CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

June 13, 2018

H.R. 3303
First Responder Fair RETIRE Act

As ordered reported by the House Committee on Oversight and Government Reform on March 15, 2018

SUMMARY

H.R. 3303 would allow certain federal employees who are covered by provisions of enhanced retirement and who become ill or injured while performing the duties of their position to return to work and remain covered by enhanced retirement. That provision would apply even if those workers return to work in a position that would otherwise not be covered.

Under the bill, people in covered positions include law enforcement officers, fire fighters, customs and border protection agents, air traffic controllers, nuclear materials couriers, members of the U.S. Capitol Police, members of the Supreme Court Police, Central Intelligence Agency agents, and special agents under the Foreign Service Act of 1980.

Classifying some federal positions as covered under enhanced retirement when they otherwise would not be would have several budgetary effects, including:

- Increased direct spending for benefit payments because of earlier retirements that are calculated under a more generous formula,
- Increased revenues from additional retirement contributions paid by employees, and
- Increased retirement contributions paid by employing agencies out of their discretionary appropriations.

On net, CBO estimates that enacting H.R. 3303 would increase deficits by $8 million over the 2019-2028 period. That amount comprises an increase in direct spending of $11 million and an increase in revenues of $3 million. Because enacting H.R. 3303 would affect direct spending and revenues, pay-as-you-go procedures apply. In addition, CBO

estimates that enacting H.R. 3303 would increase spending subject to appropriation by $100 million over the 2019-2028 period.

CBO estimates that enacting H.R. 3303 would not increase net direct spending by more than $2.5 billion or on-budget deficits by more than $5 billion in any of the four consecutive 10-year periods beginning in 2029.

H.R. 3303 contains no intragovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA).

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary effect of H.R. 3303 is shown in the following table. The costs of the legislation fall mostly within budget functions 550 (health), 600 (income security), and 950 (undistributed offsetting receipts).

	By Fiscal Year, in Millions of Dollars												
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2019-2023	2019-2028
INCREASES IN DIRECT SPENDING													
Estimated Budget Authority	0	0	0	0	*	*	*	1	2	3	5	*	11
Estimated Outlays	0	0	0	0	*	*	*	1	2	3	5	*	11
INCREASES IN REVENUES													
Estimated Revenues	0	0	0	*	*	*	*	*	1	1	1	*	3
NET INCREASE OR DECREASE (-) IN THE DEFICIT FROM CHANGES IN DIRECT SPENDING AND REVENUES													
Effect on the Deficit	0	0	0	*	*	*	*	*	1	2	4	*	8
INCREASES IN SPENDING SUBJECT TO APPROPRIATION													
Estimated Authorization Level	0	0	0	1	4	7	11	14	17	21	25	12	100
Estimated Outlays	0	0	0	1	4	7	11	14	17	21	25	12	100
Memorandum: Increase in Offsetting Receipts Resulting From Higher Employer Contributions[a]													
Offsetting Receipts	0	0	0	-1	-4	-7	-11	-14	-17	-21	-25	-12	-100

Components may not sum to totals because of rounding; * = between -$500,000 and $500,000.

a. Employer contributions are intragovernmental transactions that do not affect the deficit; negative numbers indicate an increase in receipts.

BASIS OF ESTIMATE

For this estimate, CBO assumes that the bill will be enacted near the end of 2018 and that the estimated authorizations will be appropriated each year. The provisions of H.R. 3303 would take effect two years after enactment and would apply to employees who are injured or become ill on or after that date.

H.R. 3303 would allow qualifying employees who return to work and are unable to secure an enhanced retirement position to have their service treated as though covered.

According to information from the Office of Personnel Management (OPM), approximately 220,000 federal employees are in enhanced retirement positions that could be affected by H.R. 3303. On the basis of data collected from the Department of Labor and other federal agencies, CBO estimates that under current law about 4.5 percent (or 10,000 employees) will be injured or become ill each year and that about 2 percent (or 215 employees) of those who are injured or become ill will be unable to secure appointments to enhanced retirement positions. When that happens, those employees are shifted into nonenhanced retirement and cannot retire under the earlier eligibility guidelines or the more generous annuity calculations associated with enhanced retirement.

The budgetary effects of changing a classification from standard to enhanced retirement under H.R. 3303 include the following:

- Outlays for retirement benefits would be larger and would begin sooner for some returning employees because of the more generous annuity calculation for enhanced retirement and the earlier eligibility for retirement. Outlays for federal retirement benefits are classified as direct spending.

- Revenues from affected employees would increase because those workers would be required to pay a larger percentage of their salaries into the Civil Service Retirement and Disability Fund (CSRDF). Those payments are recorded as revenues in the federal budget.

- Outlays from employing agencies would increase because the agencies would be required to pay a larger percentage of their affected employees' salaries into the CSRDF. Such transactions are considered intragovernmental transfers that have no net effect on the deficit. Payments from the agencies are subject to the availability of future appropriation, and receipts from those payments are classified as offsetting receipts.

Estimated Effects on Direct Spending

CBO estimates that enacting H.R. 3303 would increase direct spending by $11 million over the 2019-2028 period because some retirements would occur earlier than under current law. Under the bill, people who qualified for earlier retirement also would earn larger annual benefits and their retirement would trigger earlier payments by the government for its share of premiums for retirees under the Federal Employee Health Benefits (FEHB) plan.

Eligibility for enhanced retirement currently begins at age 50 for employees with 20 years of service or at any age with 25 years of service. Eligibility for standard retirement with a full annuity occurs at age 62 with 5 years of service or at age 60 with 20 years of service. (Employees with 30 years of service can retire at earlier ages, depending on factors such as their birth year and the applicable retirement system.) Using data summarizing the age and service distribution of law enforcement officers and historical retirement data for that population, CBO estimates that enacting H.R. 3303 would result in about 80 retirements between 2022 and 2028 that would have occurred after 2028 under current law.

The formula used to calculate the annual benefit for enhanced retirement is more generous than the standard formula. The annuity for an enhanced retirement employee is 1.7 percent (rather than the standard 1.0 percent) of the average of the employee's three highest consecutive years of salary (the "high-3 average"), multiplied by years of service. For the roughly 80 retirements that CBO estimates would occur in the budget window as a result of H.R. 3303, the average starting annuity is estimated to be about $47,000. That calculation is based on a judgment that an affected employee's high-3 average is likely to stem from service completed before an injury or illness. Upon returning to the workforce, such an employee's salary is likely to be significantly lower because that worker would not return to a position that is eligible for pay premiums such as law enforcement availability pay, Sunday pay, or night differential.

Earlier retirements also trigger earlier direct spending for premiums for the FEHB plan. (The federal share of premiums for most active federal employees is paid out of agencies' discretionary appropriations.) Using historical data from OPM, CBO estimates that over 90 percent of enhanced retirement employees under H.R. 3033 either would elect FEHB participation or would choose to continue to participate upon retirement. CBO estimates that, on average, the annual federal share of FEHB premiums per recipient for the 2019-2028 period is about $14,000.

Estimated Effects on Revenues

Under current law, federal employees covered by enhanced retirement must contribute 0.5 percent more of their salary than the rate paid by noncovered employees (between 0.8 percent and 4.4 percent for participants in the Federal Employees Retirement System, or FERS, depending on when the employee began service, and 7.0 percent for the Civil Service Retirement System, or CSRS). Because H.R. 3303 would reclassify some positions as enhanced retirement positions when they otherwise would not be, CBO estimates that the additional employee contributions required by the bill would increase revenues over the 2019-2028 period by $3 million.

Estimated Effects on Spending Subject to Appropriation

Federal agencies are required to contribute to the CSRDF up to an additional 17 percent of salary for an enhanced retirement employee. (The contribution rate for most other employees ranges from 7.0 percent to 13.2 percent of the worker's salary, depending on the retirement system—CSRS or FERS—and employment category.) CBO estimates that the additional agency contributions required by H.R. 3303 would increase spending subject to appropriation by $100 million over the 2019-2028 period.

PAY-AS-YOU-GO CONSIDERATIONS

The Statutory Pay-As-You-Go Act of 2010 establishes budget-reporting and enforcement procedures for legislation affecting direct spending or revenues. The net changes in outlays and revenues that are subject to those pay-as-you-go procedures were shown previously in the table on page 2. In total, enacting the bill would increase deficits by $8 million over the 2018-2028 period—an $11 million increase in direct spending partially offset by a $3 million increase in revenue.

INCREASE IN LONG-TERM DIRECT SPENDING AND DEFICITS

CBO estimates that enacting H.R. 3303 would not increase net direct spending by more than $2.5 billion or on-budget deficits by more than $5 billion in any of the four consecutive 10-year periods beginning in 2029.

MANDATES

H.R. 3303 contains no intragovernmental or private-sector mandates as defined in UMRA.

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