



# Federal Employees' Retirement System: Budget and Trust Fund Issues

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## Abstract

[Excerpt] Pensions for civilian federal employees are provided through two programs, the Civil Service Retirement System (CSRS) and the Federal Employees Retirement System (FERS).

CSRS was authorized by the Civil Service Retirement Act of 1920 (P.L. 66-215) and FERS was established by the Federal Employees' Retirement System Act of 1986 (P.L. 99-335).

Under both the CSRS and FERS, employees contribute to Social Security and the Thrift Savings Plan (TSP).

Under the CSRS, employees contribute to the Civil Service Retirement and Disability Fund (CSRDF), from which pension benefits are paid. Under FERS, employees contribute to the FERS Retirement Fund, from which pension benefits are paid.

Under FERS, disability benefits are fully funded by employee and employer contributions. Under CSRS, disability benefits are not fully funded by employee and employer contributions.

The cost of the retirement and disability benefits earned by employees covered by CSRS, however, are not fully funded by agency and employee contributions and interest income. The federal government therefore makes supplemental payments each year into the civil service trust fund on behalf of employees covered by CSRS.

Even with these additional payments into the trust fund, however, CSRS pensions are not fully pre-funded. Prior to 1984, federal employees did not pay Social Security payroll taxes and did not earn Social Security benefits. The Social Security Amendments of 1983 (P.L. 98-21) mandated Social Security coverage for civilian federal employees hired on or after January 1, 1984. This change was made in part because the Social Security system needed additional cash contributions to remain solvent. Enrolling federal workers in both CSRS and Social Security, however, would have resulted in duplication of some benefits and would have required employee contributions equal to more than 13% of workers' salaries. Consequently, Congress directed the development of the FERS, with Social Security as the cornerstone. The FERS is composed of three elements: (1) Social Security, (2) the FERS basic retirement annuity and the FERS supplement, and (3) the Thrift Savings Plan (TSP). Most permanent federal employees initially hired on or after January 1, 1984, are enrolled in the FERS, as are employees who voluntarily switched from CSRS to FERS during "open seasons" held in 1987 and 1998.