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New Research from EBRI:

Federal Pension Reform: 25 Years Later

WASHINGTON—As various states grapple with reforming their public employee pension systems, the experience of how the federal government managed pension reform 25 years ago may provide some useful background to governors and state legislatures.

The nonpartisan Employee Benefit Research Institute (EBRI), in its July *EBRI Issue Brief*, takes a look at how the federal government handled pension reform and the political and legislative forces involved when Congress enacted the Federal Employees Retirement System Act of 1986. The report, “Twenty-Five Years After Federal Pension Reform,” is available on line at www.ebri.org

The legislative history of the five-year effort to pass FERS, as the system is known, is written by Jamie Cowen, who served as chief counsel of the Senate Governmental Affairs Subcommittee on Civil Service, and who played a key role in passing FERS. After more than two decades, the law has changed little, and remains the basis for retirement benefits provided to some 3 million civilian federal employees.

FERS contained the most sweeping overhaul of retirement benefits for civilian workers in recent history, and resulted in large part from the need to shore up the Social Security system by broadening its base (by mandating coverage of the federal civilian work force), along with pressure from then-President Ronald Reagan to reduce federal spending. It ultimately contained three main elements:

- Mandatory Social Security coverage of civilian federal workers.
- A basic and mandatory defined benefit pension plan, but with a lower level of benefits than the rich plan that existed at the time.
- A new voluntary thrift savings 401(k)-type plan (patterned after the private sector) where worker contributions matched by the employer would be invested in a limited variety of investment funds.

The report notes that through a remarkable combination of bipartisanship and trust among the key players in both the House and Senate (at the time, controlled by different parties), and shrewd legislative strategizing, lawmakers enacted a sweeping and cost-cutting law that fundamentally restructured federal retirement benefits. Lawmakers deliberately and carefully insulated the federal Thrift Savings Plan from political manipulation and minimized the impact of the federal workers’ investments in the financial markets.

The success of the law can be seen in the fact that, in the current debate over cutting federal spending, no sweeping proposals have been made to cut federal retirement benefits (although there is a proposal to raise workers’ contributions to their retirement plan).

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