foreign Service Retirement and Disability System (FSRDS) and perform duties of a law enforcement nature. Retirement annuities for these employees would be calculated in the same manner as benefits for law enforcement personnel who are covered by the Civil Service Retirement System (CSRS). The bill would also set a mandatory retirement age of 57 for these employees and criminal investigators working in the Agency for International Development (AID).

CBO estimates that this bill would increase direct spending by $4 million over the 1999-2003 period due to higher FSRDS benefits. The bill would also increase discretionary spending and revenues by insignificant amounts. Because the bill would affect direct spending, pay-as-you-go procedures would apply.

H.R. 633 does not contain any intergovernmental or private-sector mandates as defined by the Unfunded Mandates Reform Act of 1995 (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. 633 is shown in the following table.

TABLE 1. ESTIMATED BUDGETARY EFFECTS OF H.R. 633

	By Fiscal Year, in Millions of Dollars				
	1999	2000	2001	2002	2003
SPENDING SUBJECT TO APPROPRIATION					
Agency retirement contributions	a	a	a	a	a
Employer Social Security taxes	a	a	a	a	a
Total discretionary spending	a	a	a	a	a
CHANGES IN DIRECT SPENDING					
On-Budget:					
FSRDS retirement benefits	a	1	1	1	1
Agency retirement contributions (receipts)	- a	- a	- a	- a	- a
Subtotal	a	1	1	1	1
Off-Budget:					
Employer Social Security taxes (receipts)	- a	- a	- a	- a	- a
Total direct spending	a	a	1	1	1
CHANGES IN REVENUES					
On-Budget:					
Employee retirement contributions	a	a	a	a	a
Off-Budget:					
Employee Social Security taxes	a	a	a	a	a
TOTAL COST					
Direct spending and revenues	a	a	a	1	1
All spending and revenues	a	1	1	1	1

a = Less than $500,000.

This estimate assumes that H.R. 633 is enacted on October 1, 1998.

The mandatory costs of this legislation fall within budget function 600, Income Security.

BASIS OF ESTIMATE

Foreign Service employees who were hired before 1987 are generally covered by the Foreign Service Retirement and Disability System. Under FSRDS, employees contribute 7 percent of their basic pay towards retirement, with the employing agency contributing an equal amount. Employees may retire voluntarily once they reach the age of 50 and have completed 20 years of service; they face mandatory retirement when they reach age 65 or spend too much time in their class without being promoted. Retirement benefits under FSRDS equal 2 percent of an employee's average pay for each year of service. Most employees hired after 1987 are covered by the Foreign Service Pension System (FSPS).

The bill would allow certain employees (termed "special agents") who are covered by FSRDS and perform duties of a law enforcement nature to have their annuities calculated using a more generous formula. Special agents would be able to use a 2.5 percent rate for their first 20 years of service instead of the current rate of 2 percent. This would match the formula used for law enforcement personnel who are covered by CSRS. In order to be eligible, employees would have to complete 20 years of service as a special agent and be at least 50 years old. Employees who worked as special agents while in FSRDS and have since elected to join FSPS would also be eligible for the higher rate, but the rate would apply only to service as an agent under FSRDS. The bill would also set a mandatory retirement age of 57 for special agents and criminal investigators in AID.

Discretionary Spending

Agency Retirement Contributions. The bill would increase the amount that the State Department contributes towards Foreign Service retirement for two reasons. First, the bill would increase the amount that special agents in FSRDS contribute towards their retirement from 7.0 percent to 7.5 percent. This would match the rate paid by law enforcement personnel in the similar CSRS program. Under FSRDS, the State Department makes retirement contributions at the same rate paid by employees. As a result, contributions paid by the Department would also increase.

Second, the bill would induce some special agents to retire earlier than they would otherwise (as discussed below). CBO assumed that the total number of special agents would remain constant, and that retiring agents would be replaced by new employees covered by FSPS, which requires agency contributions equal to 18 percent of pay. Overall, agency retirement contributions would rise by about $100,000 in 1999 and $120,000 in 2003.

Employer Social Security Taxes. Unlike employees in FSRDS, the new agents hired under FSPS would be covered by Social Security. As a result, agency payments for Social Security taxes would increase, but by less than $45,000 annually.

Direct Spending

FSRDS Retirement Benefits. H.R. 633's provisions would affect only special agents who are hired after the bill's enactment and current agents who elect to be covered by the bill. Current agents electing to be covered would be required to make a deposit into the Foreign Service retirement trust fund equal to the additional 0.5 percent in retirement contributions they would have paid under law enforcement rates during their career, plus interest. Agents who did not make this deposit would be required to take an actuarially equivalent reduction in their annuity.

According to the State Department, about 200 current employees would qualify as special agents under the bill. CBO assumed that all of them would elect to be covered by the bill's provisions. The higher 2.5 percent accrual rate would boost annuities for many agents by 15 to 20 percent. This increase would be large enough that CBO assumed that half of the special agents would be induced to retire a year earlier than under current law. Finally, CBO assumed that all of the agents would take an actuarial reduction in their annuity (which would amount to 1 to 2 percent) rather than making the required deposit (which for many agents would be about $10,000). By taking the reduction, agents would be able to receive higher benefits without having to make a substantial deposit to get them. CBO estimates that spending on FSRDS retirement benefits would increase by about $270,000 in 1999, rising to $960,000 in 2003.

The mandatory retirement age included in the bill would only affect a handful of employees. According to the State Department, almost all Foreign Service employees retire before age 57 either voluntarily or under the time-in-service requirements.

Agency Retirement Contributions. The additional agency contributions discussed above would also increase receipts by the Foreign Service trust fund by about $70,000 in 1999 and $45,000 in 2003. CBO scores only the increase in receipts due to higher contributions for FSRDS employees. The additional receipts for new special agents hired under FSPS are associated with higher spending on FSPS benefits that lie outside the 5-year budget window. CBO's longstanding practice in these situations is not to include these receipts under direct spending since they would present an inaccurate picture of the bill's overall impact on direct spending.

Employer Social Security Taxes. The additional agency payments of Social Security taxes, discussed above, would increase receipts by the Social Security trust funds. These receipts, which are off-budget, would increase by less than $45,000 annually.

Revenues

Receipts from employee retirement contributions, which are on-budget, would rise slightly since the bill would raise the rate paid by special agents a half percentage point to 7.5 percent. The accelerated hiring of special agents covered by FSPS would also increase receipts from employee Social Security taxes, which are off-budget. In both cases, the amount of the annual increase would be less than $45,000.

PAY-AS-YOU-GO CONSIDERATIONS

Section 252 of the Balanced Budget and Emergency Deficit Control Act sets up pay-as-you-go procedures for legislation affecting direct spending or receipts. The net changes in outlays and governmental receipts that are subject to pay-as-you-go procedures are shown below. For the purposes of enforcing pay-as-you-go procedures, only the effects in the current year, the budget year, and the succeeding four years are counted.

TABLE 2. ESTIMATED PAY-AS-YOU-GO EFFECTS OF H.R. 633

	By Fiscal Year, in Millions of Dollars										
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Changes in outlays	0	0	1	1	1	1	1	1	1	1	1
Changes in receipts	0	0	0	0	0	0	0	0	0	0	0

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

H.R. 633 does not contain any intergovernmental or private-sector mandates as defined by the Unfunded Mandates Reform Act of 1995 (UMRA) and would impose no costs on state, local, or tribal governments.

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