Congressional Budget Office
Cost Estimate

September 23, 2022

At a Glance

H.R. 521, the First Responder Fair RETIRE Act

As ordered reported by the Senate Committee on Homeland Security and Governmental Affairs on August 3, 2022

By Fiscal Year, Millions of Dollars	2022	2022-2027	2022-2032
Direct Spending (Outlays)	0	*	4
Revenues	0	*	1
Increase or Decrease (-) in the Deficit	0	*	3
Spending Subject to Appropriation (Outlays)	0	7	not estimated

Statutory pay-as-you-go procedures apply?	Yes	**Mandate Effects**	
Increases on-budget deficits in any of the four consecutive 10-year periods beginning in 2033?	< $5 billion	Contains intergovernmental mandate?	No
		Contains private-sector mandate?	No

* = between -$500,000 and $500,000.

The bill 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 in a different position and remain covered by enhanced retirement

Estimated budgetary effects would mainly stem from

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

Detailed estimate begins on the next page.

See also *CBO's Cost Estimates Explained*, www.cbo.gov/publication/54437;
How CBO Prepares Cost Estimates, www.cbo.gov/publication/53519; and *Glossary*, www.cbo.gov/publication/42904.

Bill Summary

H.R. 521 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 remain covered by enhanced retirement even if they have to resume duty (as a result of their illness or injury) 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.

Estimated Federal Cost

The estimated budgetary effect of H.R. 521 is shown in Table 1. The direct spending and revenue effects fall in function 600 (income security); the discretionary costs of the legislation would affect many budget functions.

Table 1.
Estimated Budgetary Effects of H.R. 521

	By Fiscal Year, Millions of Dollars												
	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2022-2027	2022-2032
	Increases in Direct Spending												
Estimated Budget Authority	0	0	0	0	*	*	*	*	1	1	2	*	4
Estimated Outlays	0	0	0	0	*	*	*	*	1	1	2	*	4
	Increases in Revenues												
Estimated Revenues	0	0	0	*	*	*	*	*	*	*	*	*	1
	Net Increase or Decrease (-) in the Deficit From Changes in Direct Spending and Revenues												
Effect on the Deficit	0	0	0	*	*	*	*	*	*	1	2	*	3
	Increases in Spending Subject to Appropriation												
Estimated Authorization	0	0	0	1	2	4	n.e	n.e	n.e	n.e	n.e	7	n.e
Estimated Outlays	0	0	0	1	2	4	n.e	n.e	n.e	n.e	n.e	7	n.e

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

Basis of Estimate

For this estimate, CBO assumes that the bill will be enacted near the end of calendar year 2022. The provisions of H.R. 521 would apply to employees who first suffer an injury or illness two years after enactment.

Background

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. 521. Using data from the Department of Agriculture, the Department of Homeland Security, and other federal agencies, CBO estimates that under current law about 3.5 percent (or 8,000 employees) will be injured or become ill each year while performing their duties. Of that number, about 1 percent (or 80 employees) will be unable to return to work in a position covered by enhanced retirement because of the nature of their injury or illness. When that happens, those employees are shifted into standard retirement and cannot retire under the provisions of enhanced retirement, which allow for earlier eligibility and provide more generous annuity calculations.

The budgetary effects of allowing those people to receive an enhanced retirement under H.R. 521 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 appropriations, and receipts from those payments are classified as offsetting receipts.

Direct Spending

CBO estimates that enacting H.R. 521 would increase direct spending by $4 million over the 2022-2032 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) program.

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 group of employees, CBO estimates that enacting H.R. 521 would result in about 30 retirements between 2026 and 2032 that would have occurred after 2032 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 employee covered by enhanced retirement in the Federal Employee Retirement System (FERS) is 1.7 percent (rather than the standard 1.0 percent) of the average of the employee's three highest consecutive years of salary (high-3), multiplied by the number of years of service. For the roughly 30 retirements that CBO estimates would occur between 2026 and 2032 as a result of H.R. 521, the average starting annuity is estimated to be about $47,000. That calculation is based on an assessment that an affected employee's high-3 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 program. (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 employees affected by H.R. 521 would continue to participate in the FEHB program upon retirement. CBO estimates that, on average, the annual federal share of FEHB premiums per recipient over the 2022-2032 period will be about $14,000.

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 FERS, depending on when the employee began service). H.R. 521 would reclassify some positions as qualifying for enhanced retirement; as a result, CBO estimates that the additional employee contributions required by the bill would increase revenues over the 2022-2032 period by $1 million.

Spending Subject to Appropriation

Federal agencies are required to contribute to the CSRDF up to an additional 19 percent of salary for an employee covered by enhanced retirement. (The contribution rate for most employees not covered by enhanced retirement is about 17 to 18 percent of the worker's salary, depending on when they began service.) CBO estimates that the additional agency contributions required by H.R. 521 would increase spending subject to appropriation by $7 million over the 2022-2027 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 are shown in Table 2.

Table 2.
CBO's Estimate of the Statutory Pay-As-You-Go Effects of H.R. 521, the First Responder Fair RETIRE Act, as Ordered Reported by the Senate Committee on Homeland Security and Governmental Affairs on August 3, 2022

	By Fiscal Year, Millions of Dollars												
	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2022-2027	2022-2032
	Net Increase in the Deficit												
Pay-As-You-Go Effect	0	0	0	0	0	0	0	0	0	1	2	0	3
Memorandum:													
Changes in Outlays	0	0	0	0	0	0	0	0	1	1	2	0	4
Changes in Revenues	0	0	0	0	0	0	0	0	0	0	0	0	1

Increase in Long-Term Deficits

CBO estimates that enacting H.R. 521 would not increase on-budget deficits by more than $5 billion in any of the four consecutive 10-year periods beginning in 2033.

Mandates: None.

Previous CBO Estimate

On July 12, 2022, CBO transmitted a cost estimate for H.R 521, the First Responder Fair RETIRE Act, as ordered reported by the House Committee on Oversight and Reform on May 11, 2022. CBO's estimated costs are the same for both the Senate and House versions of the legislation.

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