

Amendments to the Civil Service Retirement Act, 1962

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Among the liberalizations in the Civil Service Retirement Act made by the 1962 amendments was a provision for automatic cost-of-living increases in benefit payments. This provision—the first Federal law tying benefit amounts to living costs—was included in part 3 of Public Law 87-793, described in the following pages.

THE Civil Service Retirement Act was amended by Public Law 87-793, signed by the President on October 11, 1962. The changes in part 3 of the act affect both current and future civil-service retirees and survivors.

The principal provisions of the new law include:

(1) An initial increase of 5 percent, effective January 1, 1963, in all annuities beginning on or before that date and progressively smaller increases in all annuities that begin in the 4-year period after January 1, 1963.

(2) Automatic cost-of-living increases in future years to reflect each cumulative rise of 3 percent or more in the calendar-year average of the monthly consumer price index of the Bureau of Labor Statistics after 1962 (or the year preceding the latest cost-of-living increase).

(3) Removal of the ceilings (\$2,160 and \$4,104) on increases imposed by legislation enacted in 1952 and 1955.

(4) An increase from \$2,400 to \$3,600 in the designated amount of annuity to which a reduction of only 2½ percent applies when a married employee elects survivor benefits, and an increase from 50 percent to 55 percent in the survivorship benefit as a portion of the employee annuity, for designated survivors of retired employees and for widows and dependent widowers of active employees.

(5) Continuance of child's benefits after age 18 (to age 21) while he or she is a full-time student in a recognized educational institution.

The law made no provision for financing the increases, and legislation will be required before payment of the additional amounts can begin. Once financing is authorized, the additional benefit

amounts will be paid retroactively from appropriate effective dates.

The cost-of-living increase in the annuity represents, in effect, a plan paralleling the long-range Federal salary reform plan that was enacted as part 2 of Public Law 87-793. Establishment of this relationship between living costs and annuities is intended (a) to provide a continuing solution to an otherwise recurrent problem and (b) to provide directly for increases in line with recent increases in the cost of living.

This article will discuss in some detail the major provisions of part 3 of Public Law 87-793 that affect the Civil Service Retirement Act. In addition, there is presented in the accompanying chart a brief outline of the system as amended through October 11, 1962.

INITIAL ADJUSTMENTS FOR INCREASES IN LIVING COSTS

Effective January 1, 1963, the new law increases by 5 percent all annuities of employees and survivors that began on or before that date. Annuities beginning January 2-December 31, 1963, will be raised 4 percent, and annuities beginning at any time during the calendar year 1964 will be increased by 3 percent. An increase of 2 percent will apply to annuities beginning in 1965, and a 1-percent increase to those beginning in 1966.

These adjustments are intended to approximate increases in the cost of living from 1958 to 1962. The reduced scale of increases for annuities beginning during the following 4 years is designed to allow for the fact that the average salaries for the "high-5" years for persons retiring in that period may be considered to reflect gradually the increases in living costs within the past few years.

The increased amounts are permanent, not only for the employee annuitants and survivors immediately affected, but also as a carryover to the annuities of future survivors after the death of the affected employee annuitants. If, for example, an employee's annuity begins in 1964, the annuity

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payable to the widow after his death will be raised by 3 percent (in addition to other increases for survivors provided by the law).

After the annuities have been increased according to applicable percentages, the resulting monthly installments are rounded to the nearest dollar. Annuities purchased by special voluntary contributions (in addition to the normal employee contributions of 6½ percent of pay) are not affected by any of the annuity-increase provisions of Public Law 87-793. Such annuities are investment income; the exact amount payable on the accrued account depends on the annuitant's age at the time his annuity begins.

AUTOMATIC COST-OF-LIVING INCREASES

The basis for the automatic increases in annuities is to be the calendar-year average of the monthly consumer price index published by the Bureau of Labor Statistics. Annuities are to be adjusted upward whenever a cumulative rise of at least 3 percent in living costs is indicated. The first years to be compared will be 1962 and 1963. The adjustment is to be based on the actual percentage rise, rounded to the nearest 1/10 of 1 percent. The effective date of the adjustment is to be April 1 of the year following the comparison—for example, April 1, 1964, if the 1962-63 comparison indicates a rise of at least 3 percent. Each comparison that results in an increase brings in, of course, a new base year's price index against which to measure future increases.

Whether or not an annuitant will be eligible for any specific increase based on a comparison of price indexes depends generally upon the date on which his annuity began. The employee annuitant who gets an increase effective as of April 1 of a certain year must be receiving an annuity that began on or before January 1 of the preceding year. In other words, he must have been on the rolls for at least 15 months. Thus he will receive, generally, the increases for years after the calendar year his annuity begins, effective 3 months after the close of such years.

The named survivor of a deceased employee annuitant will receive the cost-of-living increases granted after the survivor annuity begins. In addition, he will receive, from the starting date of that annuity, all percentage increases that have been applied to the employee annuity before the employee's death.

For the annuities of surviving children, a further change was based on congressional consideration of the fact that these annuities are normally a flat amount, not responsive to employee salary increases that may be considered as reflecting higher living costs. Under Public Law 87-793 the "flat dollar" maximums limiting children's annuities are to be increased by all cost-of-living adjustments granted (the first of which can be effective April 1, 1964). The maximums based on a "flat percentage of average salary" for children's annuities are increased only for price-index adjustments granted after the employee retires and thus are not applicable for the surviving children of employees who died before retirement. The accompanying chart shows how children's annuities are adjusted.

The survivor provisions are, in effect, made retroactive with respect to the first cost-of-living increase allowed. The surviving widow, widower, or designated individual with an insurable interest receives, from the starting date of the survivor annuity, the first adjustment made on April 1 (of a year after 1963) if the employee annuity began on or before January 1 of the preceding year. For a child annuitant, if the annuity begins before the first adjustment date, the increase will be payable whether or not he had been on the rolls for 15 months.

Price-index adjustments for deferred annuities are based on the starting date of the annuity, not on the date of separation. Accordingly, such annuities cannot be adjusted during the period from the date of the employee's separation to at least 15 months after his annuity begins. Common cases of deferred annuities are (a) those where separation occurs but the employee is not entitled to an immediate annuity and does not elect a refund of contributions, and (b) those payable under the old law at age 50 to widows without eligible children. Monthly amounts after application of price-index increases are rounded to the nearest dollar. Annuities purchased with special voluntary contributions are not affected.

Any change in the type of annuity—such as that made when a recovered disability annuitant qualifies for an immediate nondisability annuity—does not break the chain of annuity increases. When an annuity is terminated, however, and there is a lapse of time before the person qualifies for another (either of the same or a different type), the new commencing date will govern eligibility for future increases. These increases will apply to the

new annuity computed according to the basic formulas in the law.

Under the eligibility provisions for these increases, some annuitants and survivors may narrowly miss being qualified for a particular increase because of the actual date of separation or death. On the other hand, it will be entirely possible for an annuitant to receive, 15 or more months after his

retirement, a permanent increase representing not only price-index increases that occurred after the year of his separation but also some that had occurred before that year, if they did not add to as much as 3 percent. Across-the-board rules with respect to qualification dates were necessary in the law to avoid administrative complications and unreasonable administrative costs.

Principal provisions of the Civil Service Retirement Act, October 11, 1962¹

A. Types of benefits

(1) Age and service retirement benefit:

- (a) Compulsory at or after age 70 with 15 years' service—full annuity terminating at death;
- (b) Voluntary:
 - (i) at age 62 with 5 years' service—full annuity terminating at death;
 - (ii) at age 60 with 30 years' service—full annuity terminating at death;
 - (iii) at age 55 with 30 years' service—reduced annuity if under age 60, terminating at death;
- (c) Involuntary (not for cause), at any age with 25 years' service or at age 50 or over with 20 years' service—reduced annuity if under age 60, terminating at death.

Cost-of-living increases first possible on the April 1 occurring 15 months or more after annuity begins.

(2) Disability retirement benefit, at any age with 5 years' service, with finding of disability by Civil Service Commission—full annuity (special minimum), terminating at death or with recovery or restoration of earning capacity before age 60.

Cost-of-living increases first possible on the April 1 occurring 15 months or more after annuity begins.

(3) Deferred retirement benefit, 5 or more years' service, refund not elected—full annuity at age 62, terminating at death.

Cost-of-living increases first possible on the April 1 occurring 15 months or more after annuity begins.

(4) Lump-sum withdrawal, (a) less than 5 years' service—refund of accumulated contributions; (b) 5 years' service, not eligible for immediate annuity—choice of refund or deferred retirement benefit.

(5) Lump-sum benefit (death before retirement), no specified period of service, no survivor with annuity rights—refund of accumulated contributions.

(6) Special lump-sum benefit (guaranteeing return of employee contributions), payable if annuitant dies and no survivor has annuity rights or survivor annuities have terminated—refund of accumulated contributions less all annuity payments.

(7) Survivor child benefit (death before retirement):

- (a) With surviving parent and 5 years' service—benefit (terminating at death, marriage, or attainment of age 18 unless disabled, but continuing to attainment of age 21 for full-time students in recognized educational institutions) is the smallest of:
 - (i) 40% of employee's "average salary," divided by number of children,

- (ii) \$1,800 divided by number of children,
- (iii) \$600.

Cost-of-living increases do not apply to the maximum defined in (i). Cost-of-living increases in maximums defined in (ii) and (iii) first possible on Apr. 1, 1964, applying to computation of all future survivor child benefits at death of employee. After death of employee, further cost-of-living increases first possible on the April 1 occurring 15 months or more after annuity begins.

- (b) With no surviving parent and 5 years' service—benefit under same conditions as in 7(a), except that benefit is the smallest of:
 - (i) 50% of employee's "average salary," divided by number of children,
 - (ii) \$2,160 divided by number of children,
 - (iii) \$720.

Cost-of-living increases under same conditions as in 7(a).

(8) Survivor child benefit (death after retirement):

- (a) With surviving parent and 5 years' service—benefit (terminating at death, marriage, or attainment of age 18 unless disabled, but continuing to attainment of age 21 for full-time students in recognized educational institutions) is the smallest of:
 - (i) 40% of employee's "average salary," divided by number of children,
 - (ii) \$1,800 divided by number of children,
 - (iii) \$600.

Cost-of-living increases in maximum defined in (i) first possible on the April 1 occurring 15 months or more after parent's annuity begins. Cost-of-living increases in maximums defined in (ii) and (iii) first possible Apr. 1, 1964, applying to computation of all future survivor child benefits at death of employee annuitant. After death of employee annuitant, further cost-of-living increases, first possible on the April 1 occurring 15 months or more after child's annuity begins.

- (b) With no surviving parent and 5 years' service—benefit under same conditions as in 8(a), except that benefit is the smallest of:
 - (i) 50% of employee's "average salary," divided by number of children,
 - (ii) \$2,160 divided by number of children,
 - (iii) \$720.

Cost-of-living increases under same conditions as in 8(a).

(9) Survivor spouse benefit (death before retirement), 5

¹ See footnote at end of table.

REMOVAL OF CEILINGS ON PAST SPECIAL INCREASES

Among the limitations on annuity increases granted by legislation in 1952 was a ceiling on the amount payable. Annuities of \$2,160 or more could not be increased, and annuities of less than that amount could not be raised to more than \$2,160. (A later amendment provided that an-

nuities purchased by voluntary contributions were not to be included in the computation.) This ceiling is removed, effective January 1, 1963, and with it a similar ceiling of \$4,104 on the increases provided by a 1955 enactment. Where increases were limited by either of these provisions, the annuities paid after December 1962 will be those calculated as if the ceilings had never existed and

Principal provisions of the Civil Service Retirement Act, October 11, 1962¹—Continued

years' service, payable to widow or disabled dependent widower—55 percent of regular service annuity, terminating at death or remarriage of widow or widower, or the widower's becoming capable of self-support.

Cost-of-living increases first possible on the April 1 occurring 15 months or more after annuity begins.

- (10) Elective survivor benefits (death after retirement):
- For married annuitant, payable to designated spouse—55 percent of amount designated by employee, terminating at death or remarriage of spouse;
 - For unmarried annuitant (election not available for disability retirement), payable to designated person—55 percent of annuity, reduced for the election, terminating at death of beneficiary.

Cost-of-living increases first possible on the April 1 occurring 15 months or more after *employee* annuity begins. After death of employee annuitant, further increases first possible on the April 1 occurring 15 months or more after survivor annuity begins.

B. Computation of benefit amounts

- "Average salary":
Highest average annual basic salary during any 5 consecutive years.
- Total service:
Number of years plus full months expressed as fraction of year.
- Basic annuity:
The sum of:
 - 1½% of "average salary," or 1% of "average salary" plus \$25, whichever is greater, times first 5 years of service;
 - 1¾% of "average salary," or 1% of "average salary" plus \$25, whichever is greater, times second 5 or less years of service;
 - 2% of "average salary," or 1% of "average salary" plus \$25, whichever is greater, times service in excess of 10 years.
- Maximum annuity:
80% of "average salary" but see item (1) under "Financing."
- Minimum annuity (disability retirement only):
The lesser of (a) 40% of "average salary," or (b) basic annuity computed using total actual service plus assumed additional service to age 60.
- Reduction for retirement under age 60:

No reduction for disability retirement. Otherwise, total annuity reduced by 1/12 of 1% for each full month that the retiring employee is under age 60, except that if under age 55, reduction is 5% plus 1/6 of 1% for each full month that the employee is under age 55.

- Reduction for unpaid deposits:
Retiring employee fails to make full deposit due for noncontributory service; reduction in annuity (on an annual basis) is 10 percent of unpaid amount.
- Optional reduction for survivor benefits:
 - Married annuitant elects reduction for benefit of 55 percent of full designated amount of annuity to wife or husband; reduction is 2½% of the first \$3,600 of designated amount plus 10% of designated amount in excess of \$3,600. Election automatic (with designation of full amount of annuity) unless employee specifies otherwise.
 - Unmarried annuitant elects reduction for benefit of 55 percent of reduced annuity to designated beneficiary; reduction is 10% of annuity plus 5% for each full 5 years the designated beneficiary is younger than the annuitant (total reduction not to exceed 40%). Option not available for those retiring for disability.

C. Financing

- Employee contributions:
6½% of basic salary; after employee has served long enough to earn maximum annuity of 80% of "average salary" (generally slightly less than 42 years), all future contributions, plus 3% interest, are at retirement applied toward deposits due for refunded or non-contributory service or treated as voluntary contributions for purchase of an additional annuity.
- Agency contributions:
6½% of basic salary.
- Congressional appropriation:
Civil Service Commission submits annual estimates of additional appropriations required.
- Retirement fund investments:
Principally invested in specially authorized U.S. issues; interest on current investments at a rate equal to the current average market yield on all outstanding U.S. marketable obligations not due or callable until after 4 years from such issuance. Current rate on new investments, 3-7/8%; current overall earning rate about 2-7/8%.

¹ The 15-month restrictions on eligibility for cost-of-living increases shown in this chart relate to separations on or after the effective date of the first general increase granted. As described in the text, the first general increase

is to be granted under somewhat less restrictive conditions for survivor annuities based on separations before that date.

then further increased by the 5-percent initial allowance. The resulting new rates are payable beginning January 1, 1963.

ADDITIONAL CHANGES IN SURVIVOR BENEFITS

The terms governing the optional election of survivor benefits at retirement by married employee annuitants are revised in three ways by Public Law 87-793. Formerly the employee designated any part of his annuity to serve as a base for figuring the amount of the survivor annuity. The survivor would receive 50 percent of the amount so designated. The employee annuity was then reduced by $2\frac{1}{2}$ percent of the amount designated, up to \$2,400, plus 10 percent of any amount above \$2,400.

Under the new law, the reduction factor of $2\frac{1}{2}$ percent applies to the first \$3,600 of the designated amount. The change reduces considerably the cost, already relatively low, to the married employee of survivor protection for his spouse. In addition, the surviving spouse is to receive 55 percent of the amount designated, instead of the 50 percent previously provided.

Under the new law, election of survivor benefits for the spouse of the retiring married employee (with benefits based on the full amount of the employee annuity) is automatically assumed unless the employee elects not to give this protection to his spouse. He must then specify in writing his decision to dispense with these survivor benefits for his spouse or to elect less than full protection. In the latter case he must specify the smaller base for computing the survivor benefit.

Public Law 87-793 also increases from 50 percent to 55 percent the factor for certain other survivor benefits. Annuities for widows and disabled dependent widowers of persons who died before retirement are now 55 percent of the regular annuity based on the employee's credited service

and average salary for the "high-5" years. For unmarried annuitants electing survivor protection for designated beneficiaries, the survivor annuity is based on 55 percent of the employee annuity as reduced for the election.

The survivor benefit changes do not apply to elections by employees retired or otherwise separated from the Federal service before the date the law was approved (October 11, 1962).

CONTINUATION OF BENEFITS FOR CHILDREN IN SCHOOL

According to the old law, benefits to surviving children (payable whether the employee's death occurred before or after retirement) terminated on the child's attainment of age 18 (unless disabled before age 18) or on marriage or death before age 18. Now, if the child is a student regularly pursuing a full-time course in a recognized, educational institution (college, high school, trade school, etc.), the annuity may continue until he reaches age 21. It will be terminated on his ceasing to be such a student or on his attaining age 21. Actual attainment of age 21 will govern the termination of the student-child's annuity unless his twenty-first birthday occurs after August 31 and before the following July 1; he is then deemed to have attained age 21 on the following July 1. He can therefore continue receiving the annuity throughout the normal school year in which he attains age 21.

The child may continue to receive benefits during an interim period of not more than 4 months between school years. He must, however, be able to indicate a bona fide intention to continue as a student immediately afterward.

This change applies both to children whose annuities begin in the future and to those currently on the rolls, but not to children whose annuities were terminated because of attaining age 18 before October 11, 1962.