



***Retirement and Insurance Service
Financial Management Letter***

Number: 99-09

Date: October 15, 1999

Subject: 1999 Cost Factors for Pension and Other Retirement Benefits

As required by Statement of Federal Financial Standards No. 5 (SFFAS-5) -- *Liabilities of the Federal Government* -- we are providing you with the "costs factors" for the Federal civilian benefit programs. These factors will enable you to determine your 1999 cost for Pensions and Other Retirement Benefits, as they relate to the Civil Service Retirement System (CSRS), Federal Employees Retirement System (FERS), Federal Employees Health Benefits Program (FEHB) and the Federal Employees' Group Life Insurance Program (FEGLI).

BACKGROUND

The amounts remitted to OPM by and for covered employees do not generally cover the actual cost of the benefits those employees will receive after their careers are over. As a consequence, agencies must recognize an "imputed" cost equal to the difference between the true cost of providing future benefits to their employees and the employee and employer contributions they remit to OPM. The imputed cost will be recorded as a charge to standard general ledger (SGL) account 6730G. An "imputed financing source" must also be recognized in an amount equal to the imputed cost -- this will be recorded as a credit to SGL account 5780G.

PENSIONS: CSRS AND FERS

CIVIL SERVICE RETIREMENT SYSTEM

For most "regular" CSRS covered employees, the 1999 cost factor is 24.2 per cent of basic pay*, which is the same as the 1997 and 1998 factors. Accordingly, employing agencies must recognize, as an *imputed cost*, the difference between this cost factor and the total contributions (employee and employer) remitted to OPM for covered employees (15.76 per cent of basic pay). The 1999 cost factors for CSRS are presented as Attachment A.

FEDERAL EMPLOYEES RETIREMENT SYSTEM

Unlike the CSRS, FERS is fully funded. That is, the future cost of providing a FERS benefit is covered entirely by the contributions made by and for covered employees. Please note that the 1999 cost factor for "regular" coverage, under which the vast majority of employees are covered -- 11.5 per cent of basic pay -- is the same as the 1997 and 1998 factors. The 1999 cost factors for FERS are presented as Attachment B.

* See CSRS/FERS Handbook, Section 30A1.1-2 for definition of basic pay.

GUIDELINES: CALCULATION OF IMPUTED COST OF CSRS AND FERS

To determine your imputed cost for CSRS and FERS, follow these steps:

1. Sort all employees covered by CSRS and FERS by their category of coverage.
2. Aggregate the annual basic pay of all employees in each category of CSRS and FERS coverage.
3. Multiply the aggregate basic pay for each category of CSRS and FERS coverage computed in step 2 by the associated cost factor [for example, for “regular” CSRS and FERS employees the factors would be 24.2 and 11.5 per cent, respectively].
4. Compute the grand total of each of the individual calculations in step 3 for both CSRS and FERS -- this is the service cost of providing CSRS and FERS benefits.
5. Subtract, from the amount derived in step 4, the total employer and employee contributions for all employees covered by CSRS and FERS. The result is your imputed cost for FERS and CSRS.
6. Record the imputed cost computed in step 5 as a charge to Standard General Ledger (SGL) account 6730G – *Imputed Cost* with a corresponding credit to SGL account 5780G - *Imputed Financing Sources*.

ILLUSTRATION: CALCULATION OF IMPUTED COST OF CSRS AND FERS

Agency XYZ has “regular” CSRS employees, who earn total annual basic pay of \$500,000, and “regular” FERS employees, who earn total annual basic pay of \$250,000. After it receives the cost factors, Agency XYZ computes its imputed cost, as follows:

	A	B	C	D	E
	Annual Basic Pay	Cost Factor (%)	Service Cost [A * B]	Total Contributions (See below)	Imputed Cost [C - D]
CSRS	\$500,000	24.2	\$121,000	\$78,800	\$42,200
FERS	\$250,000	11.5	\$28,750	\$29,375	\$(625)**
TOTAL			\$149,750	\$108,175	\$41,575

** FASAB Interpretation Number 4 requires that any excess of total FERS-related contributions over the FERS-related service cost be offset against the excess of the CSRS service cost over total CSRS-related contributions.

Agency XYZ computed employer and employee contributions during 1999, as follows:

	A	B	C	D	E	F
	Annual Gross Basic Pay	Employee Withholding Rate*** (%)	Agency Contribution Rate (%)	Employee Deductions [A * B]	Employer Contributions [A * C]	Total Contributions [D + E]
CSRS	\$500,000	7.25	8.51	\$36,250	\$42,550	\$78,800
FERS	\$250,000	1.05	10.7	\$2,625	\$26,750	\$29,375
TOTAL				\$38,875	\$69,300	\$108,175

Agency XYZ posts the following transaction:

6730G (00) Imputed Cost	41,575	
5780G (00) Imputed Financing Sources		41,575

OTHER RETIREMENT BENEFITS: FEDERAL EMPLOYEES HEALTH BENEFITS PROGRAM

BACKGROUND

The FEHB Program provides benefits to eligible Federal retirees, their dependents and survivors. Neither the employing agency nor the active employee, however, makes contributions for postretirement health benefits. As a consequence, employing agencies must recognize the entire cost of providing postretirement health benefits to their employees as an imputed cost. We have computed the cost factor you will need to calculate your imputed cost for postretirement health benefits; for 1999, it is \$2,731 per employee enrolled in the FEHB.

GUIDELINES: CALCULATION OF IMPUTED COST OF POSTRETIREMENT HEALTH BENEFITS

To determine imputed cost, perform the following steps:

1. Ascertain actual enrollment in the FEHB at three points in time: October 1, 1998; March 31, 1999; and September 30, 1999.
2. Multiply the October 1, 1998 enrollment by one; the March 31, 1999 enrollment by two; and the September 30, 1999 enrollment by one.

*** For the sake of simplicity, it is assumed for this illustration, that these withholding rates were in effect for the entire fiscal year. In reality, they became effective in January 1999.

3. Calculate the grand total of each of the individual calculations in step 2.
4. Divide the grand total in Step 3 by four – this is your *constructed FEHB enrollment*.
5. Multiply the constructed FEHB enrollment determined in step 4 by the cost factor – this is your *imputed cost*.
6. Record the imputed cost computed in step 5 as a charge to SGL account 6730G, with a corresponding credit to SGL account 5780G.

ILLUSTRATION: CALCULATION OF IMPUTED COST OF POSTRETIREMENT HEALTH BENEFITS

	10/1/98	3/31/99	9/30/99
Actual enrollment	72	66	60
Multiplier	1	2	1
Product	72	132	60
Grand Total			264
Constructed Enrollment [<i>Grand Total divided by 4</i>]			66
Cost Factor			\$2,731
IMPUTED COST [<i>Constructed Enrollment times Cost Factor</i>]			\$180,246

Agency XYZ posts the following transaction:

6730G (00) Imputed Cost	180,246	
5780G (00) Imputed Financing Sources		180,246

**OTHER RETIREMENT BENEFITS:
FEDERAL EMPLOYEES LIFE INSURANCE PROGRAM**

BACKGROUND

The FEGLI Program provides life insurance benefits to eligible Federal retirees, their dependents and survivors. Part of the premiums remitted by and for active covered employees funds their postretirement life insurance benefits. As a consequence, employing agencies must recognize a relatively small amount of the cost of providing postretirement life insurance as an imputed cost. The 1999 cost factor for FEGLI is the same as in 1998 and 1997; that is, *.02 per cent of basic pay*.

GUIDELINES: CALCULATION OF IMPUTED COST OF POSTRETIREMENT LIFE INSURANCE

Agencies will determine their imputed cost for postretirement life insurance by the following steps:

1. Determine the aggregate annual basic pay of all employees covered by Basic life insurance.
2. Multiply the amount determined in Step 1 by the cost factor [*.02 per cent of basic pay*] -- -- this is your *imputed cost*.
3. Record the imputed cost computed in step 2 as a charge to SGL account 6730G, with a corresponding credit to SGL account 5780G.

ILLUSTRATION: IMPUTED COST OF POSTRETIREMENT LIFE INSURANCE

Agency XYZ has determined the aggregate annual basic pay of its employees covered by Basic life insurance to be \$500,000. It determines its imputed cost of postretirement life insurance, as follows:

A	B	C
Aggregate Annual Basic Pay	Cost Factor (%)	Imputed Cost [A x B]
\$500,000	.02	\$100

Agency XYZ posts the following transaction:

6730G (00) Imputed Cost	100	
5780G (00) Imputed Financing Sources		100

1999 FACTS I REPORTING

As we advised in Financial Management Letter No. 99-08, the balance on the books of employing agencies in accounts 6730G and 5780G must be equal. It is critical that you ensure that the balances in these accounts are equal before submitting your 1999 FACTS I reporting.

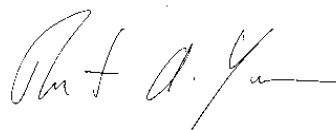
Note the "00" in the above illustrative entries. As these SGL accounts are intragovernmental ["G"], agencies must use the two-digit department code of their "trading partner" for FACTS I reporting. It is *essential*, when reporting the balances in accounts 5780G and 6730G to FACTS I, that agencies use partner code "00".

ASSURANCE FOR AUDITORS

Due to the need to distribute these cost factors to employing agencies shortly after the end of the fiscal year, insufficient time is available for our independent public accounting firm to opine on them. Nonetheless, the 1998 cost factors for regular CSRS and FERS coverage, as well as those for FEHB and FEGLI, were disclosed in the footnotes accompanying OPM's 1998 financial statements. These financial statements were audited by the public accounting firm of KPMG, LLP (KPMG), which issued an unqualified opinion on them. The cost factors for CSRS, FERS, and FEGLI did not change for 1999, nor did the policies, procedures and controls pertaining to the calculation of any of the cost factors, including the FEHB factor. Thus, your auditors can rely upon the disclosures in the 1998 financial statements and KPMG's opinions thereon.

INQUIRIES

If you have any questions about the cost factors, please contact the Financial Policy Staff on 202-606-0606 or email us at finance@opm.gov.



Robert A. Yuran, Chief
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Retirement and Insurance Service

Attachments (2)

COST FACTORS - CSRS

CATEGORY	1999 COST FACTOR (%)
Regular	24.2
Regular offset	19.3
Law enforcement officers	40.0
Law enforcement officers - offset	36.2
Air traffic controllers	31.9
Air traffic controllers – offset	28.2
Members of Congress	29.3
Members of Congress – offset	27.0
Congressional employees	32.5
Congressional employees – offset	27.8

COST FACTORS - FERS

CATEGORY	FERS COST FACTOR (%)
Regular	11.5
Law enforcement officers	24.6
Air traffic controllers	23.1
Members of Congress	16.5
Congressional employees	16.7
Military reserve technicians	11.9