Congressional Research Service

Memorandum

February 11, 2003

TO: Hon. Bernie Sanders
Attention: Warren Gunnels

FROM: Patrick Purcell
Specialist in Social Legislation
Domestic Social Policy Division

SUBJECT: **Estimated Benefit under a Cash Balance Plan**

As you requested, the Congressional Research Service has prepared estimates of the retirement benefit that a Member of Congress would have accrued under a cash balance pension plan, if such a plan had been in effect for Members elected in 1984 or later. As you specified, the benefit that would have been accumulated under the hypothetical cash balance plan was based on an annual salary credit equal to 5% of pay and an interest credit linked to the average annual yield on newly issued 6-month Treasury bills in the year the credit was applied. For individuals who terminate employment before age 62, we assumed that the accrued benefit under the cash balance plan would be rolled into an individual retirement account that would earn an average annual rate of return of 7.5%. Present value calculations were based on the interest rate specified in 26 C.F.R. 1.417(e). As published in I.R.S. Notice 2002-80, the interest rate in effect for December 2002 was 5.56%. Life expectancy at age 62 and later was taken from the Single Life Table published on page 19012 of the *Federal Register*, (vol. 67, no. 74), on April 17, 2002.

The examples in the following table compare retirement annuities for Members of Congress under the Federal Employees' Retirement System (FERS) with the benefit that would have been accrued under the hypothetical cash balance plan. The tables do not show the benefit that would result from converting a retirement benefit that has been accrued under FERS to a cash balance plan. For workers in the private sector, federal law provides that vested employees who separate from an employer must receive the greater of the benefit they had accrued under the old plan or the benefit under the cash balance plan. Nevertheless, if the opening balance of the cash balance plan is less than the benefit that had been earned under the old plan, it is possible the employee will earn no new pension benefit until the benefit under the cash balance plan exceeds the benefits that had been earned under the plan it replaced. This period is sometimes called "wear-away" or a "benefit plateau."

If you have any questions about these estimates, please call me at 7-7571.