



## Legislative Plans Targeting Federal Benefits



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**Proposed changes looming over  
the federal workforce (+ RIF updates)**

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#### Welcome

- » Our audience today
- » Q&A – the ProFeds Support Team standing by
- » Handouts – available for download
- » Recorded – how to get the replay
- » Stay until the end!

### Legislative Plans Targeting Federal Benefits

#### Your ProFeds Presenter



#### Chris Kowalik

- » ProFeds Founder
- » Developer of the FedImpact Retirement Workshop
- » Host of the FedImpact Podcast



#### Support Team

- » Standing by for your questions

## Agenda

- » **PROPOSALS:** Reviewing the scope of benefits changes being considered
- » **AUDIENCE:** Determining who is affected for each proposed change
- » **EFFECT:** Evaluating the financial impact of proposed changes
- » **RIF UPDATES:** Exploring the latest downsizing efforts and timelines

## What this webinar will NOT cover

## Government Downsizing is Top of Mind

- » RIF Training Series (22-part):  
[FedImpact.com/RIF-training-series](https://www.fedimpact.com/rif-training-series)
- » FedImpact Fact Sheets:  
[FedImpact.com/fact-sheets](https://www.fedimpact.com/fact-sheets)
  - Voluntary Early Retirement Authority (VERA)
  - Voluntary Separation Incentive Payment (VSIP)
  - Discontinued Service Retirement (DSR)
  - Severance Pay

## Observations

- » Steps taken by Congress to pave the way
- » Many proposals are vague and are simply “on the table”
- » There is still a great deal of uncertainty as to the magnitude of the changes and the timing of when any changes may take place
- » Historically, some sort of “grandfathering” takes place to determine those affected (i.e. for those “already retired”)
- » Often, there is a delay in implementation (i.e. for those “newly hired after XYZ date”)

## ON THE TABLE

### Proposed ideas to modify federal benefits

## Change the Pension Formula to Use the “High-5” Average



### Change the Pension Formula to Use the “High-5” Average

- » **PROPOSED CHANGE:** The “high-5” average salary (instead of the “high-3”) will be used in the pension calculation
- » **WHO IT MAY AFFECT:** Those who are already retired are not expected to be affected, but it is unclear who may be grandfathered into current rules
- » **ANTICIPATED IMPACT:** Changing to a “high-5” average salary will reduce the pension calculation for most employees because it includes 2 years of lower earnings

### Change the Pension Formula to Use the “High-5” Average

- » **EXAMPLE:** An employee plans to retire at the end of 2025, and they want to see what difference a “high-5” vs. a “high-3” calculation really means to their FERS pension

		2023	2024	2025	The high-3: \$100,000
		\$95,999/yr	\$100,991/yr	\$103,011/yr	
2021	2022	2023	2024	2025	The high-5: \$96,229
\$89,365/yr	\$91,777/yr	\$95,999/yr	\$100,991/yr	\$103,011/yr	

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### Change the Pension Formula to Use the “High-5” Average

- » Calculation using the 1.0% formula:
  - Retire under age 62 (regardless of years of service), OR
  - Retire at least age 62, but with less than 20 years of service

#### HIGH-3 Example:

FERS employee at age 61 with 30 years of service & **\$100,000** High-3

$$\$100,000 \times 1.0\% \times 30 = \$30,000/\text{yr}$$

#### HIGH-5 Example:

FERS employee at age 61 with 30 years of service & **\$96,229** High-5

$$\$96,229 \times 1.0\% \times 30 = \$28,869/\text{yr}$$

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### Change the Pension Formula to Use the “High-5” Average

- » Calculation using the 1.1% formula:
  - Retire at least age 62 AND with at least 20 years of service

#### HIGH-3 Example:

FERS employee at age 62 with 30 years of service & **\$100,000** High-3

$$\$100,000 \times 1.1\% \times 30 = \$33,000/\text{yr}$$

#### HIGH-5 Example:

FERS employee at age 62 with 30 years of service & **\$96,229** High-5

$$\$96,229 \times 1.1\% \times 30 = \$31,756/\text{yr}$$

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## Increase FERS retirement contribution rates



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### Increase FERS Retirement Contribution Rates

- » **PROPOSED CHANGE:** Require all FERS employees to contribute 4.4% of their salary into FERS each pay period
- » **WHO IT MAY AFFECT:** Employees hired prior to 2013 who were contributing 0.8% and those hired in 2013 who were contributing 3.1%, but it is unclear if a phase-in period will be used to gradually increase these contributions
- » **ANTICIPATED IMPACT:** An employee will make additional contributions to the FERS system without additional benefits being paid upon retirement — thereby reducing their take-home pay without anything in return

### Increase FERS Retirement Contribution Rates

- » **EXAMPLE:** An employee plans to keep working, and they are curious how much more they will have to pay into FERS if they stay
  - If their current salary is \$103,011:
    - They have been paying 0.8% into FERS: **\$824.09/yr**
    - They will start paying 4.4% into FERS: **\$4,532.45/yr**

## Reduce or eliminate the Special Retirement Supplement



### Reduce or Eliminate the Special Retirement Supplement

- » **PROPOSED CHANGE:** Reduce or eliminate the SRS
- » **WHO IT MAY AFFECT:** FERS employees who retire with an immediate, non-disability pension prior to age 62 (including fully-eligible, VERA and DSR), but it is unclear who may be grandfathered into current rules
- » **ANTICIPATED IMPACT:** Over half of all federal employees retire prior to age 62, and those who are Law Enforcement Officers, Firefighters and Air Traffic Controllers (who are typically eligible to retire in their late 40s or early 50s) will be especially affected by the loss of the SRS

### Reduce or Eliminate the Special Retirement Supplement

#### Special Retirement Supplement Formula

$$\text{SS benefit at age 62} \times (\# \text{ years of FERS service} \div 40) = \text{Benefit}$$

#### Example:

30 years service (4 military) & monthly SS benefit at age 62 of \$1,200

$$\$1,200 \times (26 \div 40) = \$780/\text{mo} (\$9,360/\text{yr})$$

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### Reduce or Eliminate the Special Retirement Supplement

- » **EXAMPLE 1:** A regular FERS employee is fully-eligible to retire at age 57 with 30 years of service
  - Currently, they would be eligible to receive \$9,360/yr from age 57 until reaching age 62 (a total of \$46,800)

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### Reduce or Eliminate the Special Retirement Supplement

- » **EXAMPLE 1:** A regular FERS employee is fully-eligible to retire at age 57 with 30 years of service
  - Currently, they would be eligible to receive \$9,360/yr from age 57 until reaching age 62 (a total of \$46,800)
- » **EXAMPLE 2:** A regular FERS employee decides to take a VERA (or is forced to take the DSR) to retire at age 50 with 30 years of service. NOTE: SRS starts at MRA
  - Currently, they would be eligible to receive \$9,360/yr from age 57 until reaching age 62 (a total of \$46,800)

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### Reduce or Eliminate the Special Retirement Supplement

- » **EXAMPLE 3:** A FERS Law Enforcement Officer is fully-eligible to retire at age 48 with 25 years of service
  - Currently, they would be eligible to receive \$9,360/yr from age 48 until reaching age 62 (a total of \$131,040)

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**Reduce or  
eliminate  
Cost of Living  
Adjustments  
(COLAs)**



## Reduce or Eliminate Cost of Living Adjustments (COLA)

- » **PROPOSED CHANGE:** Reduce or eliminate COLAs that are typically applied to CSRS/FERS pensions each year
- » **WHO IT MAY AFFECT:** Both CSRS and FERS retirees, but it is unclear who may be grandfathered into current rules
- » **ANTICIPATED IMPACT:** Loss of purchasing power for your pension over time (essentially allowing inflation to erode the value of your money) which may prompt you to take more money from investments like the TSP to maintain your standard of living in retirement

## Inflation Compared to COLAs

- » In the last 20 years,
  - U.S. inflation: 2.62%
  - CSRS COLAs: 2.62%
  - FERS COLAs: 2.19%

Effect of Inflation on a \$10,000/yr Pension over the Last 20 Years (2006-2025)			
Year	Adjusted by INFLATION (2.62%)	Adjusted by CSRS COLA (2.62%)	Adjusted by FERS COLA (2.19%)
2006	\$10,000	\$10,000	\$10,000
	↓	↓	↓
2025	\$16,346	\$16,346	\$15,092

## Move to a voucher system for health insurance (FEHB)



## Move to a Voucher System for Health Insurance (FEHB)

- » **PROPOSED CHANGE:** Eliminate the current ~72% cost sharing and replace with a voucher for a flat dollar amount
- » **WHO IT MAY AFFECT:** All covered under FEHB, but it is unclear who may be grandfathered into current rules
- » **ANTICIPATED IMPACT:** A significant increase in the premiums and out-of-pocket expenses since the government's share will be considerably lower, and the yearly increase to the voucher amount will likely not keep pace with the rising cost of FEHB premiums

## Move to a Voucher System for Health Insurance (FEHB)

» **EXAMPLE:** The amounts of the vouchers are currently unclear, but the CBO did a study on the FEHB voucher concept in 2016

- In that study, they used voucher amounts as follows:

- Self-Only: \$6,100
- Self + One: \$13,200
- Self + Family: \$14,000

### Example of Blue Cross Blue Shield 2025

Plan	TOTAL	CURRENT MODEL		VOUCHER MODEL*	
	TOTAL COST	GOVT PAYS	YOU PAY	GOVT PAYS	YOU PAY
(104) Standard Self-Only	\$12,295	\$7,750	\$4,545	\$6,100	\$6,195
(106) Standard Self + One	\$26,887	\$16,900	\$9,987	\$13,200	\$13,687
(105) Standard Self + Family	\$29,610	\$18,570	\$11,040	\$14,000	\$15,610
(111) Basic Self-Only	\$10,692	\$7,750	\$2,942	\$6,100	\$4,592
(113) Basic Self + One	\$24,027	\$16,900	\$7,127	\$13,200	\$10,827
(112) Basic Self + Family	\$26,463	\$18,570	\$7,893	\$14,000	\$12,463

## Change the TSP G Fund rate of return



## Change the TSP G Fund Rate of Return

- » **PROPOSED CHANGE:** Lower the G Fund interest rate to more closely resemble the short-term Treasury Bill rate (instead of the current long-term Treasury Bill rate)
- » **WHO IT MAY AFFECT:** Nearly 70% of TSP participants have some money in the G Fund and 40% have ALL of their TSP money in the G Fund
- » **ANTICIPATED IMPACT:** Those heavily invested in the G Fund will see a lower account value in the TSP



## Other Proposals / Concerns

- » Moving from “merit based” to “at will” status
- » Eliminating the “across the board” pay raise and move to a performance based increase
- » Elimination of FERS pension for newly hired employees (transition to TSP)
- » Elimination of FEHB in retirement for newly hired employees

## Wrap-Up

- » Most of these decisions are completely out of your control, but your response is important
- » That response starts with knowing your numbers so you can understand the impact of these decisions
  - Does it mean you need to find another job?
  - Does it mean it's time to retire?
  - Does it mean that things are going to be a little/lot tighter?
  - Does it mean that you're going to be okay?
- » What you choose to do NOW matters



## Retire with confidence.

- » Attend a workshop:
  - In-person training
  - No cost to attend
  - Covers all of the federal benefit topics and decisions to be made
  - One-on-one help available
- » See all the details at:  
[FedImpact.com/Attend](https://FedImpact.com/Attend)

## Handouts and Replay



- » Handouts
  - Download
  - Emailed
- » Replay
  - Link will be emailed to all registered participants

## Next Webinar



- » Next webinar topic!
  - **Ready or Not: Preparing Your Exit from Federal Service**  
How VERA, VSIP, DSR & Severance may change your perspective
- » Sign-up at:  
[FedImpact.com/Webinar](https://FedImpact.com/Webinar)

## Thank you for joining us

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