Central Intelligence Agency

Washington, D.C. 20505

Mr. Russel Neeley
CIA Budget Examiner
National Security Division Room 8215
Office of Management and Budget
Washington, D.C. 20503

Dear Russ:

Enclosed are responses to questions raised at our initial meeting on the Agency's retirement legislation and a follow-up meeting you had with [redacted] Following that same meeting, we have been working with our consultant/actuary to develop a more detailed spread sheet on the cost comparison of the current and proposed systems and the Roth/Stevens proposal. (This is included in Enclosure 6b.) We recognize that you wanted dollar fiqures to go along with the percentage costs, but there are some problems pointed out by our consultant in developing meaningful figures.

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We are available to discuss this and any other aspect of our responses at your earliest convenience. If desirable, we can arrange to involve our consultant in those discussions to assist in resolving any questions you may have on our figures.

Sincerely,

Robert W. Magee
Director of Personnel

TABLE OF CONTENTS

Attachment 1

INCREASED SECURITY PROTECTION

1. Except for a very few sensitive cases, (non-official cover, etc.) 100% of Agency employees are identified to OPM at some point either during employment or upon separation or retirement.

2. Under the Agency's proposal all employees would be protected while employed with the Agency. Upon retiring or leaving the Agency only those with prior federal service (approximately 11%) would involve some form of identification outside the Agency.

COST OF PAYROLL AND JUSTIFICATIONS FOR ENHANCEMENTS TO RETIREMENT PROGRAM

		COST OF PAYROLL	
	ENHANCEMENT	CSRS	CIARDS
1.	° CAP (Thrift Plan)	1.4%	2.0%

These estimates are based on consultant actuarial assumptions using Agency demographics and assumptions similar to those utilized by Congressional Research Service for Government-wide supplemental retirement studies. The estimated annual dollar increase to provide this enhancement is [redacted] (calculated by multiplying percentage times payroll.)

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<u>Justification</u>:

This benefit is seen as very desirable by Senators Roth/Stevens for their Civil Service retirement programs. We want to offer it in concert with the principal of equitable treatment for all Agency employees. It is also attractive to more senior individuals and would serve to retain the critical skills of these individuals at a time when they are most marketable.

2.	° 2 1/2% Accrual Rate for overseas/qualifying service	.4%	6.4%

The percentages are computed based on average overseas service for Agency employees. The estimated annual dollar increase to provide this enhancement is [redacted] This represents a 30 year amortization of the increased cost (the same method used to amortize liberalized benefits and pay increases under existing statutory funding requirements.) Employees would revert to the appropriate accrual rate for domestic service, i.e. 2% for special participant members and 1.5%, 1.75% etc for members. (It is vital that this distinction in accrual rates be maintained to ensure appropriate rewards and recognition for the overseas career-oriented employees.)

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<u>Justification</u>:

We are an overseas organization and the dangers faced abroad by Agency employees are considerably more hazardous than in the past. The fact that our employees are serving overseas under cover expands the risks considerably. We feel that such service for both members and special participant members should be recognized at a minimum in the same fashion as currently exists for law enforcement officers, fire fighters, etc. Exposure of our employees to hostile intelligence, internal security, and terrorist organizations increases daily. This is an appropriate step to reflect the changing overseas environment.

Attachment 3

U.S. GOVERNMENT COST OF PAYROLL FIGURES

	ROTH/ STEVENS	CSRS	CIARDS	AGGREGATE
CURRENT	--	25%	41%	34%
PROPOSED (Pre 1984 Employees)	--	26.8%	49.4%	39.5%
(Post 1983 Employees)	20.8%	* 27.3%	* 49.7%	* 39.8%

Comment: The above figures were developed by Ed Hustead of Hay Associates who is providing actuarial services in connection with our retirement programs. These figures are based on the same actuarial and economic assumptions that are being utilized in the evaluation of other retirement proposals being formulated in Congress.

* Differences between pre-1984 and post-1983 figures are attributable to intregration of social security for post-1983 employees.

Attachment 4

TRANSFERS IN AND OUT
OF THE SYSTEM

INTO

- Individuals transferring into the system with prior federal service will be handled the same as with current procedures and given credit for that service under CIA formulas. The money plus interest from the other federal retirement funds will be transferred into the Agency's retirement fund but will not be requested until actual retirement.

- Money in a government-wide Capital Accumulation Plan (CAP) (employee and government contribution plus accrued investment income) will be transferred to the Agency CAP, but again not requested until retirement.

OUT

- Individuals who transfer to other federal retirement systems who are not eligible for a retirement benefit again will be handled the same as under current procedures and have their contributions, government contributions and appropriate interest transferred to the other fund.

- Similarly, the individual's contributions, and government contributions to the Agency CAP and resulting investment income will be transferred to the government-wide CAP.

Note: According to our actuarial consultant the above methods for transferring funds will not incur any great unfunded liability.

Attachment 5

FUNDING OF NEW PLAN

Pending discussion with OPM and further study our initial views are that the Agency proposal would be funded through:

- A single retirement fund (for all active employees, CIARDS retirees and future CSRS retirees) that includes:
  - Monies from existing CIARDS fund
  - Transfer of money (no names) from CSRS fund for on board employees (employee contribution + government contribution + interest). An option would be to have the monies transferred at the time of retirement or some other mutually agreed arrangement between OPM and the Agency. Procedures are to be determined.
  - Future employee/government contributions
  - Additional funding through existing statutory provisions which are:*

    Interest on Unfunded Liability

    Residual Normal Cost

    Annuity Payments Attributable to Military Service

    30 Year Amortization of Unfunded Liability Created by General Salary Increases, Liberalization of Benefits
  - Investment Income

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*Subject to modification to correspond to any changes in statutory requirments.

Attachment 6

COST & BENEFITS COMPARISON WITH STEVENS' PROPOSAL

Roth/Stevens Proposal	
Pension	11.7%
FEGLI	.2%
CAP (Thrift)	3.0%
OASDI	5.9%
Total/Stevens	20.8%

Additions (Reductions) for Agency Proposal

	CSRS	CIARDS
° Maintain High-3 vs High 5	.9%	There has not been an analysis completed by the Congressional Research Service (CRS) on the special provisions (law enforcement, etc.) of the Stevens' Plan. As such no comparable comparisons currently available between CIARDS & the appropriate Stevens' provisions. This will be provided once data available.
° Unreduced Retirement Benefits (55 CSRS)	.4%	
° Maintain existing survivor/disability/ involuntary retirement benefits	.3%	
° Maintain Equivalent Accrual Rates (1.5 1st 5 yrs. etc) for CSRS		
° 1.4% CSRS Basic Accrual Rates	2.7%	
° Supplemental equal to Social Security from retirement to age 62	.7%	
° Maintain Full COLA	4.0%	
° Maintain Employee Contributions at 7%	(-1.1)	
° No Increased FEGLI	(-.2)	
° Establish CAP with 50% Match up to 6% of Employee Contribution	(-1.6)	
° 2 1/2% Accrual for Overseas Service	.4	
TOTAL ADDITIONAL VS STEVENS	6.5	

Cost of Payroll Comparisons Between Current Systems,
Agency Proposal and Roth/Stevens Bill

	CIARDS				CSRS			
	Current CIARDS	Proposed Pre-1984	Proposed Post-1983	Roth/Stevens Proposed Post-1983 Special Catagories	Current CSRS	Proposed Pre-1984	Proposed Post-1983	Roth/Stevens Proposed Post-1983
Optional Retirement	37.8	42.8	35.1	Roth/	23.2	23.6	15.4	8.5
Involuntary Retirement	1.9	2.2	1.2	Stevens	1.8	1.8	.8	.4
Disability	2.2	2.5	2.2	has not	2.1	2.1	1.8	1.0
Deferred Vested	1.0	1.1	1.2	as yet	.9	.9	1.0	.6
Survivors	5.1	5.8	4.0	provided	4.0	4.0	2.1	1.2
				any comparable				
Total Pension Cost	48.0	54.4*	43.7*	figures for special	32.0	32.4*	21.1*	11.7
Paid by Employee	7.0	7.0	1.5	categories	7.0	7.0	1.1	0
Employer Cost								
Pension	41.0	47.4	42.2		25.0	25.4	20.0	11.[illegible]
Thrift Plan	0	2.0	2.0		0	1.4	1.4	3.0
Social Security	0	0	5.5		0	0	5.9	5.9
FEGLI	0	0	0		0	0	0	.2
Total Employer Cost	41.0	49.4	49.7		25.0	26.8	27.3	20.8

* Includes increased cost for 2 1/2% accrual rate for overseas service (6.4% for CIARDS & .4% for CSRS)

Comments: (1) Only enhancements over existing plans are:
(a) 2 1/2% accrual rate for overseas service; and
(b) a voluntary Thrift Plan for all agency employees

(2) The estimated increased annual dollar costs for the enhancements are:
(a) 2 1/2 accrual
(b) Thrift Plan

Total

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Attachment 6b