

# **Statement of the Board of Actuaries of the Civil Service Retirement System**

This report from the Board of Actuaries (Board) is intended to accompany the September 30, 2023, actuarial valuations included in the Civil Service Retirement and Disability Fund (CSRDF) Annual Report for Fiscal Year 2024 produced by the Office of the Actuaries (OA) of the U.S. Office of Personnel Management (OPM).

## **Background**

The Civil Service Retirement System (CSRS) and the Federal Employees Retirement System (FERS) provide defined-benefit retirement, disability and survivor protection to millions of non-military federal employees, retirees and beneficiaries. CSRS is a closed plan that generally covers employees hired prior to 1984, and FERS covers employees hired thereafter.

In the Board's opinion, the systems deliver consistent, predictable income with pooled longevity risk and are, from an actuarial perspective, an effective and appropriate way to provide retirement security to the federal government workforce.

Statutory authority for the Board of Actuaries dates back more than 100 years. Initially, the Board had direct, hands-on involvement in conducting actuarial valuations of the system. Today, actuarial valuations of the system are conducted by the OA. The Board meets annually to establish the key actuarial assumptions used by the OA and provide guidance on other actuarial issues. The Board's work is done with support and input from the OA.

The actuarial valuation reflected in the CSRDF Annual Report is intended to estimate the full cost of the system and to allocate the cost over time. The results of the valuation may be used to understand the size of the obligation ultimately borne by U.S. taxpayers.

## **Actuarial Allocation of Contributions**

The CSRS and FERS system is funded by contributions from employees and from participating federal agencies plus the Treasury. For FERS, the total annual contributions to the system are intended to cover the normal cost<sup>1</sup> and pay off the unfunded liabilities over 30 years. Treasury payments for CSRS do not target funding of the full liability over any specific period. Both these approaches are designed to spread costs smoothly over time. Contributions in excess of the total amount needed

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<sup>1</sup> Normal cost is the cost of the plan benefits accrued to employees in a single year, as allocated by the actuarial method, without regard to any surplus or deficit in the system.

to cover benefit payments are held in special-issue U.S. Treasury securities<sup>2</sup>. Annual contributions are required from participating federal agencies using a payroll-based allocation methodology.

*Annual Contributions to the CSRDF*

System	Dollars in Billions*	
	10/1/2022 – 9/30/2023	10/1/2021 – 9/30/2022
CSRS	\$35.9	\$34.9
FERS	\$70.2	\$63.8
Total	\$106.1	\$98.7

\* numbers rounded for additive purposes

The annual contributions to FERS for fiscal years 2023 and 2022, as shown in the table above, include normal cost contributions determined according to the actuarial assumptions used for previous actuarial valuations. The actuarial assumptions incorporated in the current valuation will be reflected in future normal cost contributions to the CSRDF.

The contribution amounts for CSRS exclude the unpaid amortization amounts due from the United States Postal Service (USPS). The FERS contributions include a partial USPS payment of \$0.5 billion toward its required payment in fiscal year 2022, and a partial USPS payment of \$0.6 billion toward its required payment in fiscal year 2023.

**Financial Obligation of U.S. Taxpayers**

The U.S. taxpayer ultimately pays the cost of the system’s promised pension benefits, net of employee contributions. The payment of the pension benefits to beneficiaries is a cash demand that follows a different pattern than the aggregate annual contributions. Much of the cash demand is fulfilled by income and maturing securities from the CSRDF. However, because the CSRDF holds only Treasury securities, the full amount of benefit payments and expenses requires a cash outlay by the government.

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<sup>2</sup> Government Account Series securities cannot be traded on public markets.

*Annual Payments for Beneficiaries*

System	Dollars in Billions*	
	10/1/2022 – 9/30/2023	10/1/2021 – 9/30/2022
CSRS	\$73.7	\$70.3
FERS	\$30.8	\$26.6
Total	\$104.5	\$96.8

*Annual Payments for Beneficiaries, Less Employee Contributions*

System	Dollars in Billions*	
	10/1/2022 – 9/30/2023	10/1/2021 – 9/30/2022
CSRS	\$73.5	\$69.9
FERS	\$24.5	\$21.2
Total	\$98.0	\$91.1

\* numbers rounded for additive purposes

The actuarial report prepared by the OA includes a projection of benefit payments for the next 75 years, providing an estimate of how this demand on U.S. taxpayers will evolve.

**Present Value of Obligation**

The total value of the system costs accrued to date is referred to as the actuarial liability. The actuarial liability represents the governmental obligation to pay the future CSRS and FERS benefits that have accrued for current plan participants, measured at present value according to the actuarial methodology and assumptions recommended by the Board and the OA in accordance with relevant statutes and regulations.

*Actuarial Liability*

System	Dollars in Billions	
	9/30/2023	9/30/2022
CSRS	\$992.4	\$1,019.9
FERS	\$1,235.1	\$1,152.1
Total	\$2,227.5	\$2,172.0

## **Current Issues**

The Board looks at some issues every year and takes up other issues when appropriate. The issues under current consideration are described below.

### *System financing*

Significant unfunded actuarial liabilities exist for previously accrued costs under the closed CSRS plan. The current statutory contribution requirements do not target paying off these legacy CSRS unfunded liabilities over any specified period. Because both the funded and unfunded liabilities are obligations of the federal government, the Board is not concerned that benefit security for participants is impacted by this approach.

There are other policy considerations, that the Board does not opine on, with regard to the appropriate allocation of costs over time. These include:

- Are federal agency budgets being appropriately charged for amortization costs?
- Is there an appropriate balance to be achieved between explicit federal debt (the U.S. Treasury securities held in the CSRDF) and implicit federal debt (the system's unfunded liability which is not yet denominated as U.S. Treasury debt)?

### *Economic assumptions*

Some of the actuarial assumptions, upon which the OA valuations are based, are considered economic assumptions and these are reviewed annually by the Board. The interest rate assumption reflects an expected "rate of return" on the U.S. Treasury securities held in the funds. The relationship of the interest rate to the inflation assumption has a significant impact on the valuation results. In recent years, the Board has set these assumptions in the context of current rates and the impact the current economic environment may have on long-term expectations.

The long-term economic assumptions used for the actuarial valuation as of September 30, 2023, were first effective for the actuarial valuation as of September 30, 2019. The long-term interest rate assumption is 4.00%. The assumed overall rate of inflation is 2.40%, such that the assumed long-term real rate of return on Treasury securities is 1.60%. The assumed annual rate of general salary increase is 2.65%, such that the assumed real rate of salary growth is 0.25%.

At its meeting on May 17, 2024, the Board reviewed the long-term inflation, interest and salary increase assumptions. The Board observed that recent real rates of interest rates have been low, but that high levels of federal debt may ultimately push up rates such that the current long-term assumption remains reasonable. The Board

determined that the long-term economic assumptions should remain unchanged for the actuarial valuation as of September 30, 2023.

#### *Demographic assumptions*

This actuarial valuation as of September 30, 2023, incorporates demographic rates which reflect the results of an experience study completed by the staff at the OA, generally based on plan experience through fiscal year 2019. These demographic rates were first effective for the actuarial valuation, as of September 30, 2021. The Board reviewed emerging demographic experience at its meeting on May 17, 2024, and recommended continued use of these demographic assumptions for the actuarial valuation as of September 30, 2023. The Board noted areas where emerging experience differs from current assumptions, such as employee rates of withdrawal and annuitant rates of mortality, but felt that it makes sense to wait for additional experience before making any change to long term expectations.

#### *Coronavirus pandemic*

In addition to the immediate impacts on mortality experience, the coronavirus pandemic introduced additional uncertainty into future mortality projections. There are many plausible paths forward for how mortality experience will continue to emerge.

The mortality rates assumed for this actuarial valuation as of September 30, 2023, were developed from pre-pandemic mortality experience through fiscal year 2019. The ultimate annual mortality improvement rates are unchanged from the ultimate annual mortality improvement rates assumed for prior actuarial valuations, first effective for the actuarial valuation as of September 30, 2017. As discussed at its meeting on May 17, 2024, the Board believes that it is reasonable to use long term mortality assumptions based on pre-pandemic mortality experience. As additional experience emerges and actuarial practice adapts, it is possible that future adjustments to these mortality assumptions may be warranted.

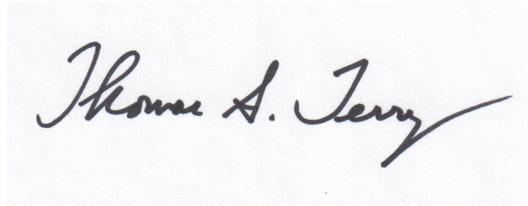
#### *Funding for USPS participants*

As of September 30, 2023, the USPS has an overdue balance for its required amortization payments to the CSRDF, totaling approximately \$13.8 billion for CSRS participants and approximately \$8.8 billion for FERS participants. The overdue balance for CSRS includes a payment of approximately \$3.0 billion due for FY 2023 and a payment of approximately \$2.3 billion due for FY 2022. The overdue balance for FERS includes approximately \$1.5 billion overdue out of a required \$2.1 billion payment for FY 2023, and approximately \$1.1 billion overdue out of a required \$1.6 billion payment for FY 2022. Payment of the required amortization amounts is necessary to achieve full funding of the actuarial liability for USPS participants.

*Borrowing from the pension trust*

The Board is aware that the CSRS and FERS trust fund securities are, from time to time, used to finance U.S. Government activities that would otherwise have to be curtailed due to the imposition of statutory limits on explicit debt. Each time this has happened in the past, the fund has been made whole after the debt ceiling has been raised. The Board feels strongly that the retirement system trust fund should be made whole as soon as practical after these events in order to avoid confusion about the financial status of the system.

Respectfully submitted,

A handwritten signature in black ink, reading "Thomas S. Terry". The signature is written in a cursive style with a long, sweeping tail on the "y".

Thomas S. Terry  
Chairperson, Board of Actuaries  
February 4, 2025