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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

FEBRUARY 14, 1980

B-197657

The Honorable Gladys Noon Spellman
Chair, Subcommittee on Compensation
and Employee Benefits
Committee on Post Office and Civil
Service
House of Representatives

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Dear Madam Chair:

Subject: [Retirement Benefits for Panama Canal Employees] (FPCD-80-41)

Your letter of November 15, 1979, asked us to evaluate the Office of Personnel Management's (OPM's) determination of the cost of the increased retirement benefits granted to Panama Canal employees by the legislation implementing the Panama Canal Treaty. As indicated in your letter, an accurate determination of the increased retirement cost is essential because the legislation required that the costs be paid by Canal revenues rather than by the Nation's taxpayers. DLG00925

OPM has not yet determined the cost of the increased retirement benefits. The purpose of this interim report is to advise you of the status of OPM's progress in implementing the legislation.

The legislation granted major retirement benefits to Canal employees that are not provided to other Federal personnel under the civil service retirement system. Canal personnel who were employed at any time during March 31 to September 30, 1979, are allowed to retire as early as age 48 with 18 years of service, or at any age with 23 years of service. Those employees who remain after September 30, 1979, will have their benefits calculated at the rate of 2.5 percent of their high-3 average salary for each year of service after that date. In comparison, other employees under the system are generally allowed to retire no earlier than age 55 with 30 years of service, and their benefit formula provides a maximum of 2 percent of their high-3 salary for each year of service.

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Other employees can retire as early as age 50 with 20 years of service or at any age with 25 years if their agency is involved in a major reduction-in-force, reorganization, or transfer of function. However, their annuities are reduced by one-sixth of 1 percent for each month they are under age 55. Under the Panama legislation, the annuity reduction does not apply to Canal employees who retire before age 55.

Early retirements are costly in that the employees will be on the retirement rolls for a longer period, receive cost-of-living adjustments that they otherwise would not have received, and will no longer be contributing to the retirement fund. Similarly, the increased benefit formula and elimination of the reduction for early retirement will result in added cost because the employees will receive higher benefits upon retirement, and their cost-of-living adjustments will also be correspondingly greater.

OPM officials told us that the calculation of the added cost of the Panama legislation will not be completed for several months. OPM's previous calculations of the cost were only rough estimates based on its assumptions of the retirement experience that might result from enactment of the legislation.

During hearings on the proposed legislation before the House Post Office and Civil Service Committee, the Director of OPM stated that the added cost associated with the bill would amount to $205 million. This amount was later included in the legislation as the estimated cost of the retirement program changes. Our major concern with this estimate was that it was calculated on a "static" basis whereby no consideration was given to future pay increases and cost-of-living adjustments. A "dynamic" estimate, assuming annual cost-of-living and pay increases of 4 and 3 percent, respectively, was $335 million--or more than 60 percent higher.

These initial estimates were later revised to reflect some updated Canal personnel data. They were $219 million and $357 million on a static and dynamic basis, respectively.

To develop a more specific cost estimate, OPM plans to request data from the Panama Canal Commission (PCC) showing age, salary, and years of service for those Canal employees who retired during the first few months after the legislation was enacted and also for those employees who remain. On the basis of this refined data, OPM will estimate the cost and bill PCC for the amount to be paid in installments over the next 20 years. A 20-year billing period is used because PCC will go out of existence on December 31, 1999. A decision has not yet been made as to whether this estimate will be reviewed periodically and revised to reflect any differences between projected and actual experience.

OPM plans to prepare cost estimates using both static and dynamic assumptions. At this time, OPM is uncertain as to which basis will be used to bill PCC for the liberalized retirement benefits.

During the Post Office and Civil Service Committee's hearings on the personnel aspects of the proposed legislation, there was considerable discussion on the cost of the proposed legislation computed on a dynamic basis. On the basis of this and the statement in the implementing legislation that "* * * the Panama Canal Commission shall be liable for that portion of any estimated increase in the unfunded liability of the fund * * * to the extent attributable to the amendments made * * * by the Panama Canal Act of 1979," we believe that the Congress intended OPM to bill PCC for the full cost of the retirement program changes. Only if the billing considers cost-of-living and general pay increases (dynamic basis) will PCC be paying all the cost associated with the increased retirement benefits.

We will continue to monitor OPM's implementation of the legislation and report to you again when the cost is finalized. We are sending a copy of this interim report to OPM, but we plan no further distribution until the final report is issued.

Sincerely yours,

Elmer B. Staats

Comptroller General
of the United States