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GAO

Report to the Congress

April 1986

FINANCIAL AUDIT

Civil Service Retirement System's Financial Statements for 1984

129487

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GAO

United States
General Accounting Office
Washington, D.C. 20548

Accounting and Financial
Management Division

B-220956

April 2, 1986

To the President of the Senate and the
Speaker of the House of Representatives

This report presents our opinion on the U.S. Civil Service Retirement System's financial statements for the year ended September 30, 1984. We believe the financial statements present fairly the financial status of the retirement system in conformity with generally accepted accounting principles. Appendix I is our report on the retirement system's internal accounting controls, and appendix II is our report on its compliance with laws and regulations.

In the latter report, we identified two situations which do not materially affect the 1984 financial statements, but are important. In 1984, the Office of Personnel Management's computation understated by about $45 million the federal payment to the retirement system for interest on the unfunded liability. The retirement system has also lost interest due to the debt ceiling limitation. In a future report we will address whether the Department of the Treasury's noninvestment of retirement system assets in fiscal years 1984, 1985, and 1986, due to the debt ceiling limitation, was in compliance with applicable laws. This report will also discuss the amount of interest lost.

We made our examination pursuant to the provisions of 31 U.S.C. 9503 which provide for the Comptroller General to audit federal government pension plans. We followed generally accepted government auditing standards in conducting the examination.

The Civil Service Retirement System is a pension plan administered by the Office of Personnel Management pursuant to 5 U.S.C. 8347. Members of the retirement system include appointive and elective officers and employees in or under the executive, judicial, and legislative branches of the United States government and the District of Columbia government, except those excluded by law or by regulation.

Each federal pension plan is required by 31 U.S.C. 9501-9504 to submit an annual report on its financial condition to the Congress and the Comptroller General in accordance with instructions issued by the Office of Management and Budget and the General Accounting Office. The instructions require each report to include general information, such as type of plan and actuarial assumptions used; financial statements, which disclose the plan's financial status at its year-end; actuarial status information, which includes projected future benefits and expenses; and an opinion of an enrolled actuary on the reasonableness of the actuarial assumptions. We have included this information from the retirement system's 1984 annual report as appendixes III through VII. A glossary of pension terms is included.

We are sending copies of this report to the Director of the Office of Management and Budget, the Director of the Office of Personnel Management, the Secretary of the Treasury, and the Associate Director for Compensation, Office of Personnel Management.

Frederick D. Wolf
Director

Contents

Abbreviations

CSRS	Civil Service Retirement System
CPI	Consumer Price Index
COLA	cost-of-living adjustment
DEFRA	Deficit Reduction Act of 1984
MSPB	Merit Systems Protection Board
OMB	Office of Management and Budget
OPM	Office of Personnel Management

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To the Director
Office of Personnel Management

We have examined the statement of accumulated plan benefits and net assets available for benefits of the U.S. Civil Service Retirement System as of September 30, 1984, and the related statements of changes in net assets available for benefits and of changes in actuarial present value of accumulated plan benefits for the year then ended. Our examination was made in accordance with generally accepted government auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial status of the U.S. Civil Service Retirement System as of September 30, 1984, and the changes in its financial status for the year then ended in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year. The financial statements of the U.S. Civil Service Retirement System for the year ended September 30, 1983, were not audited and, accordingly, we do not express an opinion on them.

Our examination was made for the purpose of forming an opinion on the basic financial statements taken as a whole. As additional information for financial statement users, we are including: the supplemental schedules of general information, actuarial status information, comparison of a funding method whereby the unfunded liability is amortized in level dollar amounts over 40 years with actual contributions, past and projected flow of plan assets, and the opinion of the enrolled actuary. The supplemental schedules and the actuary's opinion are required by the Office of Management and Budget/General Accounting Office Instructions for Preparing the Annual Pension Report under Public Law 95-595 (31 U.S.C. 9503) and are not a required part of the basic financial statements. The supplemental schedule of actuarial status information has been subjected to the auditing procedures we applied in the examination of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The other supplemental schedules have not been subjected to the auditing procedures applied in the examination of the basic financial statements and, accordingly, we express no opinion on them.

Frederick D. Wolf
Director

September 30, 1985

Report on Internal Accounting Controls

We have examined the financial statements of the U.S. Civil Service Retirement System for the year ended September 30, 1984, and have issued our opinion thereon. As part of our examination, we made a study and evaluation of the system of internal accounting controls to the extent we considered necessary to evaluate the system as required by generally accepted government auditing standards. For the purpose of this report, we have classified the significant internal accounting controls in the following categories:

- expenditures,
- financial and actuarial reporting,
- revenues, and
- treasury operations.

Our study included all of the control categories listed above. However, we did not evaluate the accounting controls over financial and actuarial reporting and treasury operations because it was more efficient to expand substantive audit tests. The purpose of our study and evaluation was to determine the nature, timing, and extent of the auditing procedures necessary for expressing an opinion on the retirement system's financial statements. Our study and evaluation was more limited than would be necessary to express an opinion on the system of internal accounting controls taken as a whole or on any of the categories identified above.

The retirement system's management is responsible for establishing and maintaining a system of internal accounting controls. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance that (1) assets are safeguarded against loss from unauthorized use or disposition and (2) transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any system of internal accounting control, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with procedures may deteriorate.

Our study and evaluation was made for the limited purpose described in the first paragraph and would not necessarily disclose all material weaknesses in the system. Accordingly, we do not express an opinion on the system of internal accounting control of the retirement system taken as a whole or on any of the categories of controls identified in the first paragraph. However, our study and evaluation disclosed no condition that we believed to be a material weakness. Several opportunities for improving internal controls and financial statement presentation were identified and will be communicated in a separate letter to the Director, Office of Personnel Management.

Report on Compliance With Laws and Regulations

We have examined the financial statements of the U.S. Civil Service Retirement System for the year ended September 30, 1984, and have issued our opinion thereon. Our examination was made in accordance with generally accepted government auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures, including tests of compliance with laws and regulations, as we considered necessary in the circumstances.

In our opinion, the retirement system complied with the terms and provisions of laws and regulations for the transactions tested that could have materially affected the financial statements. However, we identified two situations which do not materially affect the 1984 financial statements, but which we believe are important enough to disclose in this report.

The Office of Personnel Management (OPM) is not correctly computing the amount of the federal payment to the retirement system for interest on the unfunded liability in accordance with 5 U.S.C. 8348 and 8331. The law requires OPM to compute the payment according to a prescribed formula and requires the Department of the Treasury to pay the amount OPM computed to the retirement system. In OPM's computation, it uses net assets available for benefits (with investments stated at book value) as the fund balance, rather than investments at par value plus the retirement system's cash balance in the U.S. Treasury, as required by law. Net assets available for benefits include other accounts such as accrued interest. If OPM had complied with the law, the 1984 federal payment of $9,395 million would have increased by about $45 million. The law has required the payment to the retirement system beginning in fiscal year 1971. We did not determine the extent of noncompliance with the law, although information readily available shows that OPM has used this method of computation in other years. OPM has agreed to recalculate its computations and include any adjustment required in the next request to Treasury for the annual payment to the retirement system. We will discuss this matter in a separate letter to the Director, OPM.

Regarding the second situation, Treasury did not issue new debt from the end of September to October 13, 1984, due to the debt ceiling limitation. (See page 23, note D to the retirement system's financial statements.) The interest lost pertained only to fiscal year 1985. In a similar incident, we addressed Treasury's noninvestment of Social Security trust fund assets due to the debt ceiling limitation (GAO/HRD-86-45, December 5, 1985). We concluded that although some of Treasury's actions appear in retrospect to have been in violation of the requirements of the Social Security Act, we cannot say Treasury acted unreasonably given the extraordinary situation in which it was operating. In a future report we will address Treasury's noninvestment of the retirement system's assets in 1984, the more recent occurrences in fiscal years 1985 and 1986 of noninvestment also caused by the debt ceiling limitation, and the amount of interest lost.

Nothing came to our attention in connection with our examination that caused us to believe that the retirement system was not in compliance with the terms and provisions of applicable laws and regulations for those transactions not tested.

Financial Statements

Statement for 1983 Unaudited

U.S. CIVIL SERVICE RETIREMENT SYSTEM
STATEMENT OF ACCUMULATED PLAN BENEFITS
AND NET ASSETS AVAILABLE FOR BENEFITS
(Dollars in thousands)

	SEPTEMBER 30, 1984	SEPTEMBER 30, 1983
ACTUARIAL PRESENT VALUE OF ACCUMULATED PLAN BENEFITS [Notes B(2) and G]		
Vested benefits:		
Participants currently receiving payments	$ 335,800,000	$ 319,700,000
Participants not currently receiving payments	168,400,000	146,700,000
Subtotal	504,200,000	466,400,000
Nonvested benefits	32,800,000	48,200,000
TOTAL ACTUARIAL PRESENT VALUE OF ACCUMULATED PLAN BENEFITS	537,000,000	514,600,000
NET ASSETS AVAILABLE FOR BENEFITS		
Assets:		
U.S. Securities, at fair value [Notes B(1) and D]	111,392,410	109,029,391
Accounts receivable:		
Employee withholdings	220,855	147,682
Government contributions	232,474	150,199
Accrued interest	2,920,931	2,349,977
Overpayments of annuities and refunds	69,644	65,737
Allowances for waivers and bad debts [Note B(4)]	(18,839)	(14,205)
Advances for administrative expenses	4,482	860
Total receivables	3,429,547	2,700,250
Equipment (less accumulated depreciation of $753,422 in 1984 and $624,143 in 1983)	1,513	425
Cash balance in fund at Treasury (Note D)	11,796,568	39,669
Total Assets	$ 126,620,038	$ 111,769,735

The accompanying notes are an integral part of the financial statements.

Statement for 1983 Unaudited

U.S. CIVIL SERVICE RETIREMENT SYSTEM
STATEMENT OF ACCUMULATED PLAN BENEFITS
AND NET ASSETS AVAILABLE FOR BENEFITS-CONTINUED
(Dollars in thousands)

	SEPTEMBER 30, 1984	SEPTEMBER 30, 1983
Liabilities:		
Annuity Payments......................$	1,568,034 $	1,533,196
Refund payments......................	41,822	28,628
Taxes withheld from annuitants........	160,588	154,199
Union allotments withheld from annuitants......................	154	128
Insurance premiums withheld from annuitants......................	102,063	89,698
Accrued annual leave for trust fund employees................	1,822	1,799
Total liabilities....................	1,874,483	1,807,648
NET ASSETS AVAILABLE FOR BENEFITS.......	124,745,555	109,962,087
EXCESS OF ACTUARIAL PRESENT VALUE OF ACCUMULATED PLAN BENEFITS OVER NET ASSETS AVAILABLE FOR BENEFITS......$	412,254,445 $	404,637,913

The accompanying notes are an integral part of the financial statements.

Statement for 1983 Unaudited

U.S. CIVIL SERVICE RETIREMENT SYSTEM
STATEMENT OF CHANGES IN NET ASSETS
AVAILABLE FOR BENEFITS
(Dollars in thousands)

	FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 1984	SEPTEMBER 30, 1983
NET ASSETS AVAILABLE FOR BENEFITS AT BEGINNING OF PLAN YEAR..............$	109,962,087 $	96,078,712
ADDITIONS:		
Investment income:		
Net appreciation (depreciation) in the fair value of investments (Note D)...	(106,455)	61,239
Interest..............................	11,384,675	9,697,673
Total investment income...............	11,278,220	9,758,912
Contributions (Note C):		
Employees:		
Withheld from salaries...............	4,511,457	4,316,359
Salary offset reemployed annuitants..	33,907	32,952
Service credit deposits, redeposits..	62,469	49,305
Voluntary contributions..............	212	201
Employing agencies...................	4,552,854	4,319,901
Government:		
New and increased annuities..........	4,145,296	3,940,183
Annuities under special acts.........	1,275	924
Interest on statutory unfunded liability..........................	9,395,000	9,670,000
Benefits attributable to military service...................	1,776,300	1,697,000
Contribution deficiency..............	40,200	0
From U.S. Postal Service for unfunded retirement expense...................	917,407	966,975
From Panama Canal Commission..........	19,560	19,560
Total contributions...................	25,455,937	25,013,360
Gifts to retirement fund..............	1	102
TOTAL ADDITIONS.........................$	36,734,158 $	34,772,374

The accompanying notes are an integral part of the financial statements.

Statement for 1983 Unaudited

U.S. CIVIL SERVICE RETIREMENT SYSTEM
STATEMENT OF CHANGES IN NET ASSETS
AVAILABLE FOR BENEFITS - CONTINUED
(Dollars in thousands)

	FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 1984	SEPTEMBER 30, 1983
DEDUCTIONS:		
Benefits paid to participants:		
Annuities:		
Retired employees....................$	18,402,840 $	17,601,745
Survivors...........................	2,943,457	2,782,727
Refunds of prior year contributions (Note H):		
Separated employees.................	516,590	425,945
Deceased employees..................	34,995	34,874
Voluntary contributions.............	114	68
Total benefits paid to participants....	21,897,996	20,845,359
Net transfers of prior year employee withholdings to other systems.........	6,577	2,012
Administrative expense.................	46,117	41,628
TOTAL DEDUCTIONS.......................	21,950,690	20,888,999
NET ADDITIONS..........................	14,783,468	13,883,375
NET ASSETS AVAILABLE FOR BENEFITS AT END OF PLAN YEAR...................$	124,745,555 $	109,962,087

The accompanying notes are an integral part of the financial statements.

Statement for 1983 Unaudited

U.S. CIVIL SERVICE RETIREMENT SYSTEM
STATEMENT OF CHANGES IN ACTUARIAL PRESENT
VALUE OF ACCUMULATED PLAN BENEFITS
(Dollars in billions)

	FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 1984		SEPTEMBER 30, 1983
ACTUARIAL PRESENT VALUE OF ACCUMULATED PLAN BENEFITS AT BEGINNING OF PLAN YEAR................	$	514.6 $	491.9
Increase (decrease) during the year attributable to:			
Benefits accumulated, less benefits paid		35.7	22.7
Plan amendments (Note E)..............		(9.9)	0
Changes in actuarial assumptions (Note G)............................		(3.4)	0
Net increase..........................		22.4	22.7
ACTUARIAL PRESENT VALUE OF ACCUMULATED PLAN BENEFITS AT END OF PLAN YEAR......	$	537.0 $	514.6

The accompanying notes are an integral part of the financial statements.

U.S. CIVIL SERVICE RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 1984 AND 1983

A. DESCRIPTION OF PLAN

The following brief description of the U.S. Civil Service Retirement System is provided only for purposes of general information.

1. General

The Plan is a defined-benefit, single-employer plan which was established by Public Law 66-125, signed May 22, 1920, and has been amended by many subsequent Acts of Congress. The Plan is funded through the U.S. Civil Service Retirement and Disability Fund. Members of the System include appointive and elective officers and employees in or under the executive, judicial, and legislative branches of the U.S. Government and the District of Columbia government, except those excluded by law or by regulation.

2. Annuity and Disability Benefits

The retirement law provides normal retirement on full annuity at age 55 with 30 years' service, age 60 with 20 years' service, or age 62 with five years' service. Disability retirement is permitted at any age with five years' service and involuntary retirement at any age after 25 years' service or at age 50 with 20 years' service. Deferred annuities are payable at age 62 with five years' service. There is no general mandatory retirement provision. The "average salary" used in benefit computations is based on the highest three years of salary. The annuity formula provides 1 1/2 percent of average salary for the first five years' service, 1 3/4 percent for the next five years, and two percent for any remaining service, up to a maximum of 80 percent of average salary. Disability annuitants receive the greater of the preceding computation or a guaranteed minimum of the lesser of 40 percent of average salary or the regular formula using service projected to age 60. The law also contains special eligibility and computation requirements for certain law enforcement officers, firefighters, air traffic controllers, Congressional employees, Members of Congress, and certain other groups.

3. Death Benefits

Widows and widowers of those who die in service receive 55 percent of the disability formula as a benefit. Generally this is 22 percent of average salary. Widows and widowers of deceased annuitants receive 55 percent of the annuity unless the employee annuitant waived provision of a survivor benefit, or elected to provide less than a full survivor benefit. Since the deduction (2 1/2 percent of annuity below $3,600 a year and 10 percent above) is much less than the equivalent actuarial value of the survivor's annuity, most married annuitants elect the reduced annuity with full survivor benefits. Children of deceased annuitants and employees receive a flat monthly amount.

GAO Comment: Reference to Public Law 66-125 should be 66-215.

4. Cost-of-Living Adjustments (COLA's)

In accordance with CSRS law, (P.L. 98-270, approved April 18, 1984), annuities are adjusted annually (December 1 of each year, paid on the first business day in January) to reflect cost-of-living increases as measured by the yearly change in the third calendar quarter average Consumer Price Index (CPI) for Urban Wage Earners and Clerical Workers. Initial COLA's of retiring employees (or the survivors of an employee) are prorated based on the number of months the employee is in receipt of an annuity prior to the effective date of the increase. There have been several changes to the CSRS COLA provision in the past several years. From 1977 to 1981, cost-of-living adjustments were made semiannually in March and September of each year and based on the December and June CPI's. In 1981, P.L. 97-35 changed the COLA to an annual adjustment, to be made each March based on the change in the CPI for the previous calendar year. In 1982, P.L. 97-253 further altered the COLA provisions, which resulted in a one-month delay of the 1983 adjustment and modified the amount of the increase for nondisabled retirees under age 62. With the most recent change to COLA provisions brought about by P.L. 98-270, the effective date for all future COLA's was changed to December 1 of each year. Thus, as can be seen from the chart below, there was no COLA adjustment during fiscal year 1984. The COLA's since September 1977 have been as follows:

Effective Date of Increase	Percent Annuity Increase
9/1/77	4.3%
3/1/78	2.4%
9/1/78	4.9%
3/1/79	3.9%
9/1/79	6.9%
3/1/80	6.0%
9/1/80	7.7%
3/1/81	4.4%
3/1/82	8.7%
4/1/83	3.9%*
12/1/84	3.5% (Paid in Fiscal Year 1985)

* 3.3% for nondisabled employee annuitants under age 62

5. Employee Deductions and Refunds

Employees who are separated from Government service or who are transferred to a position which is not under the CSRS are eligible for a refund of the deductions taken from their pay, which includes a payment of interest (at an annual interest rate of three percent) for individuals with more than one but less than five years of civilian service. The total deductions (or accumulated employee contributions) amount to approximately $36 billion as of September 30, 1984. This includes the deductions for the active workforce and deductions of terminated employees who retain interest in a deferred retirement annuity from the System.

B. SUMMARY OF ACCOUNTING AND ACTUARIAL POLICIES

The following are the significant accounting and actuarial policies followed by the Plan:

1. Valuation of Investments

The Fund's investments consist solely of United States Government securities. These investments represent 89.3 percent of the Plan's net assets as of September 30, 1984. (Normally, investments represent 99 percent of the Plan's net assets, but on September 28, 1984, the Fund was unable to invest in Government securities; see Note D.) The fair values of the Fund's securities are determined as follows. The fair value of the Special Treasury Bonds and Certificates of Indebtedness equals the par value. These securities are always redeemed at par value regardless of the date of redemption or the rate of interest, as specified by 5 U.S.C. 8348(d). The fair value of the U.S. Treasury Bonds was determined by using the over-the-counter quotations for Friday, September 28, 1984, reported in the Wall Street Journal. The fair value of the Government National Mortgage Association Participation Certificates was determined by using quotations obtained from a Wall Street firm.

2. Actuarial Present Value of Accumulated Plan Benefits

The accumulated plan benefits are those future benefit payments that are attributable to employees' service rendered prior to the valuation date of September 30, 1984. Accumulated plan benefits include benefits expected to be paid to (a) retired or terminated employees and their beneficiaries, (b) beneficiaries of deceased employees, and (c) present employees or their beneficiaries, including refunds of employee contributions. Total projected service is used to determine eligibility for (but not the amount of) retirement benefits. The value of voluntary, involuntary, and deferred retirement benefits is based on the regular formula using service to the valuation date. The value of disability benefits and benefits for survivors of employees is determined by multiplying the benefit the employee would receive on their date of disability or death by a ratio of service at the valuation date to projected service at the time of disability or death. Employees are assumed to continue to earn their final salary as of the valuation date, with no future increases. Thus, for employees retiring after fiscal year 1987, the projected high-three-year-average salary would be the same as the final salary in fiscal year 1984. The annuity benefits are assumed to increase at the assumed inflation rate of five percent per year after retirement, and are discounted to the valuation date assuming a 6.5 percent rate of interest. (The actuarial interest rate changed from six percent, used in the September 30, 1983, annual report, to 6.5. percent, used in the September 30, 1984, annual report; see Note G.)

3. Depreciation

Capitalized property includes all furniture and equipment having a unit acquisition cost of $300 or more and of a durable nature with an expected service life of more than two years. Depreciation is based on the straight-line method without regard to salvage value.

It is assumed all equipment has a ten-year life and will be depreciated ten percent a year. All new equipment is assumed to have been purchased at the mid-point of the year and will be depreciated for six months or five percent of cost.

4. Allowance for Waivers and Bad Debts

For those accounts which are in the process of being collected, the allowance for waivers and bad debts is experience-based using an aging schedule of accounts receivable. For suspended accounts pending reconsideration, the allowance for waivers and bad debts is based on the assumption, using past experience, that 25 percent will be waived or written-off.

C. FUNDING POLICY

The funding policy for the U.S. Civil Service Retirement System consists of the following elements:

1. Employee/Employing Agency Contributions - Most employees, except those newly-hired on or after January 1, 1984 (see Note C.5, P.L. 98-168) contribute seven percent of basic pay to the Civil Service Retirement and Disability Fund. However, law enforcement officers, firefighters, and Congressional employees contribute 7 1/2 percent of basic pay, while Members of Congress contribute eight percent. Each employing agency also matches the employee's contribution except, again, in cases in which the employee is affected by P.L. 98-168. The employee and employing agency contribution of 14 percent is close to the "static" normal cost.

2. Public Law 91-93 - Under Public Law 91-93, enacted in 1969, the Treasury makes the following three types of payments to the Retirement Fund: (1) payments to amortize, over a thirty year period, any increase in unfunded liability that results from new or liberalized benefits (excluding automatic cost-of-living increases in annuities), increases in pay, or extension of coverage to new employee groups; (2) a payment of five percent interest on the "statutory" unfunded liability; and (3) a payment of the estimated cost of benefits attributable to military service less the value of certain deposits made by employees for such service.

The unfunded liability which is used in determining the amount of the contributions by the Treasury is defined in 5 U.S.C. 8331 as the estimated excess of the present value of all benefits payable from the Fund to employees, former employees, and their survivors, over the sum of: (A) the present value of deductions to be withheld from the future basic pay of employees, and of future agency contributions to be made in their behalf; plus (B) the present value of the remaining thirty-year amortization payments which had previously been scheduled; plus (C) the Fund balance as of the date the unfunded liability is determined. This "statutory" unfunded liability as of September 30, 1984, is $190.6 billion (see Note G).

The present value of benefits determined under the provisions of the P.L. 91-93 excludes benefits attributable to military service, since these benefits are paid directly by the Treasury and to a minor degree by certain employee deposits. Also, the present value of benefits and the present value of contributions are determined under "static" economic assumptions which use a five percent annual interest rate and no future salary inflation or cost-of-living increases in annuity. This is a different method of calculating the unfunded liability than was used in preparing Table 1 of this report, which is based on "dynamic" assumptions and assumes future cost-of-living increases in annuities of five percent per year, future salary increases of 5.5 percent per year, and a 6.5 percent interest rate. OMB/GAO instructions for completion of annual reports of Federal pension plans under P.L. 95-595 specify the five percent inflation rate.

3. U.S. Postal Service - Officers and career employees of the Postal Service retained coverage under the CSRS when the Postal Service commenced operations on July 1, 1971. Similar to other Federal agencies, both the Postal Service and its employees contribute seven percent of basic pay to the CSRS. However, unlike other Federal agencies, the Postal Service is required by Public Law 93-349 to make contributions to amortize, over a thirty-year period, any increase in unfunded liability resulting from an increase in covered Postal Service employees' pay on which retirement benefits are computed.

By law (5 U.S.C. 8348(h)(2)), these thirty-year amortization payments are computed by OPM, and the Postal Service is required to make the first installment of each thirty year payment at the end of the fiscal year in which an increase in pay becomes effective. These payments are reflected on the CSRS's financial statements in the year in which they become due and payable. Recent employee-management agreements between the Postal Service and its employees have adopted a two-phased approach for determining when cost-of-living adjustments (COLA's) become part of basic annual pay. For example, COLA's granted under the 1978-81 agreement were rolled into basic pay during fiscal year 1982 for only those employees who were within six years of eligibility for normal retirement as of the effective date of the 1981-84 agreement and who elected a roll-in. The 1981-84 agreement did not roll-in the COLA's granted under the 1978-81 agreement for everyone else until fiscal year 1985. This two-phased approach was also followed in the Postal Service's latest contract signed in December 1984 (See Note I).

OPM has determined that the fiscal year 1985 Postal Service amortization payment should be increased by $188,508,000 due to the second phase of the COLA roll-in under the 1978-81 agreement. The 1985 payment will also be increased as a result of the recently signed December 1984 employee management agreement (See Note I).

4. Panama Canal Commission - Under the Panama Canal Act of 1979, the Panama Canal Commission is also required to make contributions to pay for the additional cost of the liberalized retirement benefits that are provided by the Act. However, in this case, the additional cost was determined assuming future salary and cost-of-living increases in order to provide a more accurate measure of the ultimate or true costs, and to ensure that the Panama Canal Treaty would not result in any additional costs to the taxpayer.

5. Public Law 98-168 - Under the Federal Employees' Retirement Contribution Temporary Adjustment Act of 1983, P.L. 98-168, certain Federal employees who are subject to Social Security withholdings as a result of P.L. 98-21 (See Note E for further description of P.L. 98-21) contribute 1.3 percent of their basic pay to the CSRS. Employing agencies, however, still contribute the normal percentage of basic pay - i.e., seven percent, 7.5 percent, or eight percent as appropriate - for affected employees. The difference between the employees' withholdings and the normal employee withholding rate results in a contribution deficiency for which the CSRS Fund is reimbursed by direct transfer from the Treasury, at the end of each fiscal year. The contribution deficiency as of September 30, 1984, was $40.2 million, including interest (See Note E(1)).

D. INVESTMENTS

The Plan's investments are held in a U.S. Government trust fund managed by the U.S. Department of the Treasury. The following tables present the principal amounts and fair values of those investments.

September 30, 1984 ($000's)	Principal Amount	Fair Value
Investments [Note B(1)]:		
Marketable securities:		
U.S. Treasury bonds..........$	2,626,117	$ 2,043,365
Government National Mortgage Association participation certificates..	175,000	146,112
Subtotal.................	2,801,117	2,189,477
Nonmarketable securities:		
Special Treasury bonds.......	102,814,885	102,814,885
Certificates of Indebtedness.	6,388,048	6,388,048
Subtotal.................	109,202,933	109,202,933
Total investments	$ 112,004,050	$ 111,392,410

	September 30, 1983 ($000's) Principal Amount	Fair Value
Investments [Note B (1)]:		
Marketable securities:		
U.S. Treasury bonds...........$	2,826,117	$ 2,348,270
Government National Mortgage Association participation certificates.................	175,000	146,474
Subtotal...................	3,001,117	2,494,744
Nonmarketable securities:		
Special Treasury bonds........	88,390,259	88,390,259
Certificates of Indebtedness..	18,144,388	18,144,388
Subtotal...................	106,534,647	106,534,647
Total investments.............$	109,535,764	$ 109,029,391

During FY 1984 and FY 1983 the Plan's investments (including investments bought, sold, and held during the year) depreciated in value by $106,455,083 and appreciated in value by $61,238,769, respectively, as follows:

	Year Ended September 30, 1984 (000's)	Year Ended September 30, 1983 (000's)
Net Appreciation (Depreciation) in Fair Value		
Marketable securities.......$	<105,267>	$ 62,475
Nonmarketable securities...	-0-	-0-
Unamortized premium and discount..................	<1,188>	<1,236>
$	<106,455>	$ 61,239

The Fund's uninvested cash balance increased from a normal balance of $40 million at the end of FY 1983 to $11.8 billion at the end of FY 1984. This was caused by the Treasury's inability to issue new debt starting September 28, 1984, and ending October 13, 1984, due to the statutory debt ceiling limitation. If this additional cash had been invested as of the end of the fiscal year, the Fund's Certificates of Indebtedness would have been $18,188,048,000 and its total investments would have been $123,804,050,000, at principal. In addition, the Fund lost interest in FY 1984 and 1985 estimated at $31.7 million (15 days at various amounts of principal) as a result of this event.

E. PLAN AMENDMENTS

Fiscal Year 1983 - There were no amendments (significantly affecting benefits) to the CSRS during fiscal year 1983. The Social Security Amendments of 1983, P.L. 98-21, enacted April 20, 1983, extended mandatory Social Security coverage to most Federal employees newly hired on or after January 1, 1984, and certain groups of Federal employees who were currently employed - e.g., former Federal employees returning to Federal employment after 1983 after a break in service of more than 365 consecutive days, all Members of Congress, individuals in Executive Schedule positions, noncareer appointees in the Senior Executive Service, top officials in the White House, and certain others. As a result of this law, many Federal employees are subject to both Social Security and CSRS coverage. However, the Social Security amendments did not amend the CSRS. The double coverage problem was temporarily remedied by the Federal Employees' Retirement Contribution Temporary Adjustment Act of 1983, which was enacted in fiscal year 1984 (see below).

Fiscal Year 1984 - Plan amendments in FY 84 decreased the actuarial present value of accumulated benefits by $9.9 billion. This was primarily due to the delay in COLA's caused by P.L. 98-270, explained below. Plan amendments were as follows:

(1) The Federal Employees' Retirement Contribution Temporary Adjustment Act of 1983, P.L. 98-168, enacted November 29, 1983, reduced the contribution burden on Federal employees subject to double retirement coverage. Under this law, most CSRS employees hired after 1983 only have 1.3 percent of their basic pay withheld for CSRS beginning on their date of employment, and until January 1, 1986, or, if earlier, the date on which a new Government retirement system to supplement Social Security is established. Agencies, however, are still required to contribute the normal percentage of basic pay (7, 7.5, or 8 percent as appropriate) for affected employees. Therefore, employee withholdings and agency contributions for affected employees are not equal. This funding change causes a contribution deficiency (the difference between normal employee withholdings — 7, 7.5, or 8 percent — and the actual 1.3 percent withheld from affected employees) to the Fund, which is paid by a direct Treasury transfer each year (see Note C.5). The law also included a provision reducing CSRS benefits to affected employees by the portion of their Social Security benefits attributable to Federal covered service after December 31, 1983, or excluding credit for such service under certain conditions. The total of these reductions is negligible compared with the size of the Fund.

(2) The Deficit Reduction Act of 1984 (DEFRA), P.L. 98-369, approved July 18, 1984, amended the CSRS in several ways as follows:

o Amended the Omnibus Budget Reconciliation Act of 1982 to allow Federal employees retiring between October 1, 1983, and October 1, 1985, to make a deposit for post-1956 military service after they retire.

o Allowed an additional period (until September 15, 1984) for certain Federal employees to make an election (or change a previous election) under P.L. 98-168 concerning their retirement coverage.

o Amended the Social Security Act, as amended by the Social Security Amendments of 1983, to provide that persons appointed after December 31, 1983, would be subject to Social Security as well as any other retirement system to which their appointments entitled them unless they had been employed in the Federal Government and continuously covered by the Civil Service or other civilian Federal retirement system since December 31, 1983, or unless they returned to a covered position after a break of less than 366 consecutive days. The effect of this provision of law is to cover under Social Security persons whose only previous Federal employment was in the military or in temporary or intermittent employment.

(3) The Omnibus Reconciliation Act of 1983, P.L. 98-270, approved April 18, 1984, amended the CSRS law by changing the COLA provisions for annuitants. Under the law's provisions, COLA's are effective December 1 of each year, payable the first business day in January, and based on the yearly change in the third calendar quarter average CPI. In addition to this, it provided that no COLA would be made during the period beginning on the date of its enactment (April 18, 1984) and ending November 30, 1984. As a result of this law, no COLA was made during fiscal year 1984.

(4) The Second Supplemental Appropriations Act of 1984, approved August 22, 1984, amended the Omnibus Budget Reconciliation Act of 1982 to effectively give the same COLA in FY 1985 to nondisabled retirees under age 62 as was given to all other annuitants.

F. CONTINGENT LIABILITIES

There are two legal cases pending which address the question of whether service performed under a contract for personal services is creditable under the CSRS. OPM has requested the U.S. Court of Appeals for the Federal Circuit to review the Merit Systems Protection Board's (MSPB) decision in Raymond Acosta et al. v. OPM. In this case, the MSPB held that service performed under a contract for personal services was creditable. In a companion case, Devine v. Werley, also pending before the Federal Circuit, MSPB held that employment with a Federal contractor was creditable when the work was performed under the supervision of the Government. OPM is not in a position to predict with any certainty the ultimate outcome of these two legal proceedings; however, it is the opinion of management that the impact will not be material to the CSRS's fiscal year 1984 financial statements.

In the case of Crawford v. United States, 602 F.2d 1185 (5th Cir. 1980), the United States Court of Appeals ruled that the 1966 codification of title 5, United States code, repealed the nonretroactive effective date language of the 1956 amendments to the CSRS act, and provided individuals who separated before 1956, but whose annuity commencing date was after 1966, with an opportunity to elect annuities with survivor benefits for spouses. OPM has not recognized this to be binding in other cases and further litigation is anticipated.

In view of the circumstances, OPM is not in a position to predict with any certainty the ultimate number and amount of additional survivor annuity payments that may result from this issue.

G. CHANGES IN ACTUARIAL ASSUMPTIONS AND METHODS

In conjunction with the 1982 Board of Actuaries Report of the CSRS, this report also changes all of the demographic assumptions and the real interest rate assumption.

The new demographic assumptions are generally based on 1977 to 1982 experience. Some of the major decisions and changes in these assumptions follow:

(1) Disability and involuntary retirement rates have dropped dramatically in recent years — about 50 percent. However, this only reduces the normal cost by 0.6 percent of payroll.

(2) Benefits are paid for a longer period of time because nondisability mortality rates decreased and there are fewer remarriages of survivors before age 60. These two changes cause an increase in the normal cost of 1.0 percent of pay. (As was the practice for this assumption in prior reports, we continued to reduce nondisabilty mortality experience by 10 percent to account for future mortality improvement.)

(3) Withdrawal rates decreased dramatically, especially for women. This increased the normal cost by 3.46 percent of pay.

(4) The salary scale and certain retirement rates were formerly only a function of age. Now they are also a function of service. The salary scale is slightly lower also, and this caused a decrease in the normal cost of 1.3 percent of pay.

The net effect of all the changes in demographic assumptions was to increase the normal cost by 3.5 percent.

Increasing the real interest assumption from one percent to 1.5 percent was justified by the recent high real returns and observing their effect on average real interest rates over the past 30 years of experience. The effect of the change in real interest rate alone is to reduce the normal cost by 5.1 percent of payroll. Thus, the net effect of changing both the economic (interest rate) and demographic assumptions is to decrease the normal cost by 1.6 percent of pay.

The net effect of the preceding changes in assumptions decreased the present value of accumulated plan benefits by $3.4 billion and decreased the unfunded liability by $4.9 billion.

H. REFUNDS

Employees who are separated from Government service or transferred to a position which is not covered by the CSRS are entitled to a refund of their accumulated retirement deductions under certain conditions. Employees with more than five years of service may leave their accumulated retirement deductions in the Fund, thereby entitling them to a deferred annuity at age 62. Refunds of retirement contributions are not classified on a current or prior year basis. Therefore, all refunds were considered refunds of prior year contributions.

I. SUBSEQUENT EVENTS

(1) The Civil Service Retirement Spouse Equity Act of 1984, P.L. 98-615, was enacted on November 8, 1984. The law was effective (for most purposes) on May 7, 1985, and amends the CSRS in the following major ways:

- o permits the election of survivor annuities for certain former spouses at and after retirement;
- o requires OPM to comply with court decrees or orders which provide for survivor annuities for certain former spouses;
- o requires the written consent of an employee's current spouse before that employee can elect an annuity without full survivor benefits;
- o requires that an employee notify his or her current spouse and certain former spouses when applying for a refund of retirement contributions;
- o bars the payment of a refund of retirement contributions if a qualifying court order specifically mentions the refund and payment of the refund would extinguish the rights of a former spouse to annuity payments;
- o changes the remarriage termination age for certain survivor annuitants who can now remarry after reaching age 55 (formerly age 60) without losing benefits;
- o changes the marriage duration requirement for certain widows/widowers to nine months (formerly one year);
- o allows married employees to elect, at time of retirement, an insurable interest survivor annuity (formerly available only to unmarried employees); and
- o establishes a new direct Treasury transfer payment to the CSRS to cover the cost of a limited number of survivor annuities that would not have been allowed prior to the Act.

OPM is not in a position to estimate the number and amount of additional survivor annuities that will result from the enactment of this law. However, a portion of the cost of survivor annuities, that would not have been allowed before the act, is funded by a direct Treasury transfer payment which should mitigate the impact of the law on the Fund.

(2) On December 24, 1984, the Board of Arbitrators for the 1984-87 employee management agreement between the Postal Service and its employees published its opinion and award. The award provided for guaranteed 2.7 percent pay increases effective July 21, 1984, July 20, 1985, and July 19, 1986. The retroactive pay increase for July 21, 1984, was reflected in the tables for fiscal years 1985 and later, but is not reflected in the accrual basis assets as of the end of fiscal year 1984. However, we do not feel this would be material in relation to the overall financial statements. Pay COLA's from the preceding collective bargaining agreement become effective for certain employees close to retirement (see Note C.3.). The pay COLA for the remainder of the employees is rolled into basic pay three years later. Tables 3 and 3(A) reflect this deferral of pay recognition for benefit and contribution purposes.

U.S. Civil Service Retirement System's Actuarial Tables

Table for 1983 Unaudited

TABLE 1
U.S. CIVIL SERVICE RETIREMENT SYSTEM
ACTUARIAL STATUS INFORMATION
AS OF END OF PLAN YEAR
(Dollars in billions)

	SEPTEMBER 30, 1984	SEPTEMBER 30, 1983
1. Actuarial present value of future benefits and administrative expenses:		
(a) Annuitants now on roll............	$ 336.5	$ 319.7
(b) Separated employees...............	2.3	4.0
(c) Active employees..................	694.8	626.0
TOTAL	1,033.6	949.7
2. LESS: Present value of future employer/employee normal cost contributions and future military service deposits...	366.8	311.6
3. Actuarial accrued liability...........	666.8	638.1
4. LESS: Net assets in fund..............	124.7	110.0
5. Unfunded actuarial accrued liability...	$ 542.1	$ 528.1

6. Normal cost as a percentage of covered payroll:

(a) Employee*	7.00%	7.00%
(b) Employer	27.88%	29.51%
(c) TOTAL	34.88%	36.51%

*Different rates are applicable for special groups and transition employees.

7. Ratio of assets in fund to present value of future benefits for annuitants now on roll plus accumulated employee contributions.

(a) Value in line 1(a) plus accumulated employee contributions**	(b) Assets in fund divided by col. (a)	(c) Col. (b) ratio last year	(d) Col. (b) ratio 2 years ago
9/30/83 - $353.7	31%	29%	27%
9/30/84 - $372.2	34%	31%	29%

** Includes employee contributions of terminated employees entitled to a deferred vested benefit (see Note A (5)).

U.S. CIVIL SERVICE RETIREMENT SYSTEM
FOOTNOTES TO TABLE 1

The present value of benefits and contributions for each year is based on actual employee and annuitant population models as of the end of the respective years, while the decrement rates and economic assumptions for the 1983 figures were the same as those used in 1979 through 1982. The 1984 figures were the same as those used in the 1982 Board of Actuaries Report (see Note G).

The present value of future benefits and contributions for active employees as of September 30, 1984, includes the effect of an assumed 3.5 percent general salary increase in Fiscal Year 1985 and assumed 5.5 percent general salary increases annually thereafter, although the value of the accumulated plan benefits does not include the effect of these increases. Future COLA's are assumed to be five percent in fiscal years 1985 and thereafter.

The normal cost is determined for a typical group of new entrants based on actual experience for 1977 through 1981, which is a change from the 1983 figures. The change in the new entrant data and the actuarial assumptions caused the normal cost to decrease by approximately 1.6 percent of pay which is also a change from the 1983 figures.

Item seven, the percent of retiree benefits which is covered by assets, shows a continued improvement over the past three years. This item is a measure of benefit security used by private sector firms.

Table Unaudited

TABLE 2
U.S. CIVIL SERVICE RETIREMENT SYSTEM
COMPARISON OF A FUNDING METHOD WHEREBY THE UNFUNDED
LIABILITY IS AMORTIZED IN LEVEL DOLLAR AMOUNTS OVER 40 YEARS
WITH ACTUAL CONTRIBUTIONS
(Dollars in billions)

(1)	(2)	(3)	(4)	(5)	(6)	(7)
Plan Year	Normal Cost	40 year Level Amortization of Unfunded Liability	Total Contribution* (Col. 2 plus Col. 3)	Total Contributions to Plan From All Sources	Difference Between Total Contribution (Col. 4) and Actual Contributions (Col. 5)	Actual Contributions as a Percentage of Total Contribution (Col. 5 Divided by Col. 4)
OLD ASSUMPTIONS (See Note G):						
1979	$17.4	$25.3	$42.7	$16.3	$26.4	38.2%
1980	$18.8	$29.4	$48.2	$19.2	$29.0	39.8%
1981	$19.9	$31.3	$51.2	$22.2	$29.0	43.4%
1982	$21.3	$32.3	$53.6	$23.6	$30.0	44.0%
1983	$22.5	$33.1	$55.6	$25.0	$30.6	45.0%
NEW ASSUMPTIONS (See Note G):						
1983	$21.5	$34.7	$56.2	$25.0	$31.2	44.5%
1984	$22.4	$36.0	$58.4	$25.5	$32.9	43.7%

*The above table shows the percent of pay for the first year. The percentage for subsequent years will depend on whether the group is open or closed and total payroll increases or decreases.

GAO Note: Note G refers to the notes to the financial statements.

Table Unaudited

TABLE 2(A)
U.S. CIVIL SERVICE RETIREMENT SYSTEM
COMPARISON OF A FUNDING METHOD WHEREBY THE UNFUNDED
LIABILITY IS AMORTIZED IN LEVEL DOLLAR AMOUNTS OVER 40 YEARS
WITH ACTUAL CONTRIBUTIONS
(as a percentage of payroll)

(1) Plan Year	(2) Normal Cost	(3) 40 year Level Amortization of Unfunded Liability	(4) Total Contributions* (Col. 2 plus Col. 3)	(5) Total Contributions to Plan From All Sources	(6) Total Contributions* (Col. 4) less Actual Contributions (Col. 5) as a percentage of payroll
OLD ASSUMPTIONS (See Note G):					
1979	36.8%	53.3%	90.1%	34.4%	55.7%
1980	36.7%	57.4%	94.1%	37.7%	56.4%
1981	35.8%	56.3%	92.1%	39.9%	52.2%
1982	36.5%	55.4%	91.9%	40.5%	51.4%
1983	36.5%	53.7%	90.2%	40.6%	49.6%
NEW ASSUMPTIONS (See Note G):					
1983	34.9%	56.3%	91.2%	40.6%	50.6%
1984	34.9%	56.1%	91.0%	39.7%	51.3%

*The above table shows the percent of pay for the first year. The percentage for subsequent years will depend on whether the group is open or closed and total payroll increases or decreases.

GAO Note: Note G refers to the notes to the financial statements.

Table Unaudited

TABLE 3
U.S. CIVIL SERVICE RETIREMENT SYSTEM
PAST AND PROJECTED FLOW OF PLAN ASSETS
(Dollars in billions)

Fiscal Year	Employee Contributions	Agency Contributions	30 Year Payments	Payment on Unfunded Liability
PAST FLOW OF PLAN ASSETS:				
1979	$3.4	$3.4	$3.1	$5.6
1980	3.7	3.6	3.5	7.4
1981	4.0	3.9	4.0	8.9
1982	4.2	4.1	4.5	9.4
1983	4.5	4.3	4.9	9.7
1984	4.6	4.6	5.1	9.4
PROJECTED FLOW OF PLAN ASSETS:				
1985	4.9	4.9	5.8	9.5
1986	5.2	5.2	6.2	9.5
1987	5.6	5.6	6.7	9.6
1988	6.0	6.0	7.4	9.7
1989	6.4	6.4	8.0	9.9
1990	6.8	6.8	8.7	10.0
1991	7.3	7.3	9.4	10.2
1992	7.8	7.8	10.2	10.5
1993	8.3	8.3	11.1	11.0
1994	8.9	8.9	12.0	11.6
1995	9.5	9.5	13.0	12.2
1996	10.1	10.1	14.0	12.9
1997	10.7	10.7	15.1	13.7
1998	11.4	11.4	16.3	14.5
1999	12.2	12.1	17.6	15.5
2000	12.9	12.9	18.7	16.5
2001	13.7	13.7	19.9	17.7
2002	14.6	14.5	21.2	18.9
2003	15.5	15.4	22.6	20.3
2004	16.4	16.3	24.0	21.8
2005	17.3	17.2	25.4	23.3
2010	23.0	22.8	34.0	33.0
2015	30.2	30.0	45.8	46.7
2020	39.7	39.3	61.3	66.0
2025	52.1	51.6	81.2	92.5
2030	68.3	67.7	107.0	128.4
2035	89.3	88.5	140.6	176.5
2040	116.5	115.5	184.2	240.5
2045	152.0	150.7	241.1	325.3
2050	198.6	196.8	315.1	437.6
2055	259.7	257.4	411.8	586.2
2060	339.6	336.7	538.2	782.4

Rounding - Due to rounding, columns and rows may not add exactly to totals.

Military Service Payment	Total Government Contributions	Investment Income	Total Income	Total Expenses	Net Assets End of Year	Covered Payroll
$0.8	$12.9	$3.8	$20.1	$12.6	$63.9	$47.4
1.1	15.6	4.8	24.1	15.0	73.0	51.2
1.3	18.2	6.0	28.2	17.8	83.4	55.6
1.5	19.4	8.7	32.4	19.7	96.1	58.3
1.7	20.6	9.8	34.8	20.9	110.0	61.6
1.8	20.8	11.3	36.7	22.0	124.7	64.2
1.9	22.1	13.4	40.5	23.1	142.2	70.6
2.1	23.0	14.9	43.1	24.6	160.6	74.7
2.2	24.2	16.3	46.0	26.3	180.3	79.8
2.4	25.6	17.3	48.9	28.1	201.1	86.0
2.6	26.9	17.9	51.2	29.9	222.4	91.8
2.7	28.2	18.5	53.6	31.7	244.3	97.6
2.9	29.8	19.5	56.6	33.8	267.1	104.3
3.1	31.7	20.6	60.1	36.2	291.1	111.4
3.3	33.7	21.8	63.8	38.6	316.3	118.8
3.5	35.9	23.0	67.8	41.2	342.9	126.7
3.7	38.3	24.2	72.0	43.9	370.9	135.1
3.9	40.9	25.4	76.3	46.8	400.4	143.9
4.1	43.6	26.7	81.1	49.9	431.6	153.2
4.3	46.5	28.2	86.2	53.1	464.7	162.9
4.5	49.7	29.7	91.6	56.7	499.6	173.2
4.7	52.8	31.5	97.3	60.4	536.4	184.0
5.0	56.2	33.6	103.5	64.4	575.5	195.4
5.2	59.8	35.9	110.3	68.8	617.0	207.2
5.4	63.6	38.5	117.6	73.7	660.8	219.6
5.6	67.7	41.4	125.4	79.1	707.2	232.4
5.9	71.8	44.4	133.5	84.9	755.9	246.0
7.1	96.9	60.9	180.8	120.1	1,035.1	325.2
8.4	130.9	81.3	242.4	167.9	1,379.0	427.9
9.8	176.4	106.2	322.2	230.8	1,800.8	561.7
11.5	236.7	136.8	425.6	312.6	2,320.3	737.4
13.8	316.8	174.5	559.6	419.0	2,965.1	966.9
16.9	422.5	221.4	733.2	557.4	3,770.4	1,264.2
21.2	561.4	280.0	957.9	737.3	4,779.1	1,649.4
26.9	744.0	353.7	1,249.7	970.2	6,052.1	2,152.2
34.6	984.2	447.4	1,630.2	1,272.5	7,675.6	2,811.9
45.0	1,300.4	567.7	2,127.7	1,666.5	9,763.2	3,677.2
58.7	1,715.9	722.9	2,778.5	2,181.0	12,463.5	4,809.7

Table Unaudited

TABLE 3(A)
U.S. CIVIL SERVICE RETIREMENT SYSTEM
PAST AND PROJECTED FLOW OF PLAN ASSETS
(as a percentage of payroll)

Fiscal Year	Employee Contributions	Agency Contributions	30 Year Payments	Payment on Unfunded Liability
PAST FLOW OF PLAN ASSETS:				
1979	7.2%	7.2%	6.5%	11.8%
1980	7.2%	7.0%	6.8%	14.5%
1981	7.2%	7.0%	7.2%	16.0%
1982	7.2%	7.0%	7.7%	16.1%
1983	7.3%	7.0%	8.0%	15.7%
1984	7.2%	7.2%	7.9%	14.6%
PROJECTED FLOW OF PLAN ASSETS:				
1985	7.0%	7.0%	8.2%	13.5%
1986	7.0%	7.0%	8.3%	12.7%
1987	7.0%	7.0%	8.4%	12.0%
1988	7.0%	7.0%	8.6%	11.3%
1989	7.0%	7.0%	8.7%	10.8%
1990	7.0%	7.0%	8.9%	10.2%
1991	7.0%	7.0%	9.0%	9.8%
1992	7.0%	7.0%	9.2%	9.4%
1993	7.0%	7.0%	9.3%	9.3%
1994	7.0%	7.0%	9.5%	9.2%
1995	7.0%	7.0%	9.6%	9.0%
1996	7.0%	7.0%	9.7%	9.0%
1997	7.0%	7.0%	9.9%	8.9%
1998	7.0%	7.0%	10.0%	8.9%
1999	7.0%	7.0%	10.2%	8.9%
2000	7.0%	7.0%	10.2%	9.0%
2001	7.0%	7.0%	10.2%	9.1%
2002	7.0%	7.0%	10.2%	9.1%
2003	7.0%	7.0%	10.3%	9.2%
2004	7.0%	7.0%	10.3%	9.4%
2005	7.0%	7.0%	10.3%	9.5%
2010	7.1%	7.0%	10.5%	10.1%
2015	7.1%	7.0%	10.7%	10.9%
2020	7.1%	7.0%	10.9%	11.8%
2025	7.1%	7.0%	11.0%	12.5%
2030	7.1%	7.0%	11.1%	13.3%
2035	7.1%	7.0%	11.1%	14.0%
2040	7.1%	7.0%	11.2%	14.6%
2045	7.1%	7.0%	11.2%	15.1%
2050	7.1%	7.0%	11.2%	15.6%
2055	7.1%	7.0%	11.2%	15.9%
2060	7.1%	7.0%	11.2%	16.3%

Rounding - Due to rounding, columns and rows may not add exactly to totals.

Military Service Payment	Total Government Contributions	Investment Income	Total Income	Total Expenses	Net Assets End of Year
1.7%	27.2%	8.0%	42.4%	26.6%	134.8%
2.1%	30.5%	9.4%	47.1%	29.3%	142.6%
2.3%	32.7%	10.8%	50.7%	32.0%	150.0%
2.6%	33.3%	14.9%	55.6%	33.8%	164.8%
2.8%	33.4%	15.9%	56.5%	33.9%	178.6%
2.8%	32.4%	17.6%	57.2%	34.3%	194.2%
2.7%	31.3%	19.0%	57.4%	32.7%	201.4%
2.8%	30.8%	19.9%	57.7%	32.9%	215.0%
2.8%	30.3%	20.4%	57.6%	33.0%	225.9%
2.8%	29.8%	20.1%	56.9%	32.7%	233.8%
2.8%	29.3%	19.5%	55.8%	32.6%	242.3%
2.8%	28.9%	19.0%	54.9%	32.5%	250.3%
2.8%	28.6%	18.7%	54.3%	32.4%	256.1%
2.8%	28.5%	18.5%	53.9%	32.5%	261.3%
2.8%	28.4%	18.4%	53.7%	32.5%	266.2%
2.8%	28.3%	18.2%	53.5%	32.5%	270.6%
2.7%	28.3%	17.9%	53.3%	32.5%	274.5%
2.7%	28.4%	17.7%	53.0%	32.5%	278.2%
2.7%	28.5%	17.4%	52.9%	32.6%	281.7%
2.6%	28.5%	17.3%	52.9%	32.6%	285.3%
2.6%	28.7%	17.1%	52.9%	32.7%	288.5%
2.6%	28.7%	17.1%	52.9%	32.8%	291.5%
2.6%	28.8%	17.2%	53.0%	33.0%	294.5%
2.5%	28.9%	17.3%	53.2%	33.2%	297.8%
2.5%	29.0%	17.5%	53.6%	33.6%	300.9%
2.4%	29.1%	17.8%	54.0%	34.0%	304.3%
2.4%	29.2%	18.0%	54.3%	34.5%	307.3%
2.2%	29.8%	18.7%	55.6%	36.9%	318.3%
2.0%	30.6%	19.0%	56.6%	39.2%	322.3%
1.7%	31.4%	18.9%	57.4%	41.1%	320.6%
1.6%	32.1%	18.6%	57.7%	42.4%	314.7%
1.4%	32.8%	18.0%	57.9%	43.3%	306.7%
1.3%	33.4%	17.5%	58.0%	44.1%	298.2%
1.3%	34.0%	17.0%	58.1%	44.7%	289.7%
1.2%	34.6%	16.4%	58.1%	45.1%	281.2%
1.2%	35.0%	15.9%	58.0%	45.3%	273.0%
1.2%	35.4%	15.4%	57.9%	45.3%	265.5%
1.2%	35.7%	15.0%	57.8%	45.3%	259.1%

U.S. CIVIL SERVICE RETIREMENT SYSTEM
FOOTNOTES TO TABLE 3 AND 3(A)

The projected flow of plan assets calculated in Tables 3 and 3(A) are based on the following economic assumptions*:

Cost of Living Adjustment		General Schedule Increase		Interest Rate for New Issues	
12/84	3.5%	1/85	3.5%	6/85	10.750%
12/85	4.1	10/85	4.0	6/86	10.125
12/86	4.3	10/86	5.2	6/87	8.750
12/87	4.1	10/87	5.4	6/88	6.750
12/88	3.9	10/88	5.3	6/89	5.500
12/89	3.6	10/89	5.0	6/90	5.500
Future Years	5.0	Future Years	5.5	Future Years	6.500

*The economic assumptions for the first six years are from OMB economic assumptions distributed in December 1984 and used in the compilation of the 1986 budget.

Opinion of the Enrolled Actuary

OPINION OF THE ENROLLED ACTUARY
Actuarial Valuation of the U.S. Civil Service
Retirement System as of September 30, 1984

I have reviewed the results of the actuarial valuation of the U.S. Civil Service Retirement System as of September 30, 1984, which was prepared by myself and Michael Virga, who also works in the Office of the Actuary at the Office of Personnel Management. In my opinion, the actuarial valuation was conducted using accepted actuarial valuation methods and techniques. In preparing this statement, I relied on the financial information provided by John D. Webster, Chief of the Fiscal Management Division, Compensation Group. I believe the nonactuarial data used by me to be complete and accurate.

The actuarial assumptions used in making the determinations are the same as those selected by the Board of Actuaries for its last valuation of the System as of September 30, 1982. The present values shown herein have been determined using a 5.0 percent rate-of-inflation assumption set by the Office of Management and Budget to meet the P.L. 95-595 requirement for consistency among the enrolled actuary reports for Federal retirement systems. Consistent with the approach used by the Board, this current valuation assumes general salary increases averaging 0.5 percent higher (5.5 percent) than the assumed inflation rate, and investment earnings 1.5 percent higher (6.5 percent) than the inflation rate.

In my opinion, the present values in the Actuarial Tables on pages 36 to 42 included in this report have been estimated on the basis of actuarial assumptions which are reasonable in the aggregate, and reflect my best estimate of anticipated experience under the Plan based on Plan provisions in effect at the end of fiscal year 1984. The effects of subsequent amendments (see Note I to the financial statements) have not been reflected in this report, nor have possible plan amendments relating to the post-83 employees covered by Social Security been reflected. To the best of my knowledge, the report is complete and accurate, subject to the previous comment concerning the financial information.

BY: Ronald Gebhardtsbauer MAY 7 1985

Ronald Gebhardtsbauer
Enrolled Actuary #3261
U.S. Office of Personnel Management
1900 E Street, N.W.
Washington, D.C. 20415
(202) 632-4656

GAO Note: The actuarial tables referred to by the enrolled actuary are included as appendix IV in this report.

U.S. Civil Service Retirement System's General Information Sheet

Information Sheet Unaudited

U.S. CIVIL SERVICE RETIREMENT SYSTEM
GENERAL INFORMATION SHEET

Report for Plan year ending
September 30, 1984

1. Name of Plan: U.S. Civil Service Retirement System

2. Name and address of Plan sponsor:

   U.S. Office of Personnel Management
   1900 E Street, N.W.
   Washington, D.C. 20415

3. Name and phone number of Plan administrator:

   James W. Morrison, Jr.
   Associate Director for Compensation
   202-632-1854

4. Type of Plan entity: Single-employer Plan

5. Date Plan established: 5/22/1920

6. Plan participants at end of Plan year:

Active employees:		2,750,000*
Separated employees entitled to deferred benefits:		119,000
Annuitants:		
Retiree annuitants -	1,447,000	
Survivor annuitants-	505,000	
Total annuitants		1,952,000**

* Includes those employees on leave without pay who retain coverage.

** This figure varies from the number (1,910,000) included in the President's budget, submitted to Congress in January 1985, as a result of a timing difference between when annuity cases are issued and when their benefits commence.

7. Type of Plan: Defined benefit

8. Administrative Costs:

   Are administrative costs borne by the Plan? - Yes

9. In this Plan year, was the Plan merged or consolidated into another Plan or were assets or liabilities transferred to another Plan? - No (except for certain small transfers to other Governmental systems required by law)

10. Indicate funding arrangement: Trust

11. Date of most recent actuarial valuation: 9/30/84 for this report and 9/30/82 for Board of Actuaries' report (to be printed later in 1985 - see Note G)

12. Actuarial cost method used in completing tables:

    Actuarial valuations are performed by the Board of Actuaries, established by section 8347(f) of title 5, U.S. Code, using an entry-age-normal-cost method. The Board's valuation method and assumed decrements were used in developing the values shown in this report.

13. Actuarial assumptions (see Note G to Financial Statements for a description of changes to these assumptions)

    a. Economic:

       (1) Rate of return on Plan investments - 6.5 percent

       (2) Ratio of salary expected at normal retirement (age 62 for this purpose) to salary at:

	Men	Women
Age 25	18.7	18.7
Age 40	4.6	4.6
Age 55	1.5	1.5

       The above amounts assume general salary increases of 5.5 percent per annum plus individual merit increases based on Plan experience.

       (3) Inflation rate - 5 percent

       (4) Economic assumptions for Tables 3 and 3(A) for fiscal years 1985 to 1990 are provided by OMB and differ from those given above. They are listed on page 42 as footnotes to these tables.

b. Decrements (The September 30, 1982, Board of Actuaries Report provides more details.):

(1) Basis of mortality assumptions: Plan experience

(2) (a) Normal retirement age: 55 with 30 years' service
60 with 20 years' service
65 with 5 years' service

(b) Lowest age at which employee may voluntarily retire with full benefits: 55 (certain special groups may retire at younger ages)

(3) Basis of withdrawal assumption: Plan experience

(4) Basis of disability assumption: Plan experience

14. Attach a brief description of the Plan provisions, including a summary of the principal eligibility and benefit provisions for employee and employer contributions.

See Note A of the Financial Statements (Page 23) and Exhibit R1 which displays major law provisions (Pages 10 and 11).

* * * * * * * * * * * * * * * * * * * *

I declare that I have examined this report, including accompanying tables and statements, and to the best of my knowledge and belief it is true, correct, and complete.

Signature of Plan administrator

James W. Morrison, Jr.
Associate Director
for Compensation

Date: MAY 7 1985

GAO Note: See appendixes III, IV, and VII, respectively, for the financial statement notes, tables 3 and 3(A) and the footnotes to the tables, and exhibit R1 referred to by the plan administrator.

U.S. Civil Service Retirement System's Exhibit R1 - Major Provisions of Law - 1920 - Present

Table Unaudited

U.S. CIVIL SERVICE RETIREMENT SYSTEM

Exhibit R1: Major Provisions of Law
1920 - Present

Act and Approval Date	1920 5/22/20	1930 5/29/30	1942 1/24/42
Age-Service Requirements to Receive Annuity			
Optional	No Provision	68-30	62-15 60-30 55-30*
Disability	Any-15	Any-5	Same
Involuntary	No Provision	No Provision	62-5 55-5*
Deferred	No Provision	55-15* (1922 Act)	Vested Any-5 Payable at 62-5
Mandatory	70-15	Same	Same
Employee Contribution as Percent of Pay	2 1/2%	3 1/2%	5%
General Formula	30 to 60% of salary by schedule	$30 x service plus amount purchasable from contributions; various maxima and minima	Same, plus minimum of 1/70 x salary x service (maximum 35 years)

* Annuity reduced for age.

1948 2/28/48	1956 7/31/56	1962 10/11/62	1966 7/18/66	1969 10/20/69
Same, except FBI: 50-20 (1947 Act)	Same, except 62-5	Same	Same, except 60-20; no age reduction for 55-30	Same
Same	Same	Same	Same	Same
Any-25*	Any-25* 50-20*	Same	Same	Same
Same	Same	Same	Same	Same
Same	Same	Same	Same	None after 4/6/78 Act
6%	6 1/2% plus Agency Match	Same	Same	Same, except 7%
1 1/2% x salary x service or (1% x salary + $25) x service. Maximum 80% of salary	Same 0 - 5 years; 1 3/4% for 6 - 10 years and 2% for 11 years+	Same	Same	Same, except unused sick leave used in computation

GAO Note: See appendix III, notes to financial statements, for other provisions of law affecting the U.S. Civil Service Retirement System.

Table Unaudited

U.S. CIVIL SERVICE RETIREMENT SYSTEM

Exhibit R1: Major Provisions of Law (continued)
1920 - Present

Act and Approval Date	1920 5/22/20	1930 5/29/30	1942 1/24/42
Average Salary for	Last 10 years	High 5 years	Same
Survivor Benefit Election	No Provision	No Provision	Election by Retiree (1939 Act)
Cost-of-living Adjustment (COLA)	No Provision	No Provision	No Provision
Average Annual Annuity for Issues in Year Following Enactment	$ 568	$ 952	$ 986
Estimated Number of Employees Covered	330,000	415,000	2,000,000 (3,000,000 in 1944)

** The 1 point "kicker" was eliminated in 1976. From 1977 to 1981 COLAs were made semiannually in March and September, based on December and June CPIs. In 1981, the COLA became an annual adjustment made each March based on the change in the CPI the previous calendar year. In 1983, the COLA was delayed one month to April and the amount was modified (See Note A.4.) for non disabled retirees under age 62. In 1984, the COLA became an annual adjustment made each December based on the yearly change in the third calendar quarter CPI.

1948 2/28/48	1956 7/31/56	1962 10/11/62	1966 7/18/66	1969 10/29/69
Same	Same	Same	Same	High 3 years
Cost of election reduced. Children to age 18 added.	Same	Same, except student children to age 21; spouse benefit increased	Same, except student children to age 22.	Same, except guaranteed minimum for surviving spouses in death-in-service cases
No Provision	No Provision	Set annually based on 3%+ rise in CPI	Automatic, based on 3 month 3%+ CPI rise above base month (1965 Act)	Same, except 1% over amount set by CPI**
$1,121	$1,920	$2,700	$3,240	$4,920
1,735,000	2,133,000	2,300,000	2,450,000	2,700,000

GAO Note: See appendix III, notes to financial statements, for other provisions of law affecting the U.S. Civil Service Retirement System.

Glossary

Accumulated Plan Benefits	Benefits that are attributable under the provisions of a pension plan to employees' service rendered up to the benefit information date.
Actuarial Accrued Liability	The portion of the present value (as of the benefit information date) of a pension plan's projected future benefit costs and administrative expenses that exceeds the present value of future normal cost contributions.
Actuarial Assumptions	Estimates of future conditions affecting pension cost, such as mortality rate, employee turnover, compensation levels, and investment earnings.
Actuarial Cost Method	A recognized technique used in establishing the amount of annual contributions or accounting charges for pension cost under a pension plan.
Actuarial Present Value	The current worth of amounts payable or receivable in the future. If payment or receipt is certain, the present value is determined by discounting the future amount or amounts at a predetermined rate of interest. If payment or receipt is contingent on future events (for example, survival), further discounting for the probability that payment or receipt will occur is necessary.
Actuarial Valuation	The process by which an actuary estimates the present value of benefits to be paid under a pension plan and calculates the amounts of employer contributions or accounting charges for pension cost.
Contributory Plan	A pension plan under which participants bear part of the cost.
Decrements	Assumptions as to rates of plan participants' withdrawal from the plan, retirement, disability, and death, which an actuary uses in making actuarial projections.
Defined Benefit Pension Plan	A pension plan that specifies a determinable pension benefit, usually based on factors such as age, years of service, and salary.

Defined Contribution Pension Plan	A pension plan that specifies the amount of contribution to be made to the plan for each employee. Benefits at retirement are those contributions plus whatever has been earned on them.
Enrolled Actuary	An actuary enrolled under 29 U.S.C. 1242 by a Joint Board for the Enrollment of Actuaries established by the Secretaries of Labor and the Treasury.
Future Benefits	An estimate of the total benefits payable at retirement, including benefits anticipated to accrue in the future as well as those accruing before the benefit information date. Future benefits may depend on total length of service but with pay averaged over only a limited number of years (often the final 3 years of service).
Net Assets Available for Benefits	The difference between a plan's assets and its liabilities. For purposes of this definition, a plan's liabilities do not include participants' accumulated plan benefits.
Noncontributory Plan	A pension plan under which participants do not make contributions.
Normal Cost	The annual cost assigned, under the actuarial cost method in use, to years subsequent to the inception of a pension plan. "Static" normal cost assumes no increases in pay or retirement benefits.
Participant	Member of a pension plan including active employees covered by the plan, separated employees entitled to benefits, and retiree and survivor annuitants.
Pay-As-You-Go	A method of paying pension benefits as they come due to retired employees out of annual appropriations.
Plan Year	Calendar, policy, or fiscal year the plan chooses for record-keeping purposes.

"Statutory" Unfunded Actuarial Accrued Liability	The unfunded actuarial accrued liability, computed in accordance with 5 U.S.C. 8331, which is used as a base for determining a portion of the government's contribution to the retirement system. The actuarial assumptions for the computation do not include increases in pay or retirement benefits.
Unfunded Actuarial Accrued Liability	The amount by which the present value of future benefits exceeds the amount in the pension fund and the present value of future normal cost contributions. The actuarial assumptions used for the computations include increases in pay and retirement benefits.

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