

*Interaction With Social Security of 1996 Civil Service Retirement System Annuitants**

Background

The Civil Service Retirement System (CSRS) covers permanent civilian Federal employees hired before 1984, providing them retirement and survivor benefits. Employees hired afterwards, as well as those who availed themselves of the opportunity to switch in 1987, are covered by the Federal Employees Retirement System (FERS). In June 1996, almost 1.7 million CSRS worker annuitants were receiving retirement benefits based on age and service or on disability, and over 600,000 persons were receiving survivor annuities. The number of worker annuitants was already declining in June 1996 and is projected by the Actuary in the Office of Personnel Management (OPM) to reach zero around the year 2040.

Employment covered by CSRS is not covered by Social Security. Yet, nearly all CSRS employees work in jobs covered by Social Security before, after, or during their Federal careers. This situation prompted concern in the past about the potential for gaps in coverage and, even more, for the payment of overly generous Social Security benefits to CSRS employees, as well as to others in like circumstances. Thus, while auxiliary Social Security benefits were reduced dollar for dollar for simultaneous entitlement to a worker *Social Security* benefit, they were not reduced for a worker *CSRS* entitlement. Also, the weighting in the Social Security benefit formula that favors low-wage workers provided an unintended advantage to CSRS workers as well.

Over the past 20 years, several pieces of legislation addressed these concerns. Certainly the most striking was the closing of the CSRS to new entrants beginning in 1984. Other legislative initiatives included:

- Imposition of the Government Pension Offset (GPO) against Social Security auxiliary benefits, beginning in 1978;
- Freezing of the minimum Social Security benefit at \$122 for workers first eligible in 1979 or later, followed by its complete elimination for workers first eligible in 1982 or later;

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- Inclusion of Federal employment in the Medicare program in 1982; and
- Introduction of the Windfall Elimination Provision (WEP) computation to reduce Social Security worker benefits for persons first eligible after 1985 for both Social Security benefits and annuities from other employment not covered under Social Security.

To enable the administration of the GPO and WEP provisions, SSA routinely receives from OPM the entire file of active CSRS annuitants, and the claims representative has this information readily available while processing an application for benefits. The June 1996 file was made available to the Office of the Chief Actuary to match with SSA administrative record files for studying the interaction of CSRS worker annuitants with the Social Security program.

We report here the number of CSRS worker annuitants who were entitled to worker or auxiliary Social Security benefits in June 1996, and the amounts and significance of their benefits. Also included are the numbers of annuitants affected by the Windfall Elimination Provision, the Government Pension Offset, and the elimination of the minimum benefit, and the effect of these measures, along with information on the extent of Medicare enrollment among annuitants aged 65 or older.

Another focus is the extent and timing of employment covered by Social Security among annuitants. For example, how many nonbeneficiary persons are insured for benefits? How many persons have such employment after completing their Federal careers?

To the extent possible, this information is presented for all annuitants. However, some of the information, particularly information on employment covered by Social Security, is available only for a 1-in-100 sample of annuitants.

There are several previous investigations of the interaction of CSRS annuitants with Social Security, all of which predated the implementation of the legislative solutions. The most recent investigation is a study of June 1979 annuitants by Dalrymple, Grad, and Wilson (1983). Earlier studies report the experiences of annuitants in 1975 (Price and Novotny 1977; Price 1979) and in 1967 (Heidbreder 1969; Skolnik and Jackson 1970). The study of 1979 annuitants serves as a baseline for the results presented here.

Our study and the others are limited by a truncation problem: any interaction with Social Security *beyond the reference date* is unknown. For example, the 1979 study found that 14 percent of CSRS annuitants had achieved insured status under Social Security because of post-retirement covered employment; how many more, however, will become insured because of employment *after June 1979*? This note updates information on and provides insight into the extent of Social Security interaction among persons who were annuitants in June 1979.

CSRS Annuitants

The age distribution of CSRS annuitants is important in understanding their interaction with Social Security and Medicare because entitlement to retired-worker benefits cannot occur before age 62; entitlement to (non-disabled) widow(er) benefits cannot occur before age 60; and enrollment in Medicare on the basis of age cannot take place before age 65. Table 1 presents the age distribution of the 1,663,964 CSRS worker annuitants in June 1996, according to whether their annuity was based on age or disability.

Overall, CSRS annuitants in June 1996 were older than CSRS annuitants in June 1979. For example, only 27 percent of the 1996 group were under age 65, compared with 42 percent 17 years earlier. The primary explanation for the shift in age seems to be a reduction in the extent of retirement due to disability, which accounted for 14 percent of annuities in 1996, compared with 28 percent in 1979. This reduction, in turn, can be attributed to 1982 legislation tightening the criteria for CSRS disability retirement.

The distribution of CSRS annuitants in June 1996, by the date of first *receipt* of annuity payments, is given in table 2. In particular, about 500,000 annuitants had received their first payment by June 1979, the reference date of the previous study of the interaction with Social Security of CSRS annuitants.

The date of first *eligibility* for the CSRS annuity became important when certain legislative measures reducing Social Security benefits allowed exceptions for those first eligible to receive their annuity before a specified date. Thus, the Windfall Elimination Provision impacts only persons first eligible for

Table 1.—CSRS annuitants in June 1996, by age group and type of annuity

Age group	Total	Age and service	Disability
Total, all ages.....	1,663,964	1,437,862	226,102
Under age 55.....	85,764	52,562	33,202
55-59.....	130,508	112,757	17,751
60-64.....	230,393	203,814	26,579
65-69.....	302,280	267,747	34,533
70-74.....	357,221	308,569	48,652
75-79.....	292,038	251,732	40,306
80 or older.....	265,760	240,681	25,079

both Social Security benefits and their annuity after 1985. Similarly, while the Government Pension Offset was effective for applications for Social Security benefits filed during or after December 1977, many annuitants were made exceptions if their first eligibility to the annuity was before December 1982. The exception was weakened for first eligibles between December 1982 and June 1983, and removed entirely for first eligibles after June 1983.

Accordingly, table 2 also shows how many annuitants were first eligible for their annuity before December 1982, between December 1982 and December 1985, and after 1985. Because the date of first eligibility in the CSRS file is not highly accurate, we required that it not be later than the earliest date the annuitant both completed 30 years of service and reached age 55; both 20 years of service and age 60; and both 5 years of service and age 62.

The median monthly annuity amount in June 1996 was about \$1,475; the distribution by amount is shown in table 3 for men and women. The annuity amount is based on average salary in the 3 consecutive years of highest earnings and on length of service: generally the base amount equals 16.25 percent of this average for service up to 10 years, plus 2 percent per additional year of service, up to a maximum of 80 percent. The annuity amount in the record reflects the application of cost-of-living increases and any reductions for election of a survivor option or for early retirement.

Entitlement to Social Security Benefits

Almost 900,000 CSRS annuitants—nearly 55 percent of the total annuitant population excluding about 23,000 for whom no Social Security number was available for matching—were entitled as worker Social Security beneficiaries, either retired worker or disabled worker, in June 1996 (table 4). Another 173,000, or 11 percent, were entitled only as auxiliary beneficiaries. Because beneficiary status can be identified only if the Social Security number is present and accurate in both files, the true numbers of worker and auxiliary beneficiaries are, no doubt, slightly larger.

Among annuitants aged 65 or older in June 1996, 68 percent were retired-worker beneficiaries; among annuitants aged 62 years and 1 month or older, 66 percent were worker (retired or disabled) beneficiaries. A small number of persons not yet aged 62 years and 1 month were entitled as disabled workers.

The extent of entitlement to Social Security worker benefits among CSRS annuitants with disability-based annuities was not significantly lower than that for all annuitants, although presumably disability would impede the attainment of insured status after the onset of disability. In this subgroup, 65 percent of those aged 65 or older, and 64 percent of those aged 62 years and 1 month or older, were retired-worker or disabled-worker beneficiaries.

The study of CSRS annuitants in June 1979 similarly found that 63 percent of annuitants aged 62 or older were retired-worker or disabled-worker beneficiaries. The percent of annuitants of all ages who were reported to be Social Security

worker beneficiaries in that study was only 46 percent because many CSRS annuitants at that time were younger persons retired on the basis of disability.

Among CSRS annuitants of all ages in June 1979 who survived to June 1996, 62 percent were worker beneficiaries on the latter date. This represents a substantial increase from the comparable percentage on the study date, which was given as 46 percent, and was even lower for those ultimately surviving to 1996, who are younger as a group than those not surviving. Also, 79 percent of the CSRS annuitants in June 1979 who survived to June 1996 are now Social Security beneficiaries, either as retired or disabled workers or as auxiliaries, a proportion much higher than the 53 percent as of the study date.

Legislated Benefit Reductions

Worker beneficiaries first eligible after 1985 for a CSRS annuity, or any other annuity from employment not covered by the Social Security program, and who have their Social Security benefit computed by the usual method, have the benefit reduced by the Windfall Elimination Provision (WEP) unless they meet one of several exceptions. The primary exception criteria are the accumulation of 30 years of substantial (measured in terms of earnings) employment covered by Social Security; and first eligibility for the benefit before 1986, that is, birth before 1924 or disability onset before 1986. The WEP impacts an increasing number of beneficiaries each month. In June 1996, 157,000 CSRS annuitants had a reduction in benefits due to the WEP. This represents about three-fourths of all CSRS annuitants first eligible for their annuity after 1985 and who were also worker beneficiaries.

The WEP operates by altering the usual method for determining the amount of the basic monthly benefit, known as the Primary Insurance Amount (PIA), by which the PIA is calculated as a function of the career average indexed monthly earnings, or AIME. This method calculates the PIA as the sum of 90 percent of the first K dollars of AIME and a smaller percent of the amount, if any, by which AIME exceeds K. The value of K is not identical for everyone, but was near \$435 in June 1996 for beneficiaries potentially affected by the WEP. The WEP typically substitutes 40 percent for 90 percent in the

PIA formula, hence a typical reduction of about \$218 in the June 1996 PIA of persons affected by WEP.

The reduction is smaller if the beneficiary's AIME is less than K. It is also smaller if he or she is first eligible for Social Security benefits between 1986 and 1989, or has between 20 and 29 years of substantial earnings in employment covered by Social Security: in both these circumstances, a percent greater than 40 but less than 90 is substituted for the 90 percent in the AIME-based PIA formula.

Another reason the reduction could be less than 50 percent of K is that the reduction may not exceed one-half the monthly annuity amount. Yet another instance when the reduction may be smaller is when another PIA method yields a benefit smaller than the AIME formula with the 90-percent factor but larger than the AIME formula with the 40-percent factor.

In June 1996, the average reduction due to WEP was \$159, and roughly 37 percent of the CSRS annuitants impacted by the WEP had the maximum reduction in PIA of one-half K, between \$213 and \$223. This percentage will increase with time, as the subgroup of persons first eligible for Social Security benefits between 1986 and 1989 becomes a smaller portion of the total group affected by WEP.

Under the Government Pension Offset (GPO) provision, a person who is entitled to a Social Security spouse or widow(er) benefit that was claimed after November 1977, and who is also a CSRS annuitant or other government annuitant, generally has that benefit reduced by \$2 for every \$3 of the annuity. There is an exception to the GPO, however, if first eligibility for the annuity predated July 1983 and the annuitant was receiving one-half support from the worker beneficiary; or if the first eligibility date preceded December 1982 and the annuitant was female.

In June 1996, 96,000 CSRS annuitants entitled to Social Security spouse or widow(er) benefits had their benefit suspended and 20,000 had their benefit reduced because of the GPO provision. In fact, *more* than 116,000 CSRS annuitants were affected by the GPO, because, no doubt, many did not apply for the benefits that they knew would not be forthcoming.

The distribution by sex of auxiliary beneficiaries impacted by GPO in June 1996 reflects the nature of the exception for persons first eligible for an annuity before December 1982.

Table 2.—CSRS annuitants in June 1996, by dates of initial receipt¹ of and initial eligibility to CSRS annuity

Date of initial receipt	Total	Prior to December 1982	December 1982-December 1985	After 1985
Total, all dates.....	1,661,537	1,011,017	204,674	445,846
Prior to July 1969.....	66,145	66,145
July 1969-June 1974.....	187,283	187,283
July 1974-June 1979.....	248,605	248,605
July 1979-June 1984.....	313,019	275,357	37,662	...
July 1984-June 1989.....	354,092	106,572	129,989	117,531
July 1989-June 1994.....	347,875	74,783	32,104	240,988
July 1994-June 1996.....	144,518	52,272	4,919	87,327

¹ Excludes 2,427 annuitants with unknown date of initial receipt.

Almost all of the 61,000 eligible for their CSRS annuity before that date are male, but only 15 percent of the 55,000 eligible on or after that date are male.

The average reduction in auxiliary benefits from GPO for CSRS annuitants in June 1996 was \$288, substantially more than even the maximum reduction in worker benefits due to WEP.

Persons may be dually entitled to a worker Social Security benefit and the amount by which a larger auxiliary Social Security benefit exceeds the worker benefit, and, accordingly, may be impacted by both WEP and GPO. Indeed, there were 14,000 persons, 82 percent of whom were women, impacted by both provisions in June 1996.

Legislative action to freeze, then to eliminate, the minimum Social Security PIA impacts many CSRS annuitants who are worker Social Security beneficiaries. In the absence of such action, the minimum PIA in June 1996 would stand at \$282.20. Thus, those worker beneficiaries in June 1996 with a PIA less than \$282.20, or a pre-WEP Primary Insurance Amount of less than \$282.20 in the case of those beneficiaries subject to WEP,

Table 3.—Number of CSRS annuitants in June 1996, by monthly annuity amount and sex

Monthly amount	Total ¹	Men	Women
Total, all amounts.....	1,663,775	1,178,257	480,799
Less than \$500.....	125,298	56,850	67,537
\$500-\$999.....	301,519	152,337	147,105
\$1,000-\$1,499.....	426,021	286,192	138,895
\$1,500-\$1,999.....	352,170	280,605	71,216
\$2,000-\$2,499.....	191,626	159,723	31,706
\$2,500-\$2,999.....	112,156	98,427	13,609
\$3,000-\$3,499.....	65,910	60,058	5,777
\$3,500 or more.....	89,075	84,024	4,954

¹ Includes persons of unknown sex; excludes 189 persons with unknown monthly amount.

Table 4.—Number of CSRS annuitants in June 1996, by age group and type of entitlement to Social Security benefits

Age group	Total ¹	Primary	Auxiliary only	Not entitled
Total, all ages...	1,641,300	896,797	173,417	571,086
Under age 55.....	84,991	2,581	239	82,171
55-59.....	129,299	1,896	290	127,113
60-61 ²	79,550	1,437	913	77,200
62-64 ³	148,539	72,367	4,873	71,299
65-69.....	298,360	203,304	24,635	70,421
70-74.....	352,282	241,416	49,116	61,750
75-79.....	287,915	198,846	47,316	41,753
80 or older.....	260,364	174,950	46,035	39,379

¹ Excludes 22,664 persons with no Social Security number recorded.

² Includes age 62 years and 0 months.

³ Excludes age 62 years and 0 months.

were affected by this action. As can be seen in chart 1, a total of 126,000 CSRS annuitants fall in this category, with an average PIA of \$208 (\$74 less than the minimum of \$282.20).

The average PIA in June 1996 for retired-worker or disabled-worker beneficiaries who were CSRS annuitants was \$450 (based on sample data), compared with \$726 for all worker beneficiaries. The 1979 study observed that 60 percent of retired-worker beneficiaries who were CSRS annuitants had a PIA below the first quartile for all retired-worker beneficiaries, then \$200. The first quartile for all worker beneficiaries in June 1996 was \$471, and 62 percent of worker beneficiaries who were CSRS annuitants had a PIA less than this amount.

Of the 1,070,214 CSRS annuitants entitled to Social Security benefits in June 1996, about 73,000 were not receiving benefits because of GPO, work, or other suspension reasons. Among the approximately 1.0 million annuitants receiving Social Security benefits, the benefit was in fact larger than the annuity payment 12 percent of the time, and less than the annuity payment, but at least half as large, 16 percent of the time. It was between one-quarter and one-half as large in 27 percent of the cases, and between one-eighth and one-quarter as large in 28 percent of the cases. This distribution is roughly similar to the distribution in 1979, although in 1996 a higher percentage of CSRS annuitants receiving Social Security benefits had benefits less than one-quarter as large as the annuity payment.

Medicare Enrollment

In June 1996, 82 percent of the 1,198,921 CSRS annuitants aged 65 or older were Social Security beneficiaries as retired workers, auxiliaries, or both. Beneficiary status confers premium-free enrollment in Part A (Hospital Insurance) of Medicare, as well as eligibility for the purchase of Part B (Supplementary Medical Insurance).

Among the 213,303 annuitants aged 65 or older who were not beneficiaries, about 90,000 became annuitants in 1983 or later, and hence are likely to be advantaged by the legislative initiative to count CSRS employment as qualifying employment for Medicare coverage for persons in CSRS jobs on January 1, 1983. In fact, about two-thirds of this group were enrolled in Medicare in June 1996.

Among the 123,000 nonbeneficiaries who began drawing their CSRS annuities before 1983, about 40 percent were covered by Medicare in June 1996, usually only for Part B. In sum, about 91 percent of CSRS annuitants aged 65 or older were enrolled in the Medicare program.

Insured Status for Social Security Retirement Benefits

The extent of entitlement to worker Social Security benefits among CSRS annuitants in June 1996 was previously given as 68 percent among annuitants who had reached age 65, the "normal" retirement age for Social Security benefit receipt; 66 percent among annuitants who had reached age 62 years and 1 month, the earliest retirement age for Social Security; and

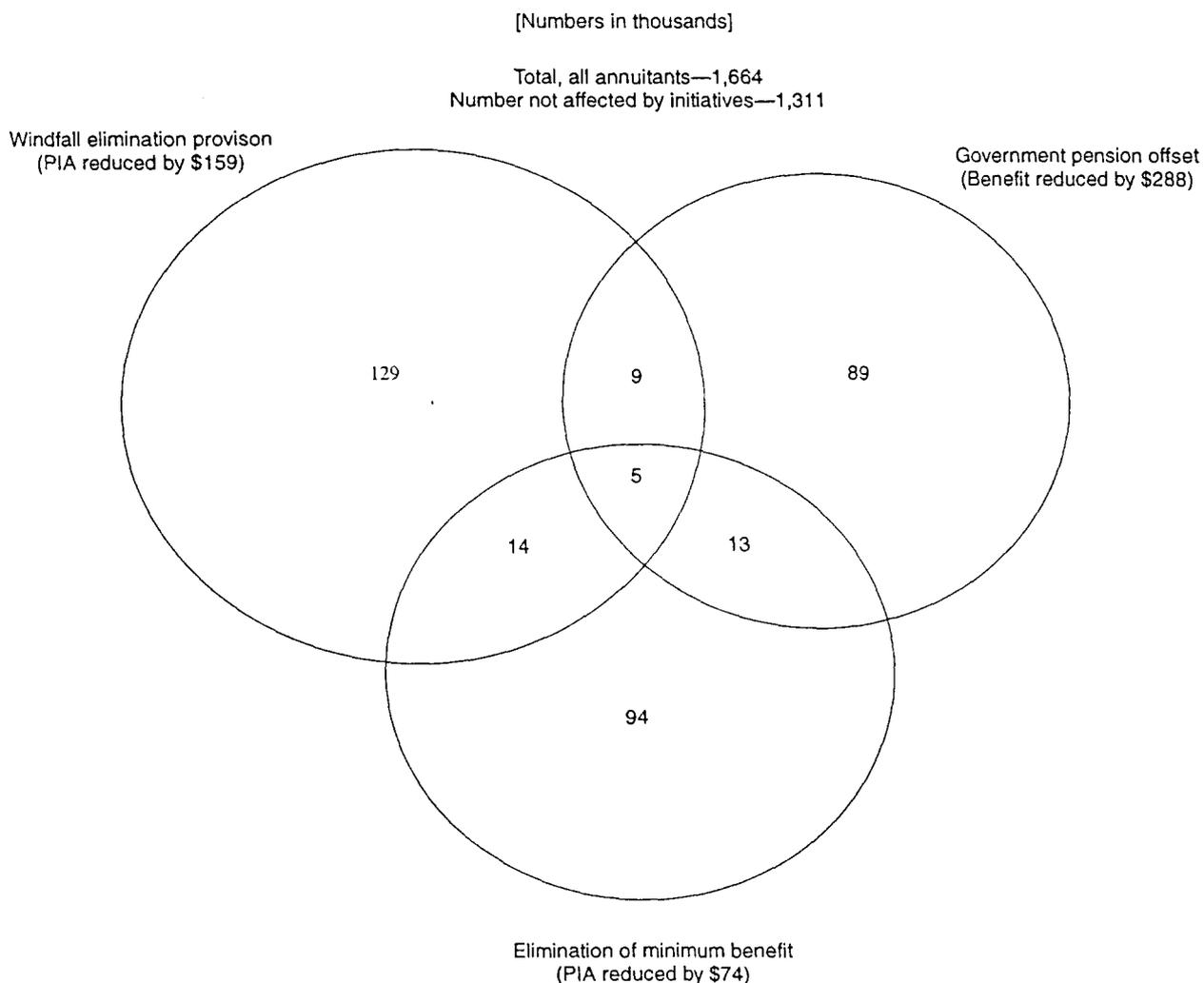
55 percent among annuitants of all ages. An alternative gauge of significant employment covered by Social Security, one which is less dependent on age than is the criterion of entitlement to worker benefits, is the achievement of insured status for Social Security retirement benefits. All entitled worker beneficiaries are insured; but many insured persons are not entitled to worker benefits, most often because they are less than age 62 years and 1 month; sometimes because they are less than age 70 and either working or delaying entitlement to increase the amount of their future benefit; and occasionally because they are entitled to a larger auxiliary benefit.

Insured status generally requires 40 *quarters of coverage* for people born in 1929 or later, {40-N} quarters for persons born N years before 1929 but after 1912, and 24 or fewer quarters for persons born in 1912 or earlier. Prior to 1978, a quarter of coverage was generally a calendar quarter in which a

person earned at least \$50. For years beginning with 1978, a person is credited with between one and four quarters of coverage according to the amount of his or her annual earnings. It is generally somewhat easier to acquire quarters of coverage, and hence to secure insured status, under the newer method, a circumstance that biases slightly comparisons of the experience of June 1996 annuitants with the experience of June 1979 annuitants.

In addition to the 68 percent of CSRS annuitants aged 65 or older who were entitled to worker benefits in June 1996, another 3 percent were insured. Most of the insured unentitled persons in this age group were, however, entitled to a larger auxiliary benefit. Besides the 49 percent of annuitants ages 62-64 who were entitled to worker benefits, another 15 percent were insured, most of whom will likely claim their benefit before or upon attainment of age 65.

Chart 1.—CSRS annuitants who are Social Security beneficiaries in June 1996: Number of persons affected and average reduction in benefit amount, by selected legislative initiatives



Among annuitants under age 62, 50 percent were insured under Social Security, including just 2 percent already entitled. In sum, 67 percent of all CSRS annuitants were insured for Social Security worker benefits in June 1996.

The extent of insured status among CSRS annuitants was reported in the June 1979 study to be 60 percent. For survivors from that group, the prevalence of insured status had reached 66 percent 17 years later.

As was the case for worker entitlement, the extent of insured status surprisingly differed little between CSRS disability annuitants and CSRS age and service annuitants; it was nearly as prevalent for the former as for the latter, despite the significant difference in the average ages of the two groups.

These estimates of insured status are based on the examination of the career earnings through 1994 from employment covered by Social Security of a 1-in-100 sample of CSRS annuitants, and the presumption that earnings in 1995 and 1996 are the same as in 1994. The information on quarters of coverage, which follows, is derived the same way.

Extent and Timing of Employment Covered by Social Security

All but 2 percent of CSRS annuitants in June 1996 had acquired some quarters of coverage from employment other than their Federal service. As table 5 shows, most annuitants had accumulated 40 or more quarters, and a substantial proportion (5 percent) had as much as 120 quarters.

Many annuitants, particularly among those whose Federal career ended only recently or who are younger, will earn additional quarters after the study date of June 1996. A comparison of the current distribution by numbers of quarters

for persons who separated from Federal service at least 17 years ago with the distribution as of the June 1979 study date is revealing: then, 9 percent had no quarters, only 35 percent had earned 40 or more, and only 9 percent had accumulated 80 quarters or more; the corresponding percentages in June 1996 were 6, 45, and 16, respectively.

Annuitants often work, sometimes extensively, in jobs covered by Social Security after their Federal career ends. Already, 44 percent of annuitants had earned quarters of coverage since their retirement from Federal service, including 8 percent who had accumulated 40 or more quarters. Also, 13 percent of annuitants had achieved insured status for Social Security benefits since their retirement. Similarly, the 1979 study reported that 41 percent of annuitants had worked after retirement, with 14 percent having become insured.

Annuitants who retired from CSRS employment because of disability were even more likely to work and to achieve insured status after retirement than annuitants who retired for age and service: 46 percent of the former earned quarters after retirement, and 16 percent became insured. The explanation is that retirement due to disability occurs at younger ages than retirement due to age and service. While disability is defined in the Social Security program as the inability to do any substantial gainful work in the national economy, in the CSRS it is defined as the inability to perform useful and efficient work in either the current position or another position with the same pay level, agency, and commuting area.

Conclusion

Even more so than in 1979, CSRS annuitants in June 1996 had interacted extensively with the Social Security program, in

Table 5.—Percentage distribution of CSRS annuitants in June 1996, by quarters of coverage earned and date of initial receipt of annuity

Quarters of coverage	All dates	Prior to July 1979	July 1979-June 1989	July 1989-June 1996
Earned at any time				
Total, all annuitants.....	100	100	100	100
0.....	2	6	1	1
1-19.....	18	23	16	17
20-39.....	22	26	19	23
40-79.....	36	29	40	38
80-119.....	16	12	18	16
120 or more.....	5	4	6	6
Earned after initial receipt of annuity				
Total, all annuitants.....	100	100	100	100
0.....	56	48	53	70
1-19.....	24	24	23	25
20-39.....	12	14	16	6
40-79.....	7	13	9	...
80 or more.....	1	2

terms of entitlement, insured status, and employment. The magnitudes of this interaction were similar for annuitants for age and service and for annuitants for disability.

Changes in the Social Security program enacted during the last 20 years, including the Government Pension Offset, the elimination of the minimum benefit, and the Windfall Elimination Provision, reduce the Social Security benefits of a significant and growing number of CSRS annuitants.

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